Ania
Associazione Nazionale
fra le Imprese Assicuratrici

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Edition

ANIA Exploring IFRS

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Foreword

In light of the "revolution" of the accounting framework of the insurance sector, brought forward by the adoption of IFRS 17 "Insurance Contracts" principle, ANIA has decided to design a new series of newsletters: "ANIA Exploring IFRS".

*"**ANIA Exploring IFRS**" aims to provide useful insights into the International Financial Reporting Standards world, with an initial focus on IFRS 17. The series will then continue by addressing other standards relevant to the insurance industry.*

The newsletters are issued regularly, in a one-page format, and each issue will focus on specific features of the IFRS principle in question. The newsletters are collected in a single volume to form a practical - and easy to use - reference guide.

IFRS 17: Endorsement Process

1 MARCH, 31 2021

Entry-into-force

The entry into force of IFRS 17 "Insurance Contracts" was originally set as of 1 January 2021.

In March 2020, however, the International Accounting Standards Board (IASB) decided to postpone the **effective date** to annual reporting periods beginning on - or after - **1 January 2023**, with the aim of allowing sufficient time for an orderly introduction of the new principle.

In order to **align the dates of implementation of IFRS 9 and IFRS 17**, the IASB decided at the same time to extend the exemption in place for the application of IFRS 9 "Financial Instruments" by insurers.

In June 2020, the IASB issued the amended version of IFRS 17, containing the new effective date of 1 January 2023.

European endorsement process

In order to become applicable in the European Union, **IFRS principles have to be endorsed at European level** following a specific procedure, as set out in Regulation (EC) No 1606/2002 (IAS Regulation).

The endorsement process is carried out by the **European Commission (EC)**, that avails itself of **two advisory organisations**: the European Financial Reporting Advisory Group (**EFRAG**) and the Accounting Regulatory Committee (**ARC**).

The process starts with EFRAG, which is required to render an opinion to the EC on the compliance of the standard with the requirements set forth by EU regulation. The three endorsement criteria to be met are: i) the standard should not be contrary to the true and fair view principle; ii) the standard should be conducive to the European public good; iii) the standard should meet the criteria of understandability, relevance, reliability, and comparability.

After EFRAG has submitted its advice, the EC prepares and presents a draft regulation to ARC, a committee composed of representatives of EU countries and chaired by the EC. The ARC subsequently gives its opinion - voting on the basis of the qualified majority rule - on the endorsement of the standard.

If the ARC's opinion is positive, **the EC submits the draft regulation to the European Parliament** and the **Council** for a three-month scrutiny period. If there are no objections from the European Parliament or the Council, the Commission adopts the endorsing regulation.

The new regulation is then published in the Official Journal of the European Union and enters into force on the day laid down in the regulation itself.

As for IFRS 17, **on 29 March 2021 the EFRAG Board approved its final endorsement advice**.

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IFRS 17: Main objectives

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The new standard for insurance contracts, **IFRS 17**, aims to **increase transparency** and to **reduce differences in the accounting** for insurance contracts. If IFRS 4 allows insurers to use their local accounting standards, IFRS 17 defines rules that will **increase financial statements' comparability**.

The new standard will replace the current IFRS 4 and, therefore, key financial metrics and key performance indicators will change.

Premium volumes will no longer drive the 'top line' in the income statement because investment components (many insurance premiums include an investment, i.e. deposit, component) and cash received can no longer be considered as revenues.

The 'top line' will be driven by **a different way to represent revenues**, and consequently, the new measurement model may result in profits being released over significantly different patterns for some insurance contracts with respect to the current IFRS 4 representation.

The impact that financial risks and investment income have on an insurer's results will be presented separately from insurance performance, with the aim to provide a clearer picture of profit drivers and to give a separate presentation of underwriting and financial results.

In addition, IFRS 17 contains **detailed qualitative and quantitative disclosure requirements**. The objective is to disclose information that - together with information presented in the primary financial statements - provides a basis for users of the financial statements to assess the effects that insurance contracts have on the financial position, the financial performance and the cash flows of the entity.

To achieve this objective, IFRS 17 requires specific disclosures about:

- **Amounts recognized in the financial statements;**
- **Significant judgments made when applying IFRS 17**; and
- **The nature and extent of risks from insurance contracts**.

If these specific disclosures are deemed insufficient, an entity has to disclose additional information necessary to meet the objective.

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IFRS 17: Scope

3 APRIL, 14 2021

In line with **IFRS 4**, an entity applies **IFRS 17** to contracts that meet the insurance contract's definition. **IFRS 17 focuses on types of contracts, rather than types of entities**. Therefore, it applies to all entities, whether they are regulated as insurance entities or not.

An **insurance contract** is "*a contract under which one party - the issuer - accepts 'significant insurance risk' from another party - the policyholder.*" If a "*specified uncertain future event - the insured event - adversely affects the policyholder*", then the policyholder has a right to obtain compensation from the issuer under the contract.

'**Insurance risk**' is a risk, other than financial risk, that is transferred from the policyholder to the issuer of a contract.

Insurance risk is "significant" only if there is a scenario that has commercial substance in which, on a present value basis, there is a possibility that an issuer could:

- suffer a loss caused by the insured event; and
- pay significant additional amounts beyond what would be paid if the insured event had not occurred.

To have commercial substance, it must have a discernible effect on the economics of the transaction. A contract is not an insurance contract if it exposes the issuer only to financial risk but not to significant insurance risk. However, contracts that expose the issuer to both financial risk and significant insurance risk could be insurance contracts.

Reinsurance contracts need to meet the definition of an insurance contract to be in the scope of IFRS 17.

Investment contracts with Discretionary Participation Features (DPF) are in the scope of IFRS 17 if they are issued by an entity that issues also insurance contracts even if they do not transfer significant insurance risk. A DPF contract is a financial instrument that provides an investor with a contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts that are:

- expected to be a significant portion of the total contractual benefits;
- contractually paid at the discretion of the issuer (regarding timing or amount); and
- contractually based on returns from a specified pool of contracts/ assets.

Insurers are subject to the requirements of other applicable standards for products (or components of products) that are not in the scope of IFRS 17.

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IFRS 17: Separating components

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Insurance contracts create a bundle of rights and obligations that work together to generate a package of cash flows.

While some types of **insurance contracts** provide exclusively insurance coverage that falls under IFRS 17, **others** - e.g. unit-linked and other participating contracts - **may contain one or more components.** Were these components separate contracts, they would be **within the scope of other IFRS standards**.

Some insurance contracts may contain:

- ***investment components***: e.g. pure deposits, such as financial instruments whereby an entity receives a specified sum to be repaid with interests;
- ***good and service components***: e.g. services other than insurance contract services, such as pension administration, risk management services, asset management, or custody services;
- ***embedded derivatives***: e.g. financial derivatives, such as interest rate options or options linked to an equity index.

Investment components and goods and services components have to be separated from an insurance contract, **if they are distinct**, and will follow respectively "IFRS 9- Financial Instruments" and "IFRS 15 - Revenue from Contracts with Customers".

Additionally, IFRS 9 is applied to determine when an embedded derivative needs to be separated from the host insurance contract and to be accounted for separately.

If the components are not distinct, then the separation is prohibited under IFRS 17.

As for **good and service components**, they are considered distinct if the insurance contract holds a promise to provide goods or services - other than the insurance contract service - and if the policyholder can benefit from the goods or services either:

- on their own; or
- with other resources that are readily available to the policyholder - i.e. resources that were already obtained or are sold separately by the entity or any other entity.

Goods or services other than insurance contract services are not distinct and are accounted for together with the insurance component, if:

- the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks of the insurance component; and
- the entity "*provides a significant service of integrating the good or service with the insurance components*".

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IFRS 17: Investment component

5 APRIL, 30 2021

An "*investment component*" **represents the amount an entity has to repay - according to an insurance contract - in all circumstances, even if the insured event does not occur**. These include circumstances in which an insured event occurs, or the contract matures or terminates without an insured event occurring.

If "distinct", an investment component has to be **separated from the insurance contract** and **accounted for according to "IFRS 9- Financial Instruments" requirements**.

The investment component **is distinct if**:

- this component and the insurance component **are not "*highly inter-related*"**; and
- **a contract with equivalent terms is sold or could be sold separately in the same market or same jurisdiction**. An entity takes into account all reasonably available information when it makes this assessment, but it does not have to undertake an exhaustive search.

Investment and insurance components are "*highly inter-related*" if:

- a policyholder cannot benefit from one component without the other being present - e.g. the lapse or maturity of one component causes the lapse or maturity of the other; or
- the entity cannot measure one component without considering the other - e.g. when the value of one component varies according to the other's value.

The separated investment component is accounted for under IFRS 9 unless **it is an investment contract with discretionary participation features in the scope of IFRS 17**.
Investment components that are not distinct from the insurance contract are not separated and **are accounted for together with the insurance component**.

Notwithstanding that, it should be noted that:

- revenue and claims from the non-distinct investment components are excluded from insurance contract revenue and insurance service expenses presented in profit or loss;
- differences between any non-distinct investment component expected to become payable in the period and the actual investment component that becomes payable in the period, measured at the discount rates determined on initial recognition, adjust the Contractual Service Margin of a group of insurance contracts.

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IFRS 17: Initial recognition

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An entity **recognises a group of issued insurance contracts** from **the earliest** of the following:

- **the beginning of the coverage period** of the group of contracts;
- **the date when the first payment from a policyholder in the group becomes due**; and
- for a group of onerous contracts, **when the group becomes onerous**, if facts and circumstances indicate that there is such a group.

If there is no due date specified in the contract, the initial recognition of a group of insurance contracts is the date when the first payment is received from the policyholder.

A group of contracts initially recognised in a reporting period only includes contracts that individually meet one of the recognition criteria above. **New contracts may be added to the group**, in subsequent reporting periods in which any new contracts are recognised, subject to the level of aggregation requirements.

The date on which an entity recognises a group of insurance contracts is relevant for the following reasons:

- **determining the Contractual Service Margin** (CSM);
- **determining the discount rate on initial recognition**.

The determination of the CSM and the discount rate on initial recognition is affected by the level of aggregation of contracts used to form a group.

For **reinsurance contracts** held, an entity shall recognise a group:

- if the reinsurance contracts held provide proportionate coverage: at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the latest; and
- in all other cases: from the beginning of the coverage period of the group of reinsurance contracts held.

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IFRS 17: Level of Aggregation

7 MAY, 13 2021

The definition of the level of aggregation of insurance contracts is required for all contracts in the scope of IFRS 17 and determines the **unit of account** to be used when applying IFRS 17. The groups are established **at initial recognition** and are not reassessed subsequently.

An entity should initially identify **portfolios** of insurance contracts. **A portfolio of insurance contracts is defined as insurance contracts subject to similar risks and managed together**. It is generally expected that contracts in different product lines will have different risks. For example, single-premium fixed annuities and regular term life insurance contracts are expected to be in different portfolios, because they cover different insurance risks (longevity and mortality).

According to the Standard, as issued by the IASB, an entity cannot include contracts issued more than one year apart in the same group. Therefore, each portfolio should be disaggregated into **annual cohorts**, or cohorts consisting of periods of less than one year.

An entity divides **each portfolio into a minimum of**:

- a group of contracts that are **onerous** on initial recognition, if there are any;
- a group of contracts that, on initial recognition, have **no significant possibility of becoming onerous subsequently**, if there are any; and
- a group of any **remaining contracts** in the portfolio.

According to the goal of the new accounting principle to immediately recognize in P&L the effects of the onerous contracts, the grouping of individual contracts under IFRS 17 is performed in a way that limits the offsetting of profitable contracts against onerous ones, having regard to how insurers manage and evaluate the performance of their business.

The level of aggregation requirements of insurance contracts in IFRS 17 constitute a significant change to today's financial reporting practices and the annual cohorts requirements is still under discussion in the current European endorsement process.

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IFRS 17: Onerous Contract Test

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In the aggregation process of insurance contracts, a fundamental step is the identification of the profitability level of the contracts within each portfolio/cohort on initial recognition.

An entity may measure whether contracts are **onerous on initial recognition** for **sets of contracts** - i.e. at a higher level of aggregation than the individual contract level - if it has reasonable and supportable information to conclude that a set of contracts are in the same group. Likewise, an entity may assess whether contracts have **no significant possibility of becoming onerous subsequently** for **sets of contracts** - i.e. at a higher level of aggregation than the individual contract level - if it has reasonable and supportable information to conclude that a set of contracts are in the same group. **If the entity cannot support such a conclusion**, then **the entity determines the group by assessing individual contracts**.

The assessment that contracts have **no significant possibility of becoming onerous subsequently** may be performed:

- **by using information about estimates** provided by the entity's internal reporting; and
- **based on the likelihood of changes in assumptions** that, if they occurred, would result in the contracts becoming onerous.

Once the entity has identified the onerous contracts and contracts with no significant possibility of becoming onerous subsequently, contracts are classified into different groups. **If there are any, the remaining contracts are included in a group of the remaining contracts in the portfolio (profitable contracts)**.

In some cases, **law or regulation explicitly constrains** the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics. **Only in such cases, the entity may include those contracts in the same group.**

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IFRS 17: Overview of the General Model

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The **General Model** aims to provide **relevant information** about the **expected cash flows** and **profitability** of insurance contracts. In fact, the **main goal** of this general measurement model, introduced by IFRS 17, is to give a comprehensive and coherent framework that provides information r**eflecting the many different features of insurance contracts and the ways in which the issuers of insurance contracts earn income** from them.

On initial recognition, the liability (or asset) recognised for a group of insurance contracts is measured as the **sum of**:

- **the fulfilment cash flows**, which are a risk-adjusted, explicit, unbiased and probability-weighted estimate of the present value of expected cash flows that will arise as the entity fulfils the contracts; and
- **the contractual service margin (CSM)**, which is the amount that represents the **unearned profit that the entity will recognise in profit or loss as services are provided**.

At initial recognition, for profitable groups of contracts, the CSM has an equal and opposite value to the fulfilment cash flows. This is because, at initial recognition, the entire value of the contracts relates to services to be provided over the life of the unit of account and, therefore, profit to be released to Profit or Loss at each reporting date (unless change in profitability).

If the total mentioned above **is a net cash outflow**, then **the group of contracts is onerous. A loss is recognised immediately in the statement of financial performance** for the entire net cash outflow.

After inception, the fulfilment cash flows are reassessed and **remeasured at each reporting date**, using current assumptions, identifying those changes that are part of insurance revenue, insurance service expense and insurance finance income or expense. The **CSM is allocated to profit or loss** as a component of revenue.

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IFRS 17: Cash Flow

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The first step in measuring a group of contracts is the estimation of cash flows.

IFRS 17 requires estimates of expected cash flows of a group of insurance contracts:

- to **incorporate all reasonable and supportable information** that is available without undue cost or effort about the amount, timing and uncertainty of those expected cash flows in an unbiased way;
- to **include all the expected cash flows within the boundary** of each contract within the group;
- to reflect the perspective of the entity, provided that, when relevant, the estimates are **consistent with observable market prices**; and
- to be **current and explicit**.

The expected cash flows **may be estimated at a higher level of aggregation and then allocated** to groups of contracts.

The requirement to incorporate in the estimates all reasonable and supportable information (without undue cost or effort about the amount, timing and uncertainty of expected cash flows) is achieved by estimating the expected value of the full range of possible outcomes - i.e. the probability - weighted mean.

The risk adjustment for non-financial risk is included explicitly as a separate component of the measurement.

The contract boundary distinguishes the expected cash flows related to existing insurance contracts from those related to future insurance contracts.

The contract boundary is reassessed at each reporting date and, therefore, may change over time.

Cash flows within the boundary of an insurance contract **are those that relate directly to the fulfilment of the contract**, and include those over which the entity has discretion including, for example, premiums, payments, claims and costs.

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IFRS 17: Discount Rate

11 JUNE, 14 2021

The second step in measuring a group of contracts is discounting to reflect the time value of money and financial risks associated with the cash flows.

The discount rate applied to cash flow should:

- be consistent with observable current market prices;
- reflect the time value of the money, the characteristics of the cash flows and liquidity characteristics of the insurance contracts;
- exclude the effects of factors that affect observable market prices used in determining the discount rate, but do not affect the expected cash flows of the insurance contract.

Cash flows that vary based on the return on the underlying items are discounted or adjusted to reflect that variability, regardless of whether:

- the variability arises from contractual terms or discretion of the issuer; or
- the entity holds the underlying items.

An entity determines the discount rate based on an estimation technique, if:

- observable market prices with the same characteristics (e.g. timing, currency, liquidity) are not available; or
- similar instruments are available but do not separately identify factors of the financial instrument that differentiate it from the insurance contract.

IFRS 17 does not prescribe a single estimation technique to derive discount rates. However, the standard does specify that **a 'top-down' or 'bottom-up' approach may be used**:

- "***Bottom-up***": an entity may determine the discount rate based on a liquid risk-free yield curve. This is adjusted to eliminate differences between the liquidity characteristics of the financial instruments that underlie the chosen curve and those of the insurance contracts;
- "***Top-down***": an entity may determine the discount rates based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets. The yield curve is adjusted to eliminate any factors that are not relevant to the insurance contracts.

The effect of, and changes in, the time value of money and financial risk (including that arising from the passage of time) are presented as insurance finance income or expense or in the statement of financial performance, applying specific accounting policies.

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IFRS 17: Risk Adjustment

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The third step in measuring a group of insurance contracts is **to adjust the present value of expected cash flows for non-financial risk**. The risk adjustment conveys information to users of the financial statement about **the amount the entity charges for bearing the uncertainty over the amount and timing of cash flows arising from non-financial risk**. In particular, it measures the compensation that the entity would require to make it indifferent between:

- fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and
- fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contract.

IFRS 17 does not prescribe specific methodologies for determining the risk adjustment for non-financial risk. Therefore, management's judgement is necessary to determine an appropriate risk adjustment technique to use.

While the appropriateness of the methodology will depend on the individual circumstances and on the techniques currently used by each entity, there are some relevant **characteristics that may be generally considered**, such as the frequency and the severity of the claims, the duration of the contracts, the uncertainty of the estimates.

The different methodologies that may be used may include - among others - the cost of capital or a confidence level.

While leaving the choice on whether or not to use a confidence level technique to determine the risk adjustment, IFRS 17 prescribes that, in case **an entity chooses not to use it, the entity has to disclose the confidence level corresponding to the results of that technique to provide comparability**. This provision might significantly influence the choice of the approach to be used and might present operational challenges.

The risk adjustment is then periodically released in profit or loss in accordance with insurance coverage provided.

In line with the other components of the fulfilment cash flows, **the risk adjustment for non-financial risk is revised at each reporting date** on the basis of updated assumptions.

When applying IFRS 17, a company will also be required to disclose a reconciliation of the movement in the risk adjustment from the opening balance to the closing balance.

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IFRS 17: Contractual Service Margin

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The Contractual Service Margin (CSM) determination is the final step in measuring a group of insurance contracts on initial recognition. It **represents the unearned profit that the entity will recognise as it provides services over the coverage period** under the insurance contracts in the group.

The CSM cannot be negative for insurance contracts issued.

On initial recognition of a profitable group of insurance contracts, the CSM is the equal and opposite amount of the net inflow that arises from the sum of the following:

- the fulfilment cash flows;
- the derecognition of any asset or liability previously recognised for cash flows related to the group; and
- any cash flows arising from contracts in the group at that date.

For loss-making groups of insurance contracts, the CSM **is set equal to zero** and losses must be immediately recognised in profit or loss.

An entity calculates a CSM for each group of insurance contracts.

At each **subsequent reporting date**, the carrying amount of a group of insurance contracts is remeasured by:

- **estimating the fulfilment cash flows using current assumptions**; and
- **updating the CSM to reflect changes in fulfilment cash flows related to future services**, a financing effect and the profit earned as insurance contract services are provided in the period. The updated CSM represents the profit that has not yet been recognised in profit or loss because it relates to future services to be provided.

The sum of the updated fulfilment cash flows and the updated CSM represents the carrying amount of the group of insurance contracts at each reporting date.

The CSM is released in each reporting period for an amount recognised in profit or loss to reflect the insurance contract services provided under the group of insurance contracts in that period.

In order to do that, the entity should first **identify the coverage units in the group**, meaning the quantity of coverage provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage duration. The amount is then determined by **allocating the CSM at the reporting date equally to coverage units provided** in the current period and expected to be provided in the future. Finally, **the portion of the CSM allocated to the current period should be recognised in profit or loss**.

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IFRS 17: Onerous Contracts

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On initial recognition **a group of insurance contracts is onerous if the sum of the fulfilment cash flows allocated to the contracts, any previously recognised insurance acquisition cash flows and any cash flows arising from the contracts, results in a net cash outflow**.

The carrying amount of the insurance liability for a group that is onerous at initial recognition is equal to the fulfilment cash flows, and **the CSM of the group is zero. The loss has to be recognised immediately in Profit and Loss** for the entire net cash outflow.

Once a group of contracts has a loss component as part of its liability for remaining coverage (either on initial recognition or subsequently), **subsequent changes in the fulfilment cash flows** of that liability are **allocated on a systematic basis** between the:

- loss component of the liability for remaining coverage; and
- liability for remaining coverage, excluding the loss component.

These **subsequent changes** are those **estimates of the present value of expected cash flows for claims and expenses released from the liability for remaining coverage** because of incurred insurance service expenses, changes in the risk adjustment for non-financial risk recognised in profit or loss due to the release from risk, and insurance finance income or expense.

The systematic allocation results in the total amounts allocated to the loss component being zero by the end of the coverage period of the group of contracts.

Subsequent decreases in fulfilment cash flows arising from changes in estimates of expected cash flows relating to future service **and**, for contracts with direct participation features, any **subsequent increases in the amount of the entity's share of the fair value of the underlying items, are allocated solely to the loss component until it is reduced to zero**. After it has reached zero, a CSM is created for the excess of the decrease over the amount allocated to the loss component.

A group of contracts that has a CSM on initial recognition can become onerous in subsequent periods, if any of the following exceeds the carrying amount of the CSM:

- unfavourable changes relating to future service in the fulfilment cash flows arising from changes in estimates of expected cash flows and the risk adjustment for non-financial risk; and
- for contracts with direct participation features, a decrease in the amount of the entity's share of the fair value of the underlying items.

The excess is the loss component of the liability for remaining coverage and is recognised in profit or loss when it is first measured.

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IFRS 17: Eligibility for the Variable Fee Approach

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Many insurers issue contracts including features that share returns on underlying items with the policyholders. IFRS 17 draws a distinction between contracts with direct participation features, contracts with participation features which are not direct and other non-participating insurance contracts.

An insurance contract is considered to be a **direct participating contract** when:

- the contractual terms specify that **the policyholder participates in a share of a clearly identified pool of underlying items**;
- **the entity expects to pay the policyholder an amount equal to a substantial share of the fair value returns** on the underlying items; and
- the entity expects a **substantial proportion of any change in the amounts to be paid** to the policyholder to **vary with the change in the fair value of the underlying items**.

When evaluating the contractual terms, it is important to consider that **a clearly identified pool of underlying items does not exist when**:

- **an entity can change the underlying items** that determine the amount of the entity's obligation with retrospective effect; or
- **there are no underlying items identified**, even if the policyholder could be provided with a return that generally reflects the entity's overall performance expectations or the performance expectations of a subset of assets that the entity holds.

Moreover, the term "**substantial**" **has to be evaluated in the context of the objective of direct participating contracts**, and the variability in these amounts is considered over the duration of the insurance contract and on a present value, probability-weighted average basis.

When a contract meets the requirements to be defined as a direct participating contract, the entity **must apply** the measurement model approach called "**Variable Fee Approach**" (VFA).

In conclusion, direct participating contracts create an obligation to pay the policyholder an amount equal to the fair value of the underlying items, apart from a variable fee for the future services provided. The **variable fee** is equal to the difference between the entity's share in the fair value of the underlying items and the fulfilment cash flows that do not vary based on the underlying items.

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16 JULY, 20 2021

IFRS 17: Applying the Variable Fee Approach

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At initial recognition of a direct participation group of contracts, **the measurement** under the Variable Fee Approach (VFA) **is the same as the General Measurement Model** (GMM). **On subsequent measurement, differences arise:** the VFA modifies the GMM treatment of the contractual service margin (CSM) in order to include modifications that reflect the specific nature of direct participating contracts. In particular, the differences with respect to the GMM reflect the notion that the entity substantially provides investment-related services to the policyholder and is compensated for the services by a fee determined with reference to the underlying items.

At each subsequent reporting date, the CSM of a group of direct participating insurance contracts is remeasured, updating the previous reporting date CSM **to reflect**:

- **changes in estimates of the fulfilment cash flows** related to future services;
- **the entity's share of the change in the fair value** of the underlying items;
- **the amount recognised as insurance revenue** because of the transfer of services in the period, determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period, applying coverage units.

Changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items are recognised in Profit or Loss or in Other Comprehensive Income (**OCI**). However, as explained above, **changes in the amount of the entity's share of the fair value of the underlying items** relate to future services and, therefore, **adjust the CSM, except** to the extent that:

- the amount of **the entity's share of a decrease in the fair value** of the underlying items **exceeds the carrying amount of the CSM**, resulting in a loss recognised as part of the insurance service result;
- **the amount of the entity's share of an increase in the fair value** of the underlying items **reverses losses previously recognised**; or
- **the entity meets the conditions for the risk mitigation option** and chooses not to reflect in the CSM some or all of the changes in the effect of financial risk on its share of the underlying items.

Entities do not need to identify the adjustments to the CSM for the changes in the entity's share of the change in the fair value of the underlying items **separately from those related to changes in the fulfilment cash flows relating to future service**. Therefore, they can adjust the CSM for an amount equal to the change in the fair value of underlying items, less the change in the fulfilment cash flows.

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IFRS 17: Premium Allocation Approach

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The Premium Allocation Approach (PAA) is an **optional** and **simplified measurement model** that can be used when certain criteria are met. In particular, **an entity is permitted to apply the PAA** to measure a group of insurance contracts **if**, at inception of the group:

- **the coverage period** of each contract in the group of insurance contracts **is one year or less**; or
- the entity reasonably expects that **the PAA would produce a measurement of the liability for remaining coverage** for a group of insurance contracts **that would not materially differ from the** measurement that would be achieved by applying the **general measurement** requirements.

Under the PAA, the general measurement model is simplified to measure the liability for remaining coverage.

At inception, the PAA measures **the liability for remaining coverage as the amount of premiums received less the acquisition cash flows paid**.

After the initial recognition, the liability for remaining coverage **increases with premiums received and decreases to reflect an allocation of the amount** of premiums and acquisition cash flows **that have been recognised in profit or loss** over the expired portion of the coverage period based on the passage of time. The insurance contract revenue for the period is the amount of expected premium receipts allocated to the period itself. **The allocation to each period** of insurance contract services **is based on the passage of time**. However, in case the pattern of the release of risk during the coverage period differs significantly from the passage of time, the expected premium receipts are to be allocated to periods of coverage based on the expected timing of incurred insurance service expenses.

The PAA assumes that recognising the contract's premium over the coverage period provides information and profit patterns similar to those provided by recognising insurance contract revenue measured using the general measurement model. The initial measurement of the liability for remaining coverage does not explicitly identify the present value of expected cash flows, the effects of risk, and the time value of money. Consequently, **the subsequent measurement does not involve analysing the variations in those components before a claim is incurred** because the rationale for applying the PAA is that it is unlikely to have significant changes in them. However, **when facts and circumstances indicate that a group of contracts is onerous, the entity calculates the loss component using the general measurement model's** fulfilment cash flow requirements.

The liability for incurred claims is measured for contracts under the PAA as the amount of the fulfilment cash flows relating to incurred claims, **according to the general measurement model's** fulfilment cash flow **requirements**.

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IFRS 17: Reinsurance overview

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A reinsurance contract is a type of insurance contract that is issued by an entity (the reinsurer) to compensate another entity (the cedant) for claims arising from insurance contracts issued by the cedant.

IFRS 17 requires a reinsurance contract held to be accounted for separately from the underlying insurance contracts to which it relates. An entity that holds a reinsurance contract does not normally have a right to reduce the amounts it owes to the underlying policyholder by the amounts it expects to receive from the reinsurer and the cedant's contractual obligations to the underlying policyholders are not extinguished because the underlying contract is reinsured.

The cedant measures, and accounts for, groups of reinsurance contracts that it holds on the basis of the recognition and measurement requirements for issued insurance contracts, modified to reflect the following facts:

- **reinsurance contracts held are usually assets**, rather than liabilities. They are separate from the underlying insurance contracts;
- for reinsurance contracts held, the cedant pays a premium to a reinsurer and receives a reimbursement from the reinsurer if it pays valid claims arising from the underlying contracts. **The cedant has a net cost or a net gain on purchasing the reinsurance**.

Reinsurance contracts issued or held cannot be direct participating contracts and, as a consequence, **are excluded from the application of the Variable Fee Approach**.

An entity **may use the Premium Allocation Approach** to simplify the measurement of a group of reinsurance contracts held if on initial recognition they meet the eligibility criteria, adapted to reflect the features of reinsurance contracts held. Because the Premium Allocation Approach eligibility assessments are performed separately for underlying insurance contracts and reinsurance contracts held, they might result in different outcomes with respect to direct business.

An entity applies **the aggregation requirements** to divide portfolios of reinsurance contracts held into groups, adapted to reflect the features of reinsurance contracts held. Applying these requirements **could result in groups that comprise a single contract**.

An insurer also needs to identify cash flows within the contract boundary for any reinsurance contracts held. Cash flows are within the boundary of a reinsurance contract held if they arise from substantive rights and obligations of the holder of the contract.

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IFRS 17: Initial recognition of Reinsurance contracts

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Reinsurance contracts held are divided into those that provide proportionate coverage and those that provide other coverage.

A group of reinsurance contracts held whose coverage is not proportionate is recognised at the earlier of:

- **the date on which its coverage period begins**; and
- **the date on which the entity recognises an onerous group of underlying insurance contracts**, if the entity entered the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

If a group of reinsurance contracts held provides proportionate coverage, then an entity delays the recognition of the group of reinsurance contracts held until **the date of the initial recognition of any underlying insurance contract** in the underlying group of insurance contracts, if that is later than the beginning of the coverage period of the group of reinsurance contracts held.

The Contractual Service Margin on initial recognition for a group of reinsurance contracts **represents a net cost or net gain from purchasing reinsurance**.

On initial recognition:

- **if the coverage of the group of reinsurance contracts relates to events that occurred before the purchase of the group, any net cost** of purchasing reinsurance coverage **is recognised immediately in profit or loss** as an expense; and
- in all other cases, **the CSM equals the inverse amount of the sum of**:
  - the fulfilment cash flows;
  - the amount derecognised for assets or liabilities previously recognised for related cash flows;
  - any cash flows arising from the contracts in the group at the date of initial recognition of the group; and
  - any income recognised in profit or loss for recovery of losses recorded on initial recognition of onerous underlying contracts.

When an entity recognises a loss on initial recognition of underlying contracts at the same time as or after entering a reinsurance contract held, **the entity adjusts the CSM** of the reinsurance contracts held **to compensate for all or some of that loss**. It simultaneously recognises the corresponding amount in profit or loss and establishes a loss-recovery component of the asset for remaining coverage under the reinsurance contracts.

The CSM adjustment is determined **by multiplying**:

- **the loss recognised on the underlying insurance contracts**; and
- **the percentage of claims** on the underlying insurance contracts **that the entity expects to recover** from the reinsurance contract held.

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IFRS 17: Subsequent measurements of Reinsurance contracts

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After the initial recognition, **the adjustment to the CSM** of a group of reinsurance contracts mainly **reflects changes in the fulfilment cash** flows of the reinsurance contracts arising from changes in the fulfilment cash flows of the group of underlying contracts. These changes are **limited to the reinsurer's share that adjusts the underlying contracts' CSM** (or there is a remeasurement of the underlying PAA liability for remaining coverage because the underlying PAA contract is or was onerous). **Any changes outside this limit are recognised immediately in profit or loss** as a gain or loss on the group of reinsurance contracts held.

Similar to initial recognition, there is a level of matching between the underlying group of contracts and the reinsurance contracts held on subsequent measurement.

In particular, **the CSM** at each reporting date **equals the sum of** the following elements:

- **CSM** at the **previous** reporting date;
- **effect of new contracts** added to the group;
- **interest accreted** on the CSM during the period;
- **changes in fulfilment cash flows relating to future service**;
- effects of currency exchange differences on the CSM;
- income recognised in profit or loss in the period for the recovery of losses recognised on initial recognition of underlying contracts;
- reversals of loss recovery components to the extent that the reversals are not changes in fulfilment cash flows of the reinsurance contract held;
- amount of CSM recognised in profit or loss because of the services received during the period.

When a change in the fulfilment cash flows allocated to a group of underlying contracts that relates to future service **does not adjust the CSM** for the group of underlying contracts (or there is a remeasurement of the underlying PAA liability for remaining coverage because the underlying PAA contract is or was onerous), **the corresponding changes** in the fulfilment cash flows **relating to** future service of the **reinsurance contracts held are also recognised in profit or loss**.

On subsequent measurement, **the CSM will be adjusted for the recovery of losses** on onerous underlying contracts that were initially recognised in the period. For existing loss recovery components, the CSM will be adjusted by any reversals of those components to the extent that those reversals are not changes in fulfilment cash flows of the group of reinsurance contracts held.

Changes in the fulfilment cash flows that result from changes in the risk of non-performance of the reinsurer are recognised immediately in profit or loss as they do not relate to future service.

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IFRS 17: Presentation and Statement of financial position

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The new accounting principle IFRS 17 provides specific requirements for presenting assets and liabilities, other than revenue and expenses, into the statement of financial position.

In particular, **portfolios** of insurance contracts issued **that are either assets or liabilities**, and portfolios of reinsurance contracts held that are either assets or liabilities, **are presented separately** in the statement of financial position.

As a consequence, the level of aggregation is relevant not only for measurement purposes but also for presentation purposes. **Entities must be able to identify the position** - i.e. asset or liability - **of each portfolio of contracts**, in order to ensure the appropriate presentation, by aggregating all of the groups of contracts within each portfolio.

The carrying amount of a portfolio **consists of**:

- **the liability (or asset) for remaining coverage for any groups** within the portfolio;
- **the liability for incurred claims for any groups** within the portfolio;
- **any assets for insurance acquisition cash flows** related to the portfolio of insurance contracts; and
- any assets or liabilities for cash flows related to the portfolio of reinsurance contracts held.

Portfolios of direct insurance business are usually expected to be in a liability position - e.g. contracts for which the whole premium is received in advance.

Contracts for which the premium is paid periodically do not necessarily give rise to a liability position, because this depends on the pattern of claim and expense payments compared with the pattern of premium receipts, the level of profitability, insurance acquisition cash flows and other items.

Entities must be able to associate insurance acquisition cash flows paid with the group to which they are expected to belong once the group is recognised.

This information is necessary for measurement purposes, in order to allocate these cash flows to the appropriate group on initial recognition.

The carrying amount of a portfolio includes both the liability for remaining coverage and the liability for incurred claims for all groups within the portfolio. This means that entities will **need to be able to identify whether the liability for incurred claims belongs to a portfolio of insurance contracts that is an asset or to one that is a liability**, in order to apply the presentation requirements described.

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IFRS 17: Presentation and Statement of financial performance

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Significant new requirements are provided by IFRS 17 for the presentation of financial performance compared to IFRS 4.
In particular, the main difference with regards to presentation is linked to the identification of the types of margins (e.g. insurance, financial, etc.) contributing to form the result of the period. As a consequence, **amounts** recognised in the statement of financial performance **need to be disaggregated into**:
- **an insurance service result**, comprising insurance revenue and insurance service expenses; and
- **insurance finance income or expense**.

Insurance revenue depicts the provision of services arising from the group of insurance contracts at an amount that **reflects the consideration to which an entity expects to be entitled in exchange for those services**. This amount **comprises**:
- **amounts related to the provision of services** (including insurance service expenses expected to be incurred in the period, the change in the risk adjustment for non-financial risk relating to past and current services and the amount of the CSM recognised in profit or loss in the period); and
- **amounts related to insurance acquisition cash flows**.

According to the above, the current practice of recognising revenue as written or earned premiums will no longer apply. IFRS 17's approach could result in significantly different amounts of revenue being recognised compared with those currently recognised, which do not always align with the variability of claims, risks and services provided over the coverage period.
Insurance service expenses arising from groups of insurance contracts issued **are recognised in profit or loss as they are incurred**.
Insurance revenue and insurance service expenses presented in profit or loss **exclude any investment components**, premium refunds and repayment of policy loans. Even though premiums charged may contain investment components, these investment components do not represent consideration for providing services and are not included in insurance revenue.
Income or expense from reinsurance contracts held is presented separately from expense or income from insurance contracts issued. However, income or expense from a group of reinsurance contracts held, other than insurance finance income or expense, may be presented either as a single net amount or separately as amounts recovered from the reinsurer and an allocation of the premiums paid.
Insurance finance income or expense comprises the change in the carrying amount of the group of insurance contracts **arising from the effect of**, and changes in, **the time value of money and financial risk**.

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IFRS 17: Disclosure

23 OCTOBER, 13 2021

IFRS 17 contains specific disclosure requirements that aim to deliver clarity and transparency for users of financial statements.

The general disclosure objective is for an entity to disclose information that, together with the information presented in the primary financial statements, provides a basis for users to assess the effects that insurance contracts have on its financial position, financial performance and cash flows.

IFRS 17 **disclosure requirements focus on** information about:

- **amounts recognised in the financial statements**;
- **significant judgements** and changes in those judgements; and
- **the nature and the extent of risks** that arise from insurance contracts.

Entities consider the level of detail that is necessary to satisfy the general disclosure objective and how much emphasis to place on each of the disclosure requirements.

With regards to the first point, **an entity discloses reconciliations that depict how the net carrying amounts of insurance contracts changed during the period**. In particular, separate reconciliations are disclosed for insurance contracts issued and reinsurance contracts held. In each reconciliation, the opening and closing net carrying amounts are disclosed and disaggregated into a total for portfolios of contracts that are assets and a total for portfolios that are liabilities.

These reconciliations explain how the amounts in the statements of financial position and financial performance are linked and provide different types of information about the insurance service result.

With regards to the second point, an entity needs to disclose information about the significant **judgements** that it makes and changes in those judgements. These include:

- **the methods used to measure insurance contracts and the processes for estimating the inputs** into those methods. Information about the inputs includes quantitative information, unless this is impracticable; and
- **any changes in the methods and processes for estimating inputs** used to measure those contracts, **the reason for each change** and **the type of contracts affected**.

Finally, with regards to the third point, **an entity needs to disclose information that focuses on the insurance and financial risks** (typically including credit risk, liquidity risk and market risk) that arise from insurance contracts **and how they have been managed**. The objective of disclosing this information is to enable users of its financial statements **to evaluate the nature, amount, timing and uncertainty of expected cash flows** that arise from contracts under IFRS 17.

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IFRS 17: Transition requirements

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IFRS 17 is applied for annual reporting periods beginning on or after 1 January 2023. **Earlier application is permitted for entities that apply IFRS 9 on or before the date of the initial application of IFRS 17**. IFRS 17 replaces IFRS 4, including the amendments to IFRS 4 introduced in 2016, related to the IFRS 9 first application for the insurance sector.

The transition requirements define the date of initial application as the start of the annual reporting period in which an entity first applies IFRS 17. **Since the standard requires the presentation of comparative financial information** for the annual period immediately preceding the date of initial application of IFRS 17, **the transition date is the beginning of the annual reporting period immediately preceding the date of initial application**.

The process of applying IFRS 17 retrospectively in an entity's financial statements starts with preparing the statement of financial position at the date of transition. For example, the date of transition will be 1 January 2022 for companies that have an annual reporting date of 31 December and implement IFRS 17 from 1 January 2023.

IFRS 17 is applied retrospectively, so called Full Retrospective Approach (FRA), **unless it is impracticable**.

To apply IFRS 17 retrospectively, **an entity shall at the transition date**:

- **identify, recognise and measure each group** of insurance contracts **as if IFRS 17 had always been applied**;
- **derecognise any existing balances that would not exist had IFRS 17 always applied**; and
- **recognise any resulting net difference in equity**.

The full retrospective application will typically be a difficult exercise requiring significant time, effort and resources and a large amount of high-quality historical data.

The use of hindsight is not allowed under the full retrospective approach, which may make retrospective application impracticable.

If, and only if, it is impracticable for **an entity to apply** the Full Retrospective Approach for a group of insurance contracts, an entity shall apply the following approaches:

- the **Modified Retrospective Approach** (MRA);
- the **Fair Value Approach** (FVA).

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IFRS 17: Modified Retrospective Approach

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The objective of the Modified Retrospective Approach (MRA) **is to use reasonable and supportable information** that is available **without undue cost or effort to achieve an outcome as close as possible to** the Full Retrospective Approach (**FRA**).
An entity can use some of the modifications permitted by IFRS17, only to the extent that it does not have reasonable and supportable information to apply an FRA.
To the extent that an entity is not able to identify groups of contracts, or their classification is based on information available at inception or initial recognition, **an entity determines**, using information available at the date of transition:

- **how to identify groups of insurance contracts** (an entity **may group contracts issued more than one year apart**, if necessary);
- whether a contract is considered a **direct participating contract**;
- **how to identify discretionary cash flows** for contracts without direct participation features; and
- whether an investment contract meets the definition of an investment contract with discretionary participation features.

The permitted modifications for the measurement of **groups of insurance contracts without direct participation features** focus on **determining the CSM** (or loss component) **at transition, by estimating the CSM** (or loss component) on initial recognition and rolling it forward to determine the liability for remaining coverage **at the date of transition**.
For groups of direct participating contracts, the CSM (or loss component) at the date of transition **is calculated as a proxy for the total CSM for all services (past and future)** provided under the contracts.
This amount, determined through some adjustments to the difference between the fair value of underlying items at the date of transition and the estimation of the fulfilment cash flows at the same date to identify the CSM at inception, is **reduced by the CSM that relates to services provided before the date of transition**. This is based on the ratio between the remaining coverage units at the date of transition and the coverage units provided under the groups of contracts before the date of transition.
If the above calculation results in a loss component, then the loss component is adjusted to zero, with a corresponding increase in the liability for remaining coverage, excluding the loss component.
In conclusion, **the carrying amount** of the liability for remaining coverage of a group of insurance contracts **at the date of transition is the sum of the fulfilment cash flows and the CSM** at this date. These amounts form the basis for revenue recognition in subsequent periods.

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26 NOVEMBER, 4 2021

IFRS 17: Fair Value Approach

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An entity can decide to use the Fair Value Approach (FVA), if - and only if - the Full Retrospective Approach is impracticable.
The Fair Value Approach **is the only approach that can be used where the insurer does not have the cash flow information needed to apply other approaches**.
Such an approach might be less burdensome because **it requires no historical data or retrospective tracking of the Contractual Service Margin**.
In detail, under the Fair Value Approach, **an entity determines the Contractual Service Margin** or loss component at the date of transition for a group of contracts **based on the difference between the fair value and the fulfilment cash flows of the group at that date**.
The fair value is determined using the requirements of IFRS 13. The lack of observable information for many insurance contracts and relatively limited market transaction data available could lead to the fair value estimation. It has to be considered how to leverage existing information where possible (Solvency II, embedded value-based approaches, discounted dividend models, historical acquisitions data, and sales or pricing information, etc.).
When the Fair Value Approach is applied, an entity uses reasonable and supportable information for what it would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate, or it uses reasonable and supportable information that is available at the date of transition. This information is used to determine:

- how to identify groups of insurance contracts
- whether a contract is considered a direct participating contract;
- how to identify discretionary cash flows for contracts without direct participation features; and
- whether an investment contract meets the definition of an investment contract with discretionary participation features.

Similarly to the Modified Retrospective Approach, **when identifying groups of insurance contracts, an entity may group contracts issued more than one year apart**. However, it may divide groups into those issued within a year if it has reasonable and supportable information to make the distinction.
In applying the Fair Value Approach, these reliefs are available in any case, while under the Modified Retrospective Approach, an entity is allowed to use such modifications only to the extent that there is no reasonable and supportable information to apply the Full Retrospective Approach.

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IFRS 9: Background

27 NOVEMBER, 12 2021

The new standard **IFRS 9** for financial instruments replaces IAS 39 "**Financial Instruments: Recognition and Measurement**" in response to criticisms raised upon such standard.

IAS 39 was considered too complex, inconsistent with the way entities manage their businesses and risks and deferring the recognition of credit losses on loans and receivables until too late in the credit cycle.

The IASB had always intended to reconsider IAS 39, but the financial crisis made this a priority. **The IASB developed IFRS 9 in three phases**, dealing separately with the **classification and measurement** of financial assets, **impairment, and hedging**. Other aspects of IAS 39, such as scope, recognition, and derecognition of financial assets, have survived with only a few modifications. The IASB released updated versions of IFRS 9 as each phase was completed or amended, and, as each phase was finished, entities had the opportunity of adopting the updated version.

The final standard was issued in July 2014 with a mandatory effective date of 1 January 2018.

Having different effective dates for IFRS 9 "Financial Instruments" and IFRS 17 "Insurance Contracts" concerns arose from insurance markets, regarding temporary accounting mismatches and volatility, costs and complexity.

To address these concerns about applying IFRS 9 before IFRS 17, the IASB issued amendments to IFRS 4 "Insurance Contracts" in 2017 in order to align the dates of the first application of both standards, with **two operational solutions** applicable until the earlier of the application of IFRS 17 or 1 January 2021:

- **Temporary exemption from IFRS 9**: some companies are permitted to continue to apply IAS 39. To qualify for this exemption, reporting **company's activities need to be predominantly connected with insurance**.
- **Overlay approach**: for designated financial assets, a company **is permitted to reclassify, between profit or loss and other comprehensive income (OCI), the difference between the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39**.

With the amended IFRS 17, issued in June 2020, **the end date for applying the two options above was extended to 1 January 2023**, aligned with the effective date of IFRS 17.

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28 NOVEMBER, 19 2021

IFRS 9: Classification of Financial Assets

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The reporting of financial instruments is primarily covered by three specific standards: IAS 32, IFRS 7 and IFRS 9. In addition, the measurement of the fair value of financial instruments and the disclosure about fair value are addressed by IFRS 13.

IFRS 9 provides recognition and measurement requirements for financial assets and financial liabilities. This includes both primary financial instruments (e.g. cash, receivables, debt and shares in another entity) and derivative financial instruments.

IFRS 9 largely carries forward the scope of IAS 39. Accordingly, financial instruments that are in the scope of IAS 39 are also in the scope of IFRS 9.

On initial recognition, a financial asset is classified into one of three primary measurement categories:

- **amortised cost**;
- fair value through OCI (**FVOCI**); or
- fair value through profit or loss (**FVTPL**).

A financial asset is measured at amortised cost only if it meets both of the following conditions:

- **the asset is held within** a business model whose objective is to hold assets to collect contractual cash flows (the **held-to-collect business model**); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (**the SPPI criterion**).

A debt instrument is measured at FVOCI only if it meets both of the following conditions:

- **the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets**; and
- the contractual terms of the financial asset meet the **SPPI criterion**.

All other financial assets - i.e. financial assets that do not meet the criteria for classification at either amortised cost or FVOCI - **are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss**.

In addition, **an entity has the option on initial recognition to irrevocably designate a financial asset as at FVTPL** if doing so eliminates or significantly reduces measurement or recognition inconsistencies - i.e. an "accounting mismatch" - that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different basis.

IFS 9: Business Model

29 NOVEMBER, 26 2021

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The new IFRS 9 standard **requires an entity to classify financial assets based on the entity's business model**. The term "business model" refers to the way an entity manages its financial assets to generate cash flows.
The business model **is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective**. It does not depend on management's intentions for an individual instrument; rather, the business model is determined at a higher level of aggregation - e.g. portfolios of financial assets. An entity will probably have more than one business model for managing financial instruments.
IFRS 9 requires that the entity's key management personnel (as defined in IAS 24 Related Party Disclosures) is in charge of the determination of the business model.
IFRS 9 considers the following business models, described below:
- **Held to Collect** (**HTC**)
Financial assets are held within a business model whose objective is to hold assets to **collect contractual cash flows. Therefore, financial assets** are managed to realise cash flows by collecting contractual payments over the life of the instrument. **Sales** are expected in this business model **only if they are caused by an increase in credit risk** or if they are **infrequent** (even if significant in value) or **insignificant in value** both individually and in aggregate (even if frequent).
- **Held to Collect and Sell** (**HTC&S**)
An entity may hold financial assets in a business model whose **objective** is achieved by both **collecting contractual cash flows** and **selling financial assets**. In this type of business model, the entity's key management personnel has made a decision that both collecting contractual cash flows and selling financial assets contribute to achieving the objective of the business model.
- **Other business models**
Financial assets are not held within a business model whose **objective** is to hold assets to **collect contractual cash flows** (HTC) or within a business model whose objective is achieved by **both collecting** contractual cash flows **and selling** financial assets (HTC&S).
The reclassification of financial assets is required if, and only if, the objective of the entity's business model for managing those financial assets **changes**. Such changes are expected to be very infrequent and are determined by the entity's senior management as a result of external or internal changes. These changes have to be significant to the entity's operations and demonstrable to external parties.

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30 DECEMBER, 3 2021

IFRS 9: SPPI criterion

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IFRS 9 requires an entity to verify the contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows (HTC) or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTC&S).

The solely payments of principal and interest (SPPI) **criterion is introduced** by the new IFRS 9 Standard **to verify whether a financial asset's contractual cash flows are solely payments of principal and interest** on the principal amount outstanding (basic lending arrangement).

This assessment is made based on the facts and circumstances **at the initial recognition of a financial asset**.

- Definition of Principal
  Principal is the fair value of the financial asset **at initial recognition**. However, that principal amount **may change over the life** of the financial asset (for example, if there are repayments of principal).
- Definition of Interest
  According to IFRS 9, interest is consideration for:
  - *the time value of money*
    The time value of money is the element of interest that provides consideration for only the passage of time and does not provide consideration for other risks or costs associated with holding the financial asset. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.
    IFRS 9 requires a further test for those financial assets that present a mismatch between the interest rate and the passage of time, called the "*Benchmark Test*".
  - *Credit risk*
    The **credit risk** element is the second fundamental element to consider, in addition to the value of time of money, so that a financial asset could comply with the SPPI criterion. It refers to **that portion of interest deriving from the insolvency risk borne by the creditor.**
  - *Other basic lending risks*
    The consideration of other risks and costs is not an indispensable element for the financial activity to comply with the SPPI criterion. In fact, IFRS 9 allows that in a "basic lending arrangement", **the interest may include the consideration for other risks associated with the basic loan** (for example, liquidity risk) **and costs** (for example administrative costs).

    IFRS 9 also provides that **the interest may include a small profit margin**, remaining compatible with a "basic lending arrangement".

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IFRS 9: Embedded Derivatives

31 DECEMBER, 13 2021

An "**embedded derivative**" is defined by IFRS 9 as **a component of a hybrid contract that also includes a non-derivative host**, such that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative. An embedded derivative **causes modification to** some or all of the **cash flows that would otherwise be required by the contract**, according to a specified financial or non-financial variable that is not specific to a party to the contract.

It is specified that **when a hybrid contract contains a host that is a financial asset in the scope of IFRS 9, the entire hybrid contract**, including all embedded features, **is assessed for classification under IFRS 9** and therefore the IFRS 9 classification requirements will be applied to this instrument, defining Business Model (HTC, HTC&S and Other) and running the SPPI test (pass/not pass). **Based on the business model defined and the SPPI test result,** the classification of the instrument will be identified as follows:

- Business Model "**HTC**" & Result SPPI test "**PASS**" → instrument will be measured at **Amortised cost**;
- Business Model "**HTC&S**" & Result SPPI test "**PASS**" → instrument will be measured at **FVOCI**;
- Business Model "**Other**" (no SPPI test required) → instrument will be measured at **FVTPL**;
- If the instrument **doesn't pass the SPPI test** → instrument will be classified at **FVTPL**.

The IFRS 9 requirements on embedded derivatives do not apply when the host contracts are not financial assets in the scope of IFRS 9 or are financial liabilities.

In such cases, the hybrid contract is assessed to determine whether the embedded derivative is required to be separated from the host contract (bifurcated) in accordance with IFRS 9. **Embedded derivatives** in such hybrid contracts **are separated if**:

- **the economic characteristics and risks** of the embedded derivative **are not closely related to those of the host**;
- **a separate instrument with the same terms** as the embedded derivative **would meet the definition of a derivative**;
- **the hybrid contract is not measured at FVTPL**.

Separable embedded derivatives are required to be measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Because the embedded derivative component is measured at fair value on initial recognition, the carrying amount of the host contract on initial recognition is the difference between the carrying amount of the hybrid instrument and the fair value of the embedded derivative. **If the hybrid contract is measured at FVTPL**, then **separate accounting is not permitted** and then an entity may designate the entire combined contract as at FVTPL unless the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

IFRS 9 also provides the possibility of a single hybrid contract having more than one embedded derivative (**multiple embedded derivatives**) **with different underlying risk exposures**. If those derivatives are readily separable and independent of each other, then they are **accounted for separately** from each other.

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32 JANUARY, 28 2022

IFRS 9: Expected Credit Losses

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IFRS 9 provides a **new expected loss impairment model**, which means that **a loss event does not need to occur before an impairment loss is recognised**. As a result, all financial assets generally carry a loss allowance. **Expected Credit Losses (ECLs)** are a probability-weighted estimate of credit losses - i.e. **the present value of cash shortfalls** - over the expected life of the financial instrument.

The following instruments are in the **scope** of IFRS 9 **impairment requirements**:

- Financial assets that are debt instruments measured at amortised cost or FVOCI (these include loans, trade receivables and debt securities);
- Loan commitments issued that are not measured at FVTPL;
- Financial guarantee contracts issued that are in the scope of IFRS 9 and are not measured at FVTPL;
- Lease receivables in the scope of IFRS 16;
- Contract assets in the scope of IFRS 15.

The following instruments are **not in the scope** of IFRS 9 **impairment requirements:**

- Investments in equity instruments;
- Financial instruments measured at FVTPL.

Entities are generally required to recognise an allowance for ECLs for all financial assets - even those that are newly originated or acquired. **Although an entity is not required to recognise the loss allowance on initial recognition** of the new financial asset, **but rather at the next reporting date**, the effect is similar to recognising a day one loss. **An entity remeasures a loss allowance immediately before the derecognition of a financial instrument so that it can calculate the gain or loss arising on derecognition**.

Impairment may be measured at an amount **equal to 12-month ECLs, lifetime ECLs or changes in lifetime ECLs, depending on whether there has been a significant increase in the credit risk** since initial recognition. If a significant increase in the credit risk of an instrument has occurred since initial recognition, **then impairment is measured as lifetime ECL**s. The **"significant increase in credit risk" is defined directly by the entity**, in the context of its specific types of instruments and **varies depending on the risk at initial recognition**.

An absolute change in the risk of a default will be more significant for an instrument with a lower initial risk of a default compared to an instrument with a higher risk of a default at inception. Therefore, **the assessment of whether there has been a significant increase in credit risk is made relative to expectations on initial recognition**.

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IFRS 9: ECL measurement

33 FEBRUARY, 11 2022

ECLs are a probability-weighted estimate of credit losses over the expected life of financial instruments. Credit losses are the present value of **expected cash shortfalls**.

A cash shortfall is the difference between:

- the cash flows due to the entity in accordance with the contract; and
- the cash flows that the entity expects to receive.

Cash shortfalls are identified as follows:

- **12-month ECLs**: cash shortfalls resulting from default events that are possible within 12 months after the reporting date (or a shorter period if the expected life is less than 12 months) - i.e., it should be considered the effect of the lifetime credit loss of the financial instrument weighted by the probability that this loss will occur in the next 12 months and not just the cash shortfalls that are expected over the next 12 months not just the cash shortfalls that are expected over the next 12 months;
- **lifetime ECLs**: cash shortfalls resulting from default events that are possible over the expected life of the financial instrument.

IFRS 9 does not prescribe a single method to measure ECLs. The methods used may vary based on the type of financial asset and the information available.

The estimate of **ECLs** reflects an unbiased and probability-weighted amount, **determined by evaluating a range of possible outcomes** rather than based on a best- or worst-case scenario. An entity **is not required to identify every possible scenario**, but the estimate always reflects **at least two scenarios**:

- the probability that a credit loss occurs, even if this probability is very low; and
- the probability that no credit loss occurs.

The **degree of judgement** required to estimate cash shortfalls **depends on the availability of detailed information**. As the forecast horizon increases - i.e., as the period for which an entity needs to make its estimate becomes longer - the availability of detailed information decreases, and the judgement required to estimate ECLs increases. An entity is not required to prepare detailed estimates for periods that are far in the future. For such periods, an entity could develop projections by extrapolating the information that is available for earlier periods.

The maximum period over which ECLs are measured is the contractual period - including any extension options - **over which there is exposure to credit risk** on the financial instrument. When an entity sells a financial asset and the sale results in the asset's derecognition, it remeasures a loss allowance immediately before derecognition so that it can calculate the gain or loss arising on derecognition.

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IFRS 9: Impairment and simplified approach for trade and lease receivables

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A loss allowance on trade receivables (or contract assets) that result from transactions in the scope of IFRS 15, **or on lease receivables** that result from transactions in the scope of IFRS 16, **may be measured using a simplified approach**.

Based on the type of instrument, a different criterion is used for the measurement of loss allowance. In particular:

- for trade receivables that do not have a significant financing component, the related loss allowance is **measured** based on **lifetime ECLs (simplified approach)**;
- for trade receivables that have a significant financing component, and lease receivables, it is an entity **accounting policy choice** to measure the related loss allowance with the **general approach** (impairment is measured as either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition) or based on **lifetime ECLs**.

Generally, **trade receivables that do not contain a significant financing component** have a short duration - typically less than 12 months - which means that measuring the loss allowance as lifetime ECLs generally does not differ from measuring it as 12-month ECLs.

Such receivables **are measured on initial recognition at the transaction price** determined in accordance with IFRS 15, and do not have a contractual interest rate. This implies that the effective interest rate for these receivables is zero. Accordingly, **the discounting of cash shortfalls** to reflect the time value of money **when measuring ECLs is not generally required**.

IFRS 9 allows the use of practical expedients **when measuring ECLs** and gives an example of a **provision matrix for trade receivables**. An entity that applies a provision matrix might, for example:

- consider whether it is appropriate to segment trade receivables;
- consider whether changes in economic circumstances mean that any previous segmentation of the portfolio based on historical data continues to be appropriate at the reporting date or should be revised; and
- use historical loss experience on its trade receivables.

When **measuring ECLs on lease receivables** an entity uses:

- cash flows that are consistent with the cash flows used in measuring the lease receivable under IFRS 16; and
- the discount rate used in measuring the lease receivable under IFRS 16.

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IFRS 9: Presentation

35 MARCH, 10 2022

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Financial assets are represented in the statement of financial position with a **separate presentation of cash and cash equivalents, trade and other receivables**, and **investments accounted for under the equity method**.
Financial liabilities are represented in the statement of financial position with a **separate presentation of trade and other payables**. Additional line items may be presented.
Using different measurement bases for different asset classes suggests that their nature or function differ. Therefore, instruments that are measured at amortised cost, and those that are measured at fair value, are generally presented as separate line items. **However, in certain cases instruments with different measurement bases may be included in the same line item**. In these cases, **the notes** to the financial statements **should disclose the carrying amoun**t **of each category** of financial instruments that are combined in a single line item in the statement of financial position.
Some of the IFRS 7 requirements mandate disclosure by category of financial instruments, whereas others are by class of financial instruments. Examples of categories of financial instruments are:

- **FINANCIAL ASSETS**

- measured at **FVTPL**, which include financial assets that are mandatorily measured at FVTPL and financial assets designated at FVTPL on initial recognition or designated subsequently;
- measured at **amortised cost**;
- measured at **FVOCI**, which include financial assets mandatorily measured at FVOCI and investments in equity instruments designated at FVOCI on initial recognition.

- **FINANCIAL LIABILITIES**

- measured at **FVTPL**, which include financial liabilities that meet the definition of held for trading and financial liabilities designated at FVTPL on initial recognition;
- measured at **amortised cost**.

There is no specific guidance on what comprises a "class" of financial instruments except that financial instruments are grouped into classes that are appropriate to the nature of the disclosure and consider the characteristics of those financial instruments.
Line items presenting the following amounts are **required to be presented in the** profit or loss section of the **statement of comprehensive income or in the statement of profit or loss**, to the extent they are material:

- revenue, presenting separately interest revenue calculated using the effective interest method;
- gains/losses arising from the derecognition of financial assets measured at amortised cost;
- finance costs;
- impairment losses, including reversals;
- gains/losses arising from the reclassification of a financial asset out of the amortised cost measurement category into the FVTPL measurement; and
- any cumulative gains/losses (previously recognised in OCI) arising from the reclassification of a financial asset from the FVOCI category to FVTPL measurement.

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36 MARCH, 25 2022

IFRS 9: Disclosure on initial application

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In the period of **initial adoption of IFRS 9**, an entity needs to provide the disclosures specified in IAS 8. To the extent practicable, this includes the effect of adopting IFRS 9 on each financial statement line item for the current period and each prior period presented. However, in the period of initial adoption, **an entity is not required to disclose the line item amounts that would have been reported following** the classification and measurement requirements of **IFRS 9, for prior periods**, and **IAS 39, for the current period**.
Disclosure requirements on the initial application have been divided into "quantitative" and "qualitative" disclosure.
The following **disclosures** are **required in tabular format** (unless another format is more appropriate) for each class of financial assets and financial liabilities at the date of initial application:

- **the original measurement category and carrying** amount under IAS 39;
- **the new measurement category and carrying amount** under IFRS 9; and
- the amount of any **financial assets** and financial **liabilities that were previously designated as at FVTPL, but the designation has been revoked** (the entity distinguishes between mandatory and elective de-designations).

At the date of initial application of IFRS 9, an entity **discloses changes in the classification** of financial assets and financial liabilities, **showing separately**:

- **changes** in the carrying amounts based on their measurement categories in accordance with IAS 39 that are **not the result of** a change in measurement attribute on transition to IFRS 9; and
- **changes** in the carrying amounts **arising from** a change in measurement attribute on **transition to IFRS 9** - e.g., a reclassification from amortised cost to FVTPL.

In the reporting period related to initial application, **an entity also discloses the following for financial assets and financial liabilities that have been reclassified** so that they are now measured at amortised cost, and for financial assets that have been reclassified out of FVTPL so that they are measured at FVOCI as a result of the transition to IFRS 9:

- **the fair value of the financial assets** or financial liabilities at the reporting date; and
- **the fair value gain or loss that would have been recognised in profit or loss or OCI** during the reporting period if the financial assets or financial liabilities **had not been reclassified**.

On the date of initial application of the **impairment requirements** of IFRS 9, **an entity discloses reconciliations between**:

- the **closing balances for impairment allowances under IAS 39** and provisions under IAS 37; and
- the **opening balances for loss allowances under IFRS 9**.

Entities need to provide also **qualitative disclosures** to enable users to understand:

- how the entity applied the classification requirements of IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9; and
- the reasons for any designation or de-designation of financial assets or financial liabilities as measured at FVTPL at the date of initial application.

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IFRS 9: Disclosure after transition

37 APRIL, 8 2022

IFRS 9 introduces substantial amendments to the disclosure requirements of IFRS 7 "*Financial Instruments: Disclosures*".

For the insurance sector, the **objective of the disclosure requirements** is to disclose information that enables users of financial statements to evaluate the significance of financial instruments for the insurer's financial position and performance, the nature and the extent of risks arising from those financial instruments - both during the period and at the reporting date - and how the insurer manages those risks.

Regarding the classification and measurement of financial assets and financial liabilities, similar to the currently effective IFRS 7, under IFRS 9 **entities are required to disclose the carrying amount of each measurement category of financial instruments**, either in the statement of financial position or in the notes. IFRS 7, as amended by IFRS 9, lists the following **categories** in the context **of this disclosure**:

- **financial assets and, separately, financial liabilities measured at FVTPL**, distinguishing between those designated into the category and those mandatorily measured at FVTPL;
- **financial assets and, separately, financial liabilities measured at amortised cost**; and
- **financial assets measured at FVOCI**, distinguishing between financial assets mandatorily measured at FVOCI and investments in equity instruments designated as such on initial recognition.

For **financial assets designated as at FVTPL**, entities must provide the **same information about credit risk currently required for loans and receivables** designated as at FVTPL.

If an entity has designated investments in **equity instruments as at FVOCI, it needs to disclose some additional information**, among which the reasons for the designation, the fair value of each investment at the reporting date, the amount of dividends recognised during the period (separately for investments derecognised during the reporting period and those held at the reporting date), any transfer of the cumulative gain or loss within equity during the period and the reason for those transfers. If an entity derecognised investments in equity instruments measured at FVOCI during the reporting period, it discloses the reasons for disposing of the investments, the fair value at the date of derecognition and the cumulative gain or loss on disposal.

With regards to the **credit risk and expected credit losses**, instead, **IFRS 9 introduces new disclosure requirements** about credit risk **for financial instruments to which the new impairment model is applied**. These disclosures should be sufficient to enable users of the financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To meet this objective, entities have to disclose information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses, quantitative and qualitative information to evaluate the amounts in the financial statements arising from expected credit losses (including changes and the reasons for those changes, in the amount of expected credit losses) and information about an entity's credit risk exposure, including significant credit risk concentrations.

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38 APRIL, 29 2022

IFRS 9: Transition

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IFRS 9 is **effective** for annual periods beginning **on or after 1 January 2018**.

An **insurer** electing the **temporary exemption** from IFRS 9 may continue to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023 if it does not early adopt IFRS 17.

The basic principle in IFRS 9 is a retrospective application in accordance with IAS 8, unless IFRS 9 contains more specific provisions for a particular aspect of the transition. However, IFRS 9 has significant **exemptions from the retrospective application**.

On adopting IFRS 9, an entity determines which financial assets meet the criteria to be measured at amortised cost or FVOCI. As an exception to retrospective application, **the assessment of** whether **the objective of an entity's business** is to hold an asset to collect the contractual cash flows or to achieve a particular objective by both collecting contractual cash flows and selling **is based on facts and circumstances existing at the date of initial application**.

Regarding the assessment on whether the **SPPI criterion** is met, there are no specific transition requirements for the date at which it has to be done. Therefore, the **general requirements apply** - i.e., an entity makes this assessment on the basis of facts and circumstances existing at the time of initial recognition of the financial asset.

The fair value option for financial assets and financial liabilities is then re-opened based on the facts and circumstances **at the date of the initial application**.

The restatement of comparative information for prior periods under IFRS 9 **is not required** and **is permitted only if information is available without the use of hindsight**.

Subject to this overriding condition, the following applies to comparative information on transition:

- Financial assets and financial liabilities already derecognised on initial application - an entity is not permitted to restate even if comparatives are restated voluntarily in respect of classification and measurement generally;
- Classification, measurement and impairment - as said before, an entity is permitted but not required to restate prior periods when it adopts IFRS 9. This election to restate comparative information applies to the classification, measurement and impairment elements together - i.e., if an entity chooses to restate comparatives, then it has to do so for all three elements;
- Hedge accounting - limited restatements are required or permitted in applying the cost of hedging requirements.

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Initial Application of IFRS 17 and IFRS 9 - Comparative Information

39 MAY, 20 2022

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When transitioning to IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*, significant **accounting mismatches** may arise between **financial assets** and **insurance contract liabilities** in the **comparative information**.
In fact, due to the different transition requirements of the two standards, accounting mismatches **may arise for insurers who**:

- **do not plan to restate their comparative information** for financial assets under **IFRS 9** (since an entity is permitted but not required to restate prior periods when it adopts IFRS 9 for the first time); or
- **plan to restate** its comparative information for **IFRS 9 but have derecognised financial assets** in the comparative period. In this case, apart from the potential accounting mismatches, the IFRS 9 transition requirements also present operational challenges for insurers who plan to restate because IAS 39, rather than IFRS 9, must be applied for assets derecognised in the comparative period.

Considering the described accounting mismatches and operational challenges, **the IASB published an amendment to IFRS 17** *Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information*. The amendment adds a **new transition option** to IFRS 17 (the '**classification overlay**') **to alleviate both the operational complexities and one-time accounting mismatches** in comparative information between insurance contract liabilities and related financial assets.
The "classification overlay" is **optional**, on an **instrument-by-instrument basis** and is generally available regardless of whether the financial assets were held with respect to insurance activities. It **allows an insurer** to **classify** and **measure eligible financial assets** in the comparative period in a way that **aligns** with how the insurer expects such assets to be classified on the initial application of IFRS 9.
An insurer **does not need** to complete the **assessment** of the business model or contractual cash flow characteristics of these financial assets before the date of the initial application of IFRS 9. An insurer will **use reasonable** and **supportable information** available at the transition to IFRS 17 to determine their expected classification under IFRS 9.
Although the measurement requirements of IFRS 9 will generally apply based on the expected classification, the insurer is **not required to apply the IFRS 9 expected credit losses impairment model** to these financial assets in the comparative information. An insurer may decide not to apply the IFRS 9 impairment requirements under the classification overlay approach. In that case, it continues to present the impairment of financial assets as previously reported under IAS 39, unless the expected classification is:

- at fair value through profit or loss; or
- an equity investment at fair value through other comprehensive income.

For these two exceptions, no impairment amount is recognised under IFRS 9.
An insurer is still required to **apply** the **transition requirements** in IFRS 9 **to all financial assets** that continue to be **recognised at the date** of the initial application of IFRS 9. Therefore, if an insurer's expected classification under the classification overlay of a financial asset that is still held at the date of initial application of IFRS 9 is not consistent with the requirements of IFRS 9 at that date, then the insurer will need to update the classification on that date and apply the updated classification retrospectively.

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40 JUNE, 10 2022

IFRS 13: an introduction to fair value measurement

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IFRS 13 is the accounting standard that **defines fair value**, sets out in a single IFRS a **framework for measuring fair value and requires disclosures** about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's equity instrument is measured at fair value. Instead, the measurement and disclosure requirements of **IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value** (with limited exceptions).

IFRS 13 defines the fair value as **the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants** at the measurement date. Fair value is then an exit price, e.g. the price to sell an asset rather than the price to buy that asset. An exit price **embodies expectations about the future cash inflows and cash outflows** associated with an asset or liability from the perspective of a market participant.

Fair value is a **market-based measurement, rather than an entity-specific measurement**, and is determined using assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. As a result, an **entity's intention to hold an asset or to settle/fulfill a liability is not relevant** in measuring fair value.

Fair value is measured assuming a transaction in the principal market for the asset or liability (i.e. the market with the highest volume and activity level).

In the absence of a principal market, it is assumed that the transaction would occur in the most advantageous market. This is the market that would maximise the amount that would be received to sell an asset, or minimise the amount that would be paid to transfer a liability, taking into account transaction and transportation costs. In either case, the entity needs to have access to that market, although it does not necessarily have to be able to transact in that market on the measurement date.

Fair value measurement is made up of one or more inputs, which are the assumptions that market participants would make in valuing the asset or liability. **The most reliable evidence of fair value is a quoted price** in an active market. **When this is not available, entities use a valuation approach** to measure fair value, maximising the use of relevant observable inputs and minimising unobservable inputs.

These inputs also form the basis of the fair value hierarchy, which is used to categorise a fair value measurement (in its entirety) into one of **three levels**, relevant for disclosure purposes. The disclosures about fair value measurements are extensive, with more disclosures being required for measurements in the **lowest category (Level 3)** of the hierarchy.

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IFRS 13: Fair value hierarchy

41 JULY, 1 2022

To improve the consistency and comparability in fair value measurements and related disclosures, **IFRS 13 classifies the inputs** of valuation techniques used to measure fair value into three levels, thus **establishing a fair value hierarchy**.

The fair value hierarchy gives **the highest priority to quoted prices** in active markets for identical assets or liabilities (Level 1 inputs) and the **lowest priority to unobservable inputs** (Level 3 inputs). In some circumstances, **the inputs** used to measure the fair value of an asset or liability **may be** classified into **different** levels of the hierarchy. **In these cases, the entity will classify the fair value measurement at the** same level of the hierarchy as the **lowest level input** that is significant to the entire measurement.

The fair value hierarchy prioritises the inputs to valuation techniques. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques. For example, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised, a fair value measurement developed using a present value technique might be categorised within Level 2 or 3.

According to the requirement of IFRS 13, as anticipated, the level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. **A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available**.

The level 2 inputs are inputs other than quoted prices included within Level 1 that are **observable** for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable substantially for the full term of the asset or liability. **For example, level 2 inputs could be quoted prices for similar assets** or **liabilities** in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, market-corroborated inputs and inputs other than quoted prices that are observable for the asset or liability (such as credit spreads or interest rate). Level 2 input adjustments may vary depending on specific factors such as the condition or location of the asset, volume, level of activity, etc. An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

The level 3 inputs are **unobservable inputs** for the asset or liability. The entity must use unobservable inputs **when relevant observable inputs are not available** to measure fair value. These unobservable inputs must reflect market participants' assumptions to value the asset or liability, including risk assumptions. Such assumptions must consider the risk assumption inherent in a particular valuation technique and the inputs used for that technique. An entity will have to use the best available information to develop the unobservable inputs, including the entity's own data. An entity need not undertake exhaustive efforts to obtain information about market participant assumptions but shall take into account all information that is reasonably available.

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IFRS 13: liabilities and own equity instruments

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In measuring the fair value of **a liability or an own equity instrument, IFRS 13 assumes that the item is transferred** to a market participant at the measurement date.

In particular, the standard specifies that the transfer of a liability or equity instrument of the entity **must assume that**:

- **a liability would remain outstanding**, and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or extinguished on the measurement date;
- **an entity's own equity instrument would remain outstanding**, and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

To achieve the fair value estimation objective, **the entity must maximise the use of observable inputs** and minimise the use of unobservable inputs.

If a quoted price is not available, but the identical item is held by another party as an asset, for the transfer of the liability or an equity instrument, **an entity shall measure fair value from the perspective of a market participant that holds the identical item** as an asset at the measurement date.

In these circumstances, **an entity shall measure fair value**:

- **using the quoted price in an active market for the identical item** held by another party as an asset, if that price is available;
- if that price is not available, **using other observable inputs, such as the quoted price in a market that is not active** for the identical item held by another party as an asset;
- if the observable prices are not available, **using another valuation technique**, such as market approach or income approach.

If a quoted price is not available and the identical item is not held by another party as an asset, for the transfer of the liability or an equity instrument, **an entity shall measure fair value using a valuation technique** from the perspective of a market participant that owes the liability or has issued the claim on equity **taking into account one of the future cash outflows** (that a market participant would expect to incur in fulfilling the obligation) **or the amount that a market participant would receive to enter into or issue an identical liability or equity instrument**.

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IFRS 16: Overview and lease definition

43 SEPTEMBER, 16 2022

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IFRS 16 is the accounting principle that replaces IAS 17, IFRIC 4, SIC-15 and SIC-27 **for the recognition, measurement, presentation and disclosure of leases**. This accounting principle aims to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those types of transactions. This information gives a basis for users of financial statements to assess the effect leases have on an entity's financial position, financial performance and cash flows.

The first step for an entity is to **assess whether the contract is, or contains, a lease at inception**. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Therefore, **the key elements for the identification of a leasing contract** are:

- **identified asset**: an asset is typically identified by being explicitly specified in a contract (e.g. serial number of a plant, number plate of a car, cadastral data of a building, etc.). However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.
- **right to obtain economic benefits from use**: a customer is required to have the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from the use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from the use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.
- **right to direct the use**: a customer has the **right to direct the use** of an identified asset for the entire period of use and to **choose how and for what** purpose the asset is to be used, and also has the right to operate the asset for the entire period of use, without the supplier being able to change those operating instructions.

Many contracts contain multiple lease and non-lease components, which need to be identified and accounted for separately.

Under IAS 17, **there are two types of lease: finance and operating. Under IFRS 16, all leases will be accounted for as finance leases**, recognising all lease obligations as liabilities. Furthermore, the present value of future lease payments of operating leases will be capitalised and the right to use an asset will be recognised as an asset to be depreciated in the lessee's statement of financial position (balance sheet).

Consequently, one of the main features of IFRS 16 is the requirement for the lessee **to account for operating and finance leases without any difference**.

For some entities, **the new standard** will significantly impact their financial KPIs, systems and processes. In this regard, the application of the new international accounting standard **can result in a worsening of the companies' debt levels** due to the capitalisation of operating leases, **but on the other hand can generate an improvement in profitability in terms of EBITDA**, which will no longer be reduced by the lease payments, as these will be recognised as depreciation and financial costs, which are excluded from the calculation of the EBITDA.

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44 OCTOBER, 7 2022

IFRS 16: Lessee accounting model

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The main change introduced by IFRS 16 is **to ensure that lessees recognise** the assets and liabilities for their principal leases.
A company assesses whether a contract is, or contains, a lease at the inception date. The commencement date should be distinguished from the inception date of a lease, which is the earlier date of the lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.
A lessee applies **a single lease accounting model** under which it recognises all leases on-balance sheet unless it elects to apply the recognition exemptions.
A lessee **recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make payments**.
At the commencement date, the right-of-use asset shall be measured at cost. As required by the standard, the cost **shall include the amount of the initial measurement of the lease liability, any lease payments made** at or before the commencement date **less any lease incentives received**, any **initial direct costs incurred** by the lessee and **an estimate of costs** to be incurred by the lessee in:

- **dismantling and removing** the underlying asset;
- **restoring** the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease unless those costs are incurred to produce inventories.

At initial recognition, a lessee measures the lease liability **at the present value of the future lease payments**. In particular, the value of the lease liability is **the sum** of **the present value of lease rentals and the present value of expected payments** at and of the lease. The lease payments shall be **discounted using the interest rate implicit in the lease**. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. This is the rate that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.
After the initial recognition, a lessee measures the lease liability by:

- **increasing the carrying amount to reflect interest** on the lease liability;
- **reducing the carrying amount to reflect the** lease **payments** made;
- **remeasuring the carrying amount to reflect any reassessment** or lease modifications, or to reflect revised in-substance fixed lease payments.

After the commencement date, **a lessee shall recognise in profit or loss interest** on the lease liability **and variable lease payments not included in the measurement of the lease liability** in the period in which the event or condition that triggers those payments occurs.
Generally, a lessee measures the right-of-use assets at cost less accumulated depreciation and accumulated impairment losses. The lessee adjusts the carrying amount of the right-of-use asset to remeasure the lease liability.

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IFRS 3: Identifying a business combination

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IFRS 3 aims to improve the **relevance, reliability and comparability** of the information that an entity provides **about a business combination** and its effects. In particular, it establishes the principles and requirements by which the acquirer may:

- recognise and measure in its financial statements the **identifiable assets acquired, the liabilities assumed** and any **non-controlling interest** in the acquiree;
- recognise and measure **the goodwill acquired** in the business combination or **the gain from a bargain purchase**;
- determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

The boundary of application of the standard applies to a transaction or other event that meets the definition of a business combination. An entity shall determine **whether a transaction or other event is a business combination** by applying the definition in this IFRS, which requires that the **assets acquired**, and **liabilities assumed, constitute a business**.

A business combination is defined as **a transaction** or other event **in which an acquirer obtains control of one or more assets**. Such control may be acquired in various ways, for example **transferring cash** or **other assets** (including net assets that constitute a business), incurring **liabilities**, issuing **equity interests**, providing more than one type of consideration or without transferring consideration, **including by contract alone**.

A business combination may be structured in various ways for legal, taxation or other reasons.

A business consists of inputs and processes applied to those inputs that can contribute to creating outputs. The three elements that constitute a business are:

- **Input** - Whatever **economic resource that contributes to the creation of output** when one or more processes are applied. An example is non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights, and employees;
- **Process** - Any **system, protocol or rule** that, when applied to one or more inputs, **can contribute to the creation of outputs** such as strategic management processes, operational processes and resource management processes;
- **Output** - The **result** of inputs and processes applied to those inputs **that provide goods or services to customers, generate investment income** (such as dividends or interest) or generate other income from ordinary activities.

The elements of a business may vary depending on the sector and the structure of an entity's operations, including its stage of development. For example, established companies often have many different types of inputs, processes and outputs, while new companies have, in most cases, few inputs and processes and sometimes only one output.

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IFRS 3: Recognising and measuring goodwill or a gain from a bargain purchase

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The goodwill must be valued, in accordance with IFRS 3, by the acquirer **as the difference between**:

- the **consideration transferred**;
- the amount of any **non-controlling interest remaining**;
- in a **business combination** achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree; and
- the net **amounts of the identifiable assets acquired and the liabilities assumed**.

With regards to the first point, IFRS 3 requires that the **consideration transferred** in a business combination shall be measured at fair value, which shall be calculated **as the sum of the acquisition-date fair values of the assets transferred** by the acquirer, **the liabilities incurred** to former owners of the acquiree and **the equity interests**.

In the case of a **multi-stage business combination**, the acquirer shall **remeasure** its previously held equity interest in the acquiree at its acquisition-date fair value **and recognise the resulting gain or loss**, if any, in profit or loss or other comprehensive income, as appropriate.

However, if the parties to a business **combination exchange only equity interests**, the acquirer shall determine **the amount of goodwill using the acquisition-date fair value of the acquiree's equity interests** rather than the acquisition-date fair value of the equity interests transferred.

There are sometimes cases when the buyer makes **a bargain purchase** when **the net of the acquisition-date amounts** of the identifiable assets acquired **and the liabilities assumed exceeds the amount of the consideration transferred**. A bargain purchase **represents an economic gain**, which the acquirer should **immediately recognise in profit or loss**.

The principle, however, requires that the acquirer, **before recognising the profit, shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed**, and shall recognise any additional assets or liabilities identified in that review. The review aims to ensure that the valuations adequately reflect the consideration of all information available at the date of acquisition.

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IFRS 3/IFRS 17: Insurance contracts acquired

47 DECEMBER, 7 2022

The acquirer shall treat **insurance contracts issued** and reinsurance contracts held, **acquired in a business combination** in the scope of IFRS 3 or in a transfer of insurance contracts that do not form a business combination, **as if they had been issued on the date of the transaction**. The entity identifies the groups of contracts acquired based on the level of aggregation requirements and determines the CSM for insurance contracts issued and reinsurance contracts held (unless the PAA applies) as if it entered into the contracts at the date of the transaction.

For measurement purposes, **the consideration** received or paid for the contracts **is treated as a proxy for the premiums received**. The consideration for the contracts excludes any consideration for other assets and liabilities acquired in the same transaction. For contracts acquired in a business combination, this consideration is deemed **to be the contracts' fair value at the transaction date**. This fair value is determined using the requirements in IFRS 13, except for the requirement that the fair value of a financial liability with a demand feature cannot be less than the amount payable on demand.

If the contracts acquired are onerous, then **the difference between the consideration received or paid and the fulfilment cash flows** is treated differently, depending on whether the transaction is a business combination or a transfer of insurance contracts:

- Business combination - the difference is **recognised as a part of the goodwill or gain on a bargain purchase**;
- Transfer of insurance contracts - the difference is **recognised as a loss immediately** in profit or loss, and establish a loss component of the liability for remaining coverage.

Generally, IFRS 3 requires that, in a business combination transaction, all identifiable assets acquired and liabilities assumed are measured at their fair value at the date of acquisition. The approach used for business combinations under IFRS 17 (under which some contracts are initially recognised at their fulfilment cash flows if this amount exceeds their fair value) is an exception.

This approach affects the initial measurement of goodwill and avoids a loss being recognised under IFRS 17 immediately after the acquisition.

This also **differs from** current accounting under **IFRS 4**, which requires fair value measurement and allows an option to present the contract's fair value **by splitting** it into two components: **an insurance liability** (measured in accordance with the acquirer's accounting policies for insurance contracts) **and an intangible asset**. This practice effectively means that intangible assets not in the scope of IAS 36 or IAS 38 are sometimes recognised under IFRS 4. These intangible assets are often described as the present value of the in-force business, the present value of future profits or the value of business acquired. The guidance in IFRS 17 means that, **on transition, all such intangible assets are eliminated**. However, any intangible assets reflecting a separate customer relationship will continue to be recognised.

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48 FEBBRAIO, 15 2023

IFRS 10: Presentation and preparation of consolidated financial statements

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The objective of this IFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Regarding **the preparation** of financial statements, the following principle **requires the parent company** to use **uniform accounting policies** for like transactions and other events in similar circumstances. **If a group member uses accounting policies other than those adopted** (for like transactions and events in similar circumstances), appropriate **adjustments are made** to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

IFRS 10 requires the preparer of consolidated financial statements to:

- **combine like items** of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries;
- **offset the carrying amount** of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;
- **eliminate in full intragroup** assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full).

Consolidation of an investee shall **begin from the date the investor obtains control** of the investee and **cease when the investor loses control** of the investee.

The financial statements of the parent and its subsidiaries **shall have the same reporting date**. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

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IFRS 10: The control concept

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Concerning the control concept, an investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and **has the ability to affect those returns** through its power over the investee.

IFRS 10 provides that **an investor controls an investee if and only if the investor has all the following**:

- **power over the investee**: when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns;
- **exposure, or rights, to variable returns from its involvement with the investee**: when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative, or both positive and negative;
- **the ability to use its power over the investee to affect the amount of the investor's returns**.

Thus, **power and the returns** to which an investor is exposed, or has rights, **must be linked**. The link between power and returns does not mean that the proportion of returns accruing to an investor needs to be perfectly correlated with the amount of power the investor has. The Board noted that many parties could have the right to receive variable returns from an investee (e.g. shareholders, debt providers and agents), but only one party can control an investee.

An investor shall **consider all facts and circumstances** when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate changes to one or more of the three elements of control listed above.

Two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the cooperation of the others, **no investor individually controls the investee**. Each investor would account for its interest in the investee in accordance with the relevant IFRSs, such as IFRS 11 *Joint Arrangements*, IAS 28 *Investments in Associates and Joint Ventures* or IFRS 9 *Financial Instruments*.

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50 APRIL, 12 2023

IAS 1: Presentation of financial statements

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The Standard IAS 1 prescribes **the basis for the presentation** of general-purpose financial statements to ensure **comparability** with the entity's financial statements of previous periods and with other entities' financial statements. **It sets out overall requirements** for the presentation of financial statements, **guidelines** for their structure and minimum requirements for their content.

Financial statements are a structured **representation of an entity's financial position and financial performance**. The objective of financial statements is to provide information about an entity's financial position, financial performance and cash flows that is useful to a wide range of users in making economic decisions. Financial statements also **show the results of the management's stewardship of the resources entrusted to it**. To meet this objective, financial statements **provide information about an entity's**:

- **assets, liabilities and equity**;
- **income and expenses**, including gains and losses;
- **contributions by and distributions to owners** in their capacity as owners;
- **cash flows**.

This information, along with **other information in the notes, assists users of financial statements in predicting the entity's future cash flows** and, in particular, their timing and certainty.

An entity **may present a single statement of profit or loss** and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall **be presented together**, with the profit or loss section followed directly by the other comprehensive income section. An entity may present the **profit or loss section** in a **separate statement of profit or loss**. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income, beginning with profit or loss.

Outside the financial statements, many entities present a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces.

IAS 1 requires certain disclosures in the statement of financial position or the statement(s) of profit or loss and other comprehensive income, or in the statement of changes in equity and requires disclosure of other line items either in those statements or in the notes.

The general features that must be followed in financial statements are: going concern; materiality and aggregation; accrual basis of accounting; fair presentation and compliance with IFRSs; offsetting; frequency of reporting; comparative information; change in accounting policy, retrospective restatement or reclassification; consistency of presentation.

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IAS 16: Property, Plant and Equipment

51 JUNE, 5 2023

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This standard prescribes the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. **The principal issues** in accounting for property, plant and equipment **are the recognition of the assets, the determination of their carrying amounts and the depreciation** charges and impairment losses to be recognised in relation to them.
Property, plant and equipment are tangible items that:

- **are held for use** in the production or supply of goods or services, for rental to others, or administrative purposes; and
- **are expected to be used during more than one period**.

With regards to recognition, **the cost** of an item of property, plant and equipment **shall be recognised as an asset if, and only if** future economic benefits associated with the item will probably flow to the entity and the cost of the item can be measured reliably.
An item of property, plant and equipment that qualifies for recognition as an asset **shall be initially measured at its cost**.
The **cost** of an item of property, plant and equipment **comprises**:

- its purchase price;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, unless those costs relate to inventories produced during that period.

After the initial recognition, an entity may choose **two different accounting models** for its property plant and equipment:

- **Cost model**: an entity shall carry an asset at its cost less any accumulated depreciation and any accumulated impairment losses;
- **Revaluation model**: an entity shall carry an asset at a revalued amount. The revalued amount is its fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. An entity shall revalue its assets with sufficient regularity so that the carrying amount does not differ materially from its fair value at the end of the reporting period. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

Each part of an item of property, plant and equipment **with a cost that is significant in relation to the total cost of the item shall be depreciated separately**. The depreciation charge for each period **shall be recognised in profit or loss** unless it is included in the carrying amount of another asset. The depreciable amount of an asset **shall be allocated on a systematic basis** over its useful life and shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
The carrying amount of an item of property, plant and equipment shall be **derecognised on disposal, or when no future economic benefits are expected** from its use or disposal.
The gain or loss arising from the derecognition of an item of property, plant and equipment **shall be included in profit or loss** when the item is derecognised and **the gains shall not be classified as revenue**.

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52 JUNE, 28 2023

IAS 40: Investment Property

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The Standard IAS 40 prescribes the accounting treatment for investment property and related disclosure requirements. **It shall be applied for the investment property's recognition, measurement and disclosure**.

Investment property is held to earn **rentals, or capital appreciation, or both**. As opposed to owner-occupied property, investment property **is not for use or sale in the ordinary course of business**. Therefore, an investment property generates cash flows largely independently of the entity's other assets. This factor distinguishes investment property from owner-occupied property because the usage of property in the production or supply of goods generates cash flows attributable to the property as well as other assets used in the production or supply of goods.

The Standard provides that an owned investment property **shall be recognised as an asset when**, and only when:

- **it is probable that the future economic benefits** that are associated with the investment property **will flow to the entity**; and
- **the cost** of the investment property **can be measured reliably**.

An owned investment property shall be **measured initially at its cost**. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

As its accounting policy, **an entity shall choose** the **fair value** or **cost model** and apply that policy to all its investment properties. This Standard requires all entities to measure the fair value of investment property for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model).

An entity may:

(a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets, including that investment property; and

(b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).

A gain or loss arising from a change in the fair value of investment property **shall be recognised in profit or loss** for the period in which it arises.

An entity shall transfer a property to or from investment property when, and only when, there is a **use change**. A use change occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the use change. In isolation, a change in management's intentions for using a property does not provide evidence of a use change.

An investment property **shall be derecognised** (eliminated from the statement of financial position) **on disposal** or **when** the investment property **is permanently withdrawn from use and no future economic benefits are expected from its disposal**. The disposal of an investment property may be achieved by selling or entering into a finance lease.

Gains or losses arising from the **retirement** or **disposal** of investment property shall be determined **as the difference between the net disposal proceeds and the carrying amount of the asset** and shall be recognised in profit or loss in the period of the retirement or disposal.

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IAS 36: Impairment of assets

53 SEPTEMBER, 8 2023

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The Standard IAS 36 prescribes the **procedures** that an entity applies to **ensure that its assets are carried at no more than their recoverable amount**. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through the use or sale of the asset. If this is the case, **the asset is described as impaired**, and the Standard requires the entity to **recognise an impairment loss**. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.
This Standard applies to financial assets classified as **Subsidiaries**, **Associates** and **Joint Ventures** carried at cost but **does not apply to financial assets within the scope of IFRS 9** and to investment property measured at fair value within the scope of IAS 40. Moreover, IAS 36 applies to (among other assets) land, buildings, machinery and equipment, investment property carried at cost, **intangible assets** and **goodwill**.
An asset **is impaired when its carrying amount exceeds its recoverable amount**. An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. **An entity is not required to formally estimate the recoverable amount if no indication of an impairment loss is present**.
Irrespective of whether there is any indication of impairment, an entity **shall also**:

- **test an intangible asset with an indefinite useful life**, or an intangible asset not yet available for use for impairment annually, by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year.
- **test goodwill acquired in a business combination** for impairment annually.

This Standard defines **recoverable amount** as the **higher** of an asset's or cash-generating unit's **fair value less costs of disposal** and **its value in use**. It is not always necessary to determine both an asset's fair value less disposal costs and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount.
Estimating the value in use of an asset involves the following steps:

1. estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
2. applying the appropriate discount rate to those future cash flows.

An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill **may no longer exist or may have decreased**. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

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IAS 12: Income taxes

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The objective of this Standard is to prescribe **the accounting treatment for income taxes**. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- the **future recovery** (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's statement of financial position; and
- **transactions and other events** of the current period **that are recognised** in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects **to recover or settle the carrying amount** of that asset or liability.

For the purposes of this Standard, **income taxes include all domestic and foreign taxes based on taxable profits**. Income taxes **also include taxes,** such as withholding taxes, which are **payable by a subsidiary, associate or joint arrangement** on distributions to the reporting entity.

The IAS 12 identifies as deferred tax liability (**DTL**) **the amounts of income taxes payable in future periods** in respect of taxable temporary differences and deferred tax asset (**DTA**) **the amounts of income taxes recoverable in future periods** in respect of deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits.

A **DTL shall be recognised** for all taxable temporary differences, **except to the extent that the DTL arises from** the initial recognition of **goodwill**, the initial recognition of an asset or liability in a transaction which:

- **is not a business combination**;
- at the time of the transaction, **affects neither accounting profit nor taxable profit** (tax loss); and
- at the time of the transaction, **does not give rise to equal taxable and deductible temporary differences**.

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, DTL shall be recognised in accordance with IAS 12.

Concerning measurement, the principle requires that current tax liabilities (assets) for the **current and prior periods shall be measured at the amount expected to be paid to** (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Instead, **DTA and DTL shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled**, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from how the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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IAS 19: Employee Benefits

55 NOVEMBER, 7 2023

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The Standard IAS 19 **prescribes the accounting and disclosure of employee benefits**. The Standard requires an entity to recognise the following:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

An employer shall apply IAS 19 in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.

The standard defines "**Employee benefits**" as all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. Employee benefits include benefits provided either to employees or their dependants or beneficiaries and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.

They can be distinguished among:

- short-term employee benefits;
- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Examples could be wages, salaries, social security contributions, or bonuses. These are recognised when the employee has rendered the service and are measured at the undiscounted amount of benefits expected to be paid in exchange for that service.

Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Plans providing these benefits are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions:

- a **defined contribution plan** is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under IAS 19, when an employee has rendered service to an entity during a period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense) and as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.
- a **defined benefit plan** is any post-employment benefit plan other than a defined contribution plan. Under IAS 19, an entity uses an actuarial technique (the projected unit credit method) to estimate the ultimate cost to the entity of the benefits that employees have earned in return for their service in the current and prior periods.

Other long-term employee benefits are all employee benefits other than short-term, post-employment and termination benefits. Measurement is similar to defined benefit plans.

Termination benefits are employee benefits provided in exchange for terminating of an employee's employment. An entity recognises a liability and expense for termination benefits at the earlier of the following dates:

- when the entity can no longer withdraw the offer of those benefits; and
- when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

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IAS 34: Interim Financial Reporting

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The Standard IAS 34 prescribes the minimum content of an **interim financial report** and the principles for recognition and measurement in complete or condensed financial statements for an interim period. **Timely and reliable interim financial reporting improves the ability** of investors, creditors, and others to understand an entity's capacity **to generate earnings and cash flows and its financial condition and liquidity**.

This Standard **does not mandate which entities should be required to publish interim financial reports**, how frequently, or how soon after the end of an interim period. **However**, securities regulators **often require** entities whose debt or equity securities **are publicly traded** to publish interim financial reports. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards (IFRSs). **Specifically, publicly traded entities are encouraged:**

- **to provide interim financial reports at least as of the end of the first half of their financial year; and**
- **to make their interim financial reports available not later than 60 days after the end of the interim period**.

In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, **an entity may be required to or may elect to provide less information at interim dates** as compared with its annual financial statements. The IAS 34 defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. **Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported**. An entity shall apply the same accounting policies in its interim financial statements as in its annual financial statements, except for the changes made after the date of the most recent annual financial statements that will be reflected in the next annual financial statements. However, **the frequency of an entity's reporting** (annual, half-yearly, or quarterly) **shall not affect the measurement of its annual results**. To achieve that objective, measurements for interim reporting purposes **shall be made year-to-date**. **If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year, but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed** in a note to the annual financial statements for that financial year.

The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, preparing interim financial reports generally will require a greater use of estimation methods than annual financial reports.

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ANIA, the Italian Insurance Association, founded in 1944, is a voluntary non-profit association. Its main purpose is to develop and spread the culture of safety and prevention in our country, so as to protect both people and companies, and society as a whole, more and better.

Moreover, ANIA represents its members and the Italian insurance market vis-à-vis the main political and administrative institutions, including the Government and Parliament, trade unions and other social bodies.

The Association studies and cooperates in the resolution of technical, economic, financial, administrative, fiscal, social, juridical and legislative issues concerning the insurance industry. It supports and provides technical assistance to members, promotes the education and professional training of those working in the insurance sector.

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