Explanatory Statement

Accounting Standard AASB 2016-6
*Amendments to Australian Accounting Standards – Applying AASB 9* Financial Instruments *with AASB 4* Insurance Contracts

**October 2016**


# EXPLANATORY STATEMENT

## Standard Amended by AASB 2016-6

This Standard makes amendments to Accounting Standard AASB 4 *Insurance Contracts*. These amendments arise from the issuance of International Financial Reporting Standard *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts *(Amendments to IFRS 4)* by the International Accounting Standards Board (IASB) in September 2016.

### Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

## Main Features of AASB 2016-6

### Main Requirements

This Standard amends AASB 4 *Insurance Contracts* to permit issuers of insurance contracts to:

1. choose to apply the ‘overlay approach’ that involves applying AASB 9 *Financial Instruments* and also applying AASB 139 *Financial Instruments: Recognition and Measurement* to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if AASB 139 had been applied; or
2. choose to be temporarily exempt from AASB 9 when those issuers’ activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with issuers applying AASB 9.

This Standard incorporates amendments into AASB 4 that are set out in *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts *(Amendments to IFRS 4)* issued by the International Accounting Standards Board (IASB) in September 2016. A key motivation for the IASB issuing the amendments to IFRS 4 is to address concerns among some stakeholders about having to implement IFRS 9 shortly before having to implement a forthcoming new IFRS on insurance contracts. In general, those stakeholders have been concerned that IFRS 9 would require some financial assets to be measured at fair value through profit or loss that are currently measured under IAS 39 *Financial Instruments: Recognition and Measurement* at fair value through other comprehensive income.

AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* require financial assets backing insurance liabilities, when possible, to be measured at fair value through profit or loss. The AASB has decided to retain these requirements until a new AASB Standard on insurance contracts (that is expected to replace AASB 4, AASB 1023 and AASB 1038) is applied. Accordingly, the AASB expects the applicability of AASB 2016-6 to be very limited.

### Application Date

This Standard applies to annual periods beginning on or after 1 January 2018. Earlier application is not permitted.

### References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

## Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 274 *Applying AASB 9* Financial Instruments *with AASB 4* Insurance Contracts in December 2015 for comment by 18 January 2016. ED 274 incorporated IASB Exposure Draft ED/2015/11 *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts*.* Two submissions were received by the AASB in respect of the proposals in ED 274. There was general support from constituents for adopting the proposal, although some concerns were raised regarding the proposed determination of predominant activity in assessing eligibility to apply the temporary exemption from applying IFRS 9. The AASB considered the comments it received in finalising AASB 2016‑6.

The AASB expects the amendments to have very limited application in Australia as they do not apply to insurance contracts subject to AASB 1023 and AASB 1038. Those Standards continue to apply until replaced by a new AASB Standard on insurance contracts. AASB 1023 and AASB 1038 already require financial assets backing insurance liabilities, when possible, to be measured at fair value through profit or loss.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2016-6 as the amendments made do not have a substantial direct or indirect impact on business or competition. The application of the amendments to AASB 4 is optional as they permit entities applying AASB 4 to elect to adopt different approaches to applying AASB 9 alongside AASB 4.

## Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
*Human Rights (Parliamentary Scrutiny) Act 2011*

### Accounting Standard AASB 2016-6*Applying AASB 9* Financial Instruments *with AASB 4* Insurance Contracts

### Overview of the Accounting Standard

This Standard amends AASB 4 *Insurance Contracts* to permit issuers of insurance contracts to:

1. choose to apply the ‘overlay approach’ that involves applying AASB 9 *Financial Instruments* and also applying AASB 139 *Financial Instruments: Recognition and Measurement* to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if AASB 139 had been applied; or
2. choose to be temporarily exempt from AASB 9 when those issuers’ activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with issuers applying AASB 9.

This Standard incorporates amendments into AASB 4 that are set out in *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts *(Amendments to IFRS 4)* issued by the International Accounting Standards Board (IASB) in September 2016. A key motivation for the IASB issuing the amendments to IFRS 4 is to address concerns among some stakeholders about having to implement IFRS 9 shortly before having to implement a forthcoming new IFRS on insurance contracts. In general, those stakeholders have been concerned that IFRS 9 would require some financial assets to be measured at fair value through profit or loss that are currently measured under IAS 39 *Financial Instruments: Recognition and Measurement* at fair value through other comprehensive income.

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### Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

### Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.