IFRS 9 Accounting Policy Paper: Financial instruments

Date:	December 7, 2021
Approvers/ Reviewers:	Approved by: FA Accounting Committee
Subject:	IFRS 9 Accounting Assessment

Disclaimer:

This accounting policy paper, which is the responsibility of the Facility Association's (FA) management, is prepared solely for the FA as administrator of certain insurance pools, namely the Facility Association Residual Market (FARM) and each of the Risk Sharing Pools (RSPs). It is intended solely for the use of the FA to document management's accounting policy determinations under IFRS 9 as part of management's internal financial reporting and governance processes as applicable to the FARM and each of the RSPs.

This accounting policy paper is being made available through the FA website to member insurance companies for general information purposes only and does not constitute advice from the Facility Association. Member insurance companies are responsible for their own assessment of IFRS 9 as applicable to their financial reporting. We disclaim any responsibility to any member insurance company who may rely on this document.

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Purpose

This paper provides guidance on the scope of IFRS 9 Financial Instruments and how it applies to the Facility Association Residual Market (FARM) and Uninsured Automobile Funds (UAFs) (together, also referred to as the FARM) and the Risk Sharing Pools (RSPs).

The objective of this paper is to document Facility Association's assessment of IFRS 9 requirements relating to scope, recognition, classification, measurement and derecognition of financial assets and liabilities as well as impairment of financial assets.

Entities:

Facility Association (FA) administers three types of mechanisms on behalf of its membership. This paper covers all mechanisms managed by Facility Association within the scope of IFRS 9, namely:

- Facility Association Residual Market ("FARM")
- Risk Sharing Pools ("RSPs")*
- Uninsured Automobile Funds ("UAFs")

* Outside the scope of this paper are requirements relating to the direct business issued by the individual members prior to ceding the business to the RSPs. Only business assumed via each of the six RSPs will be addressed in this memo.

Topics Covered and Accounting questions:

The topics and accounting questions covered in this paper are as follows:

Question 1: Which financial assets and financial liabilities are in the scope of IFRS 9?

Question 2: How should financial assets and financial liabilities be measured at initial recognition?

Question 3: How should financial assets and financial liabilities be classified and measured after initial recognition?

Question 4: What are the principles of derecognition of financial assets and financial liabilities?

Question 5: What are the principles of impairment of financial assets?

Question 6: What is the date and method of transition adopted for IFRS 9?

Dependencies and Relationships:

While both IFRS 9 and IFRS 17 will be adopted at the same time, the technical positions developed in this IFRS 9 paper do not affect in any way the conclusions of the separate IFRS 17 accounting policy papers.

Executive Summary

FA reached the following conclusions regarding the requirements of IFRS 9 relating to the scope, recognition and measurement, impairment and derecognition of financial instruments of the FARM and the RSPs:

1. Which assets and liabilities meet the definition of financial assets or financial liabilities and therefore, are in the scope of IFRS 9?
   a) FARM and UAFs:
      - Cash and cash equivalents
      - Accrued interest income
      - Funds held by members
      - Funds provided by members
   b) RSPs
      - Cash in bank
      - Accrued interest income (within Other Assets)
      - Funds held by members
      - Funds provided by members

2. What are the principles of recognition and measurement at initial recognition of financial assets and financial liabilities?
   a) FARM and UAFs:
   - Financial assets of FARM and UAFs are measured at their transaction price at initial recognition.
   - Financial liabilities of FARM and UAFs are recognised on trade date at fair value plus transaction costs.
   b) RSPs:
      - Financial assets of the RSPs are measured at their transaction price at initial recognition.
      - Financial liabilities of the RSPs are recognised on trade date at fair value plus transaction costs.

3. What are the principles of classification and measurement of financial assets and financial liabilities after initial recognition?
   a) FARM and UAFs:
   - The financial assets of FARM and UAFs are held in held-to-collect (HTC) business model, meet the solely payments of principal and interest (SPPI) criterion and are eligible to be classified and measured at amortised cost.
   - FARM and UAFs' financial liabilities are measured at amortised cost.
   b) RSPs:
      - The financial assets of RSPs are held in held-to-collect (HTC) business model, meet the SPPI criterion and are eligible to be classified and measured at amortised cost.

- FARM and UAFs' financial liabilities are measured at amortised cost.

4. What are the principles of derecognition of financial assets and financial liabilities?
   a) FARM and UAFs:
      - The respective sections of IFRS 9 on derecognition will be applied.
   b) RSPs
      - The respective sections of IFRS 9 on derecognition will be applied.
5. What are the principles of impairment of financial assets?
   a) FARM and UAFs
      - The financial assets are outside of the impairment requirements of IFRS 9.
   b) RSPs
      - The financial assets are outside of the impairment requirements of IFRS 9.
6. What is the date and method of transition adopted for IFRS 9?
   a) FARM and UAFs:
      - To align with management's decision to early adopt IFRS 17 for the FARM (see IFRS 17 Transition policy paper) effective for the fiscal year commencing November 1, 2022, with a transition date of November 1, 2021, IFRS 9 must also be adopted by the FARM at the same time and an opening statement of financial position as of November 1, 2021.
      - No expected significant changes on disclosure and measurement on transition.
   b) RSPs
      - To align with management's decision to early adopt IFRS 17 for the RSPs (see IFRS 17 Transition policy paper) effective for the fiscal year commencing November 1, 2022, with a transition date of November 1, 2021, IFRS 9 must also be adopted by the RSPs at the same time and an opening statement of financial position as of November 1, 2021.
      - No expected significant changes on disclosure and measurement on transition.

Question 1: Which assets and liabilities are in the scope of IFRS 9?

Technical References and Guidance

IFRS 9 and IAS 32 Standards

IFRS 9.2.1: IFRS 9 shall be applied by all entities to all types of financial instruments, except for those defined in paragraph 2.1.

Financial instruments are defined by IAS 32.11 as any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

IAS 32.11: A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

(i) to receive cash or another financial asset from another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

(i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

IAS 32.11: A financial liability is any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Technical Analysis

FARM and UAFs

FARM and UAF's Statement of Financial Position as at 31 October 2020 (under IFRS 4) includes the following items noted in the table below. For the purposes of this accounting policy paper we are using the October 31, 2020 Statement of Financial Position as a reference, as these are from the most recent annual audited financial statements available. The analysis will be updated once the October 31, 2021 annual audited financial statements are available. The financial statement captions are not expected to change.

Financial statement caption	Description	IFRS standard
Cash and cash equivalents	Cash represents cash balances at Canadian Schedule I banks. The FARM limits its cash equivalent investments to bankers' acceptances. Cash equivalents are highly liquid investments with an original term to maturity of three months or less.	IFRS 9
Premiums and other receivables	Premiums and other receivables are non-interest bearing and are normally settled between thirty days and twelve months. Other receivables are mainly made of transfer of funds due from members. The remaining is made up of prepayments for which the balance is not material. Since the majority would be considered rights arising from insurance contracts, these would be within the scope of IFRS 17.	IFRS 17
Accounts receivable from other pools	Accounts receivable from other pools mainly consist of related-party receivables, are non-interest bearing and due on demand. Since the majority would be considered rights arising from insurance contracts, these would be within the scope of IFRS 17.	IFRS 17
Accrued interest income[1]	Accrued interest income consists solely of interest from cash and cash equivalents. Accrued interest income is due in less than three months. The accrued interest income represents a contractual right to receive cash from another entity. Therefore, these items meet the definition of financial assets and are in the scope of IFRS 9.	IFRS 9
Amounts due to or from members	These amounts consist of accumulated excess of revenue over expenses, less net payments to members. These amounts do not bear interest. These amounts are considered to be rights and obligations arising under insurance contracts and are within the scope of IFRS 17.	IFRS 17

[1] *For the purpose of IFRS 9, Accrued interest income is not considered to be a separate instrument but should rather be considered along with the host contract (cash and cash equivalent).*

Funds held by / provided by members	It is FA's practice to transfer all available funds arising from FARM operations to its members. FA maintains only sufficient funds to meet its daily cash flow needs. The funds are due from members to the Association on demand and are free of interest. When additional funds are required, they are transferred to the FARM from members. Funds held by members represent a portion of the premium dollars that are not yet required by the FARM and Uninsured Automobile Funds (UAFs) to settle claims and pay operating expenses. These available funds are transferred to members. Funds held by members reflect the amounts held by them after operating results were distributed. The funds are allocated to individual members based on their shares of unearned premiums and the provision for unpaid and unreported claims. Transfer of funds does not change the members' obligations to the FARM. Based on the nature of these items, funds held by /provided by member represent a contractual right/obligation to receive/distribute cash from/to another entity. Therefore, these items meet the definition of financial assets/liabilities and are in the scope of IFRS 9.	IFRS 9
Accounts payable and other liabilities	The majority of accounts payable and other liabilities is made up of Transfer of Funds Due to Members only when a transfer decision is made. The remainder is made up of Commissions payable, Commutations Received from Members, Uncashed Cheque Reserve, and other Accrued liabilities. The accrued liabilities are considered to be related to directly attributable expenses and therefore, would be accounted for under IFRS 17. Refer to IFRS 17 *insurance acquisition cash flow accounting policy paper.* Since the majority would be considered obligations arising from insurance contracts, these would be within the scope of IFRS 17.	IFRS 17
Servicing carrier operating fees payable	In accordance with the Plan of Operation, servicing carriers are reimbursed on a formula basis for their operating and claims adjusting costs. Servicing carriers' operating fees payable relate to underwriting and are charged to operations when premiums are written. Claims adjusting costs are determined based on the loss ratio experienced in each accident year and are expensed on an ongoing basis. Additional claims adjusting fees are paid based on emerging loss experience. The additional fees are calculated annually and expensed in the year of calculation. Servicing carriers' fees are payable within one year.	IFRS 17

	These are considered to be directly attributable expenses – see IFRS 17 *insurance acquisition cash flow accounting policy paper*.	

** Not included in the list above are deferred policy acquisition costs, unearned premium liabilities and provision for claims liabilities (under IFRS 4) which are replaced and accounted for under IFRS 17.*

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The following financial captions from the statement of position would fall within the scope of IFRS 9:

- **Cash and cash equivalents**
- **Accrued interest income**
- **Funds held by / provided by members**

All remaining balances would fall within the scope of IFRS 17.

RSPs

Financial statement caption	Description	IFRS standard
Cash in bank	Cash in bank represents cash balances at Canadian Schedule I banks.	IFRS 9
Accounts receivables/payables from/to members	Accounts receivable from members are non-interest bearing and are normally settled between thirty days and twelve months. Since the majority would be considered rights/obligations arising from insurance contracts, these would be within the scope of IFRS 17.	IFRS 17
Accounts receivable/payable from other pools	RSPs' related party balances include receivables from or payables to the FARM and Uninsured Automobile Funds, and other RSPs. These balances are non-interest bearing and are due on demand. Insurance pools under management are committed to reimburse their share of any expenses FA incurred while managing these insurance pools on behalf of their members. The allocation is based on an annual study of time worked on these insurance pools by FA's staff and is reviewed by the FA's Accounting Committee annually. All administrative expenses are initially paid by the FARM and subsequently reimbursed by the RSPs and UAFs. This generates intercompany amounts due to and from these insurance pools.	IFRS 17

	In addition, settlements of cash made through a single payment by members to more than one RSPs can create intercompany balances among these insurance pools. Since the majority would be considered rights arising from insurance contracts, these would be within the scope of IFRS 17.	
Other assets	This caption is composed of prepayments and accrued interest income. The accrued interest income represents a contractual right to receive cash from another entity. Therefore, these items meet the definition of financial assets and are in the scope of IFRS 9.	IFRS 9 for accrued interest income[2]
Amounts due to or from members	The net cash flow among members and the RSPs every month results in a total amount either being due to the RSPs by the members, or due to the members from the RSPs. The balance of the accumulated fund settlements reflects partial settlement of the net operating results of the RSPs (on a cash basis) with its members. When transfers of total paid losses, paid expenses, and administrative expenses exceed total premiums transferred to the members within an RSP, a net cash outflow is charged to the members, and the amount paid is accounted for as “Funds provided by members.” This represents a partial settlement (cash items only) of net operating income. Amounts due to members do not bear interest. These amounts are considered to be rights and obligations arising under insurance contracts are within the scope of IFRS 17.	IFRS 17
Funds held by / provided by members	FA funds the operations of the RSPs through a monthly sharing among members of the net of premiums received and claims and expenses paid. Funds held by members represent premiums in excess of claims, while funds provided by members represent claims in excess of premiums. Based on the nature of these items, funds held by /provided by member represent a contractual right / obligation to receive/distribute cash from/to another entity. Therefore, these items meet the definition of financial assets/liabilities and are in the scope of IFRS 9.	IFRS 9
Other accounts payable	This balance is made up primarily of Accrued liabilities as well as clearing accounts that ultimately net to zero. The accrued liabilities are considered to be related to directly attributable expenses and therefore, would be accounted for under IFRS 17.	IFRS 17

[2] *For the purpose of IFRS 9, Accrued interest income is not considered to be a separate instrument but should rather be considered along with the host contract (cash and cash equivalent).*

	Refer to IFRS 17 *<u>insurance acquisition cash flow accounting policy paper.</u>*	

** Not included in the table above are premium deficiency reserve, unearned premium liabilities and provision for claims liabilities (under IFRS 4) which are replaced and accounted for under IFRS 17.*

The following financial captions from the statement of position would fall within the scope of IFRS 9:

- **Cash in bank**
- **Accrued interest income (included within other assets)**
- **Funds held by / provided by members**

All remaining balances would fall within the scope of IFRS 17.

<u>Technical Position</u>

Mechanism	**Technical Position**
FARM and UAFs	Cash and cash equivalents, accrued interest income and funds held by / provided by members are in the scope of IFRS 9. All other balances are within the scope of IFRS 17.
RSPs	Cash in bank, accrued interest income (within other assets) and funds held by / provided by members are in the scope of IFRS 9. All other balances are within the scope of IFRS 17.

Question 2: How should financial assets and liabilities be measured at initial recognition?

Technical References and Guidance

IFRS 9

3.1.1 An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (see paragraphs B3.1.1 and B3.1.2). When an entity first recognises a financial asset, it shall classify it in accordance with paragraphs 4.1.1–4.1.5 and measure it in accordance with paragraphs 5.1.1–5.1.3. When an entity first recognises a financial liability, it shall classify it in accordance with paragraphs 4.2.1 and 4.2.2 and measure it in accordance with paragraph 5.1.1.

3.1.2 A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting (see paragraphs B3.1.3–B3.1.6).5.1.1 Except for trade receivables within the scope of paragraph 5.1.3 of IFRS 9, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

5.1.1A However, if the fair value of the financial asset or financial liability at initial recognition [Refer: IFRS 13 paragraphs 57–60] differs from the transaction price, an entity shall apply paragraph B5.1.2A.

5.1.3 Despite the requirement in paragraph 5.1.1, at initial recognition, an entity shall measure trade receivables at their transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15).

B5.1.2A The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received, see also IFRS 13). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 5.1.1A, the entity shall account for that instrument at that date as follows:

(a) at the measurement required by paragraph 5.1.1 if that fair value is evidenced by a quoted price in an active market [Refer: Basis for Conclusions paragraphs BCZ5.2–BCZ5.7 and IFRS 13] for an identical asset or liability (i.e. a Level 1 input) [Refer: IFRS 13 paragraphs 76–80] or based on a valuation technique that uses only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) in all other cases, at the measurement required by paragraph 5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants [Refer: IFRS 13] would take into account when pricing the asset or liability.

Technical Analysis

A financial asset or liability instrument is recognized in the statement of financial position when the mechanism becomes party to a contract.

On initial recognition, a financial asset is measured at fair value minus directly attributable transaction costs, unless:

- the instrument is classified as at fair value through profit or loss (FVTPL), in which case transaction costs are not included; or
- the instrument is a trade receivable that is initially measured at the transaction price.

The fair value on initial recognition is generally the transaction price between arm's length parties, transacting under no compulsion to act, and should be indicative of the 'exit price'.

However, should there be a case where the transaction price is not equal to the fair value of the financial instrument, that fair value may be determined by the quoted price in an active for an identical asset or based on a valuation technique that uses only data from observable markets. The difference between the fair value at initial recognition and the transaction price will be recorded as a gain or loss in the P&L. Alternatively the difference between the transaction price and fair value, may be deferred as a gain or loss if it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Depending on whether the financial instruments are held to collect contractual cash flows and contain contractual terms that give rise to cash flows that are solely payments of principal and interest ("SPPI"), the appropriate measurement model is determined. The measurement model may be amortized cost, fair value through OCI ("FVOCI") and fair value through profit or loss ("FVTPL"). This is discussed in further detail below.

FARM and UAFs

As concluded above, the financial instruments of FARM and UAFs are composed of cash and cash equivalents, accrued interest income and funds held by / provided by members. As such, the treatment discussed above is applicable for financial assets and liabilities under FARM and UAFs.

On initial recognition, financial assets and liabilities will be recorded at their transaction price which is expected to equal to the fair value of the financial instrument less transaction costs.

Financial liabilities will be recognized on the date FARM and UAFs becomes a party to the contractual provisions of the instrument – the trade date.

On initial recognition, the financial assets/liabilities will be recorded at their transaction price

RSPs

As concluded above, the financial instruments of RSPs are composed of cash in bank, accrued interest income and funds held by / provided by members.

The treatment discussed above is applicable for financial assets and liabilities under RSPs. On initial recognition, financial assets and liabilities will be recorded at their transaction price if this is equal to the fair value of the financial instrument less transaction costs.

Financial liabilities will be recognized on the date the RSPs become a party to the contractual provisions of the instrument – the trade date.

On initial recognition, the financial assets/liabilities will be recorded at their transaction price

Technical Position

Mechanism	**Technical Position**
FARM and UAFs	On the date FARM and UAFs becomes party to a contract, financial assets and liabilities will be recorded at their transaction price which is expected to be equal to the fair value of the financial instrument less transaction costs.
RSPs	On the date the RSPs become party to a contract, financial assets and liabilities will be recorded at their transaction price which is expected to be equal to the fair value of the financial instrument less transaction costs.

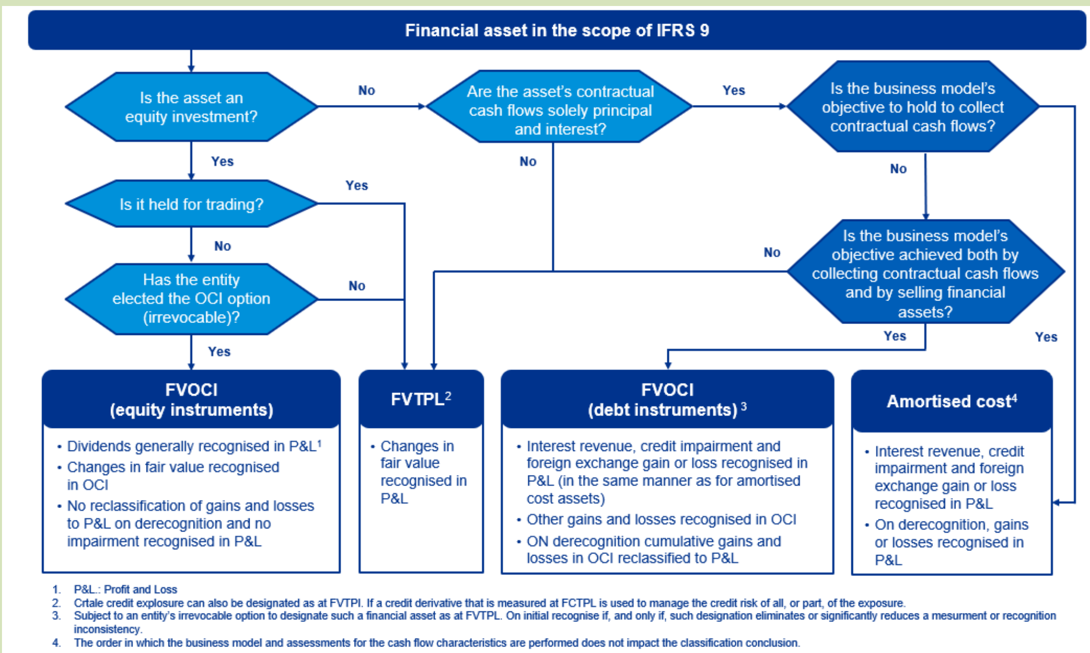
Question 3: How should financial assets and liabilities be classified and measured after initial recognition?

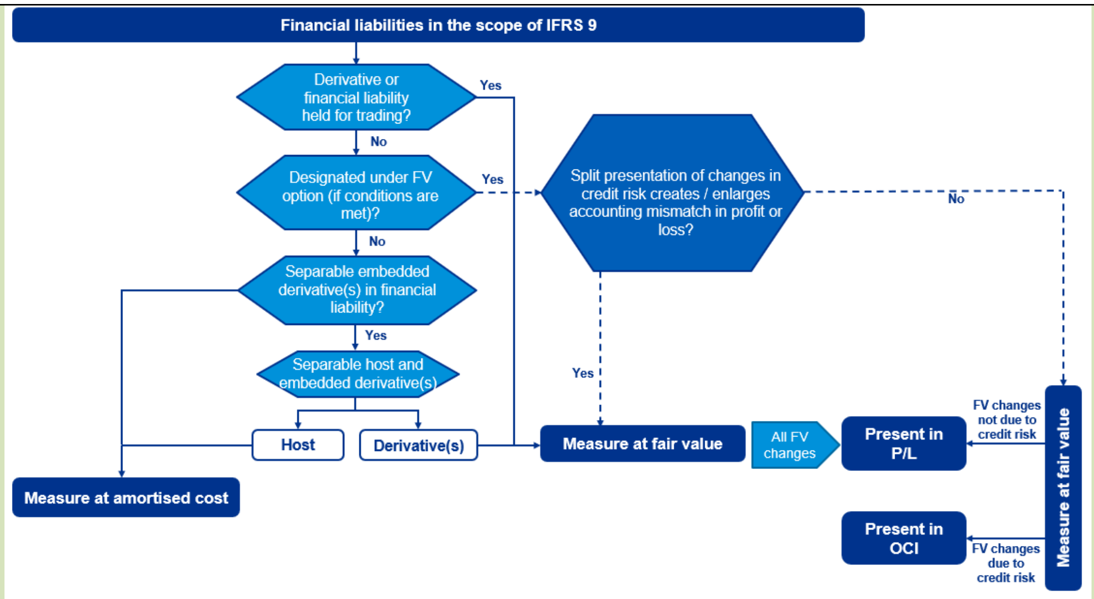
Technical References and Guidance

IFRS 9

Chapter 4 and 5 contain the guidance on the principles of classification and measurements of financial assets and financial liabilities.

The following flowcharts provide an overview of the classification and subsequent measurement model for financial assets and liabilities (except for financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, or when the continuing involvement approach applies; financial guarantee contracts; commitments to provide a loan at a below-market interest rate; and contingent consideration issued in a business combination) under IFRS 9:





4.1 Classification of financial assets

4.1.1 Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

(a) the entity's business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial asset.

4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) 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.

Paragraphs B4.1.1–B4.1.26 provide guidance on how to apply these conditions.

4.1.2A A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) 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.

Paragraphs B4.1.1–B4.1.26 provide guidance on how to apply these conditions.

4.1.3 For the purpose of applying paragraphs 4.1.2(b) and 4.1.2A(b):

(a) principal is the fair value of the financial asset at initial recognition. Paragraph B4.1.7B provides additional guidance on the meaning of principal.

(b) interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. Paragraphs B4.1.7A and B4.1.9A–B4.1.9E provide additional guidance on the meaning of interest, including the meaning of the time value of money.

4.1.4 A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see paragraphs 5.7.5–5.7.6).

Option to designate a financial asset at fair value through profit or loss

Option to designate a financial asset at fair value through profit or loss

4.1.5 Despite paragraphs 4.1.1–4.1.4, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32).

4.2 Classification of financial liabilities

4.2 Classification of financial liabilities

4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 3.2.15 and 3.2.17 apply to the measurement of such financial liabilities.

(c) financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:

(i) the amount of the loss allowance determined in accordance with Section 5.5 and

(ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

(d) commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 4.2.1(a) applies) subsequently measure it at the higher of:

(i) the amount of the loss allowance determined in accordance with Section 5.5 and

(ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

(e) contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

Option to designate a financial liability at fair value through profit or loss

Option to designate a financial liability at fair value through profit or loss

4.2.2 An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32); or

(b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24 Related Party Disclosures), for example, the entity's board of directors and chief executive officer (see paragraphs B4.1.33–B4.1.36).

<u>Technical Analysis</u>

Classification and subsequent measurement of financial assets

Based on paragraph 4.1.2 of IFRS 9, 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).

Based on paragraph 4.1.2A of IFRS 9, a financial asset 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 as subsequently measured at either amortised cost or FVOCI - are classified as subsequently measured at fair value (*FVTPL*), with changes in fair value recognised in profit or loss.

Business model assessment

An entity determines whether a financial asset that meets the SPPI criterion needs to be classified as measured at amortised cost, FVOCI or FVTPL. To do this, it needs to identify and assess the objective of the business model in which the asset is held.

The following table summarises the key features of each type of business model and the resultant measurement category.

Business model	Key features	Measurement category
Held-to-collect	▪ The objective of the business model is to hold assets to collect contractual cash flows. ▪ Sales are incidental to the objective of the model. ▪ This model typically involves the lowest level of sales in comparison with other business models (in frequency and volume).	Amortised cost
Both held to collect and for sale	▪ Both collecting contractual cash flows and sales are integral to achieving the objective of the business model. ▪ This model typically has more sales (in frequency and volume) than the held-to-collect business model.	FVOCI
Other business models, including: ▪ trading ▪ managing assets on a fair value basis ▪ maximising cash flows through sale	▪ The business model is neither held-to-collect nor held to collect and for sale. ▪ The collection of contractual cash flows is incidental to the objective of the model.	FVTPL

All relevant and objective evidence that is available at the date of the assessment to determine the business model for particular financial assets shall be assessed, for example:

- how the performance of the business model (and the financial assets held within that business model) is evaluated and reported to key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

In addition, the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity shall also be considered.

SPPI (solely payments of principal and interest) test

To determine whether a financial asset may be eligible to be classified as measured at amortised cost or FVOCI, it shall be assessed whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion.

'Principal' is the fair value of the financial asset on initial recognition. However, the principal may change over time - e.g. if there are repayments of principal.

'Interest' is consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) as well as a profit margin that is consistent with a basic lending arrangement.

Contractual cash flows that meet the SPPI criterion are consistent with a basic lending arrangement. In such arrangements, consideration for the time value of money and credit risk are typically the most significant elements of interest.

The assessment of whether the SPPI criterion is met is made with reference to the currency in which the financial asset is denominated.

Classification and subsequent measurement of financial liabilities

Based on paragraph 4.2.1 IFRS 9, on initial recognition, financial liabilities are classified as subsequently measured at amortised cost, except for the following instruments:

1) financial liabilities at FVTPL;
2) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
3) financial guarantee contracts;
4) commitments to provide a loan at a below-market interest rate; and
5) contingent consideration recognised by an acquirer in a business combination.

Financial liabilities at FVTPL can be divided into the following sub-categories:

- financial liabilities that are held for trading (including derivatives); and
- financial liabilities that on initial recognition are designated as at FVTPL.

A financial liability is held for trading if it is:

- incurred principally for the purpose of repurchasing it in the near term;
- on initial recognition, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- a derivative, except for a derivative that is a designated and effective hedging instrument. [IFRS 9.A]

IFRS 9 contains an option to designate irrevocably on initial recognition a financial liability as measured at FVTPL. However, certain eligibility conditions need to be met.

- When doing so results in more relevant information because either:
    - the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or from recognising the gains and losses on them, using different bases (an 'accounting mismatch'); or
    - a group of financial liabilities, or financial assets and financial liabilities, is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Information about the group is provided internally on that basis to the entity's key management personnel.
- If a contract contains one or more embedded derivatives and the host is not an asset in the scope of IFRS 9, then an entity may designate the entire hybrid (combined) contract as at FVTPL. However, this does not apply if the embedded derivative does not significantly modify the cash flows that would otherwise be required by the contract, or if it is obvious that separation of the embedded derivative would be prohibited. [IFRS 9.4.2.2, 4.3.5]

FARM and UAFs

FARM and UAFs' financial assets (cash and cash equivalents, accrued interest income, funds held by members) meet the SPPI test and are held to collect contractual cash flows from counterparties. Trading or the sale of these financial assets is not an integral part of FARM and UAFs' business model and therefore, the financial assets of FARM and UAFs are held in held-to-collect (HTC) business model.

Based on the fact that FARM's financial assets are due on demand and do not contain specific prepayment and term extension features, financial assets of FARM and UAFs meet the SPPI criterion and are eligible to be classified and measured at amortised cost.

Based on their nature, FARM and UAFs' financial liabilities (funds provided by members) do not meet the criteria of held for trading. The fund provided by members represent cash that FARMs would have in their books but is under the ownership of the members. This cash is callable on demand and therefore, considered to be short-term (less than 12 months). Based on the scope of activities of FARM, the option to designate irrevocably on initial recognition a financial liability as measured at FVTPL is not relevant. As such, FARM and UAFs' financial liabilities are measured at amortised cost. It is also important to note that we did not identify any embedded derivatives in these financial liabilities.

Financial assets (i.e., cash and cash equivalents, accrued interest income, funds held by members) are eligible to be classified and measured at amortised cost.

Financial liabilities (i.e., funds provided by members) are measured at amortised cost.

RSP

RSP's financial assets (cash in bank, accrued interest income, funds held by members) meet the SPPI test and are held to collect contractual cash flows from counterparties. Trading or the sale of these financial assets is not an integral part of RSP's business model and therefore, the financial assets of RSP are held in held-to-collect (HTC) business model.

Based on the fact that RSP's financial assets are due on demand and do not contain specific prepayment and term extension features, financial assets of RSP meet the SPPI criterion and are eligible to be classified and measured at amortised cost.

Based on their nature, RSP's financial liabilities (funds provided by members) do not meet the criteria of held for trading. Same as FARM and UAFs, the fund provided by members represent cash that FARMs would have in their books but is under the ownership of the members. This cash is callable on demand and therefore, considered to be short-term (less than 12 months). Based on the scope of activities of RSP, the option to designate irrevocably on initial recognition a financial liability as measured at FVTPL is not relevant. As such, RSP's financial liabilities are measured at amortised cost. It is also important to note that we did not identify any embedded derivatives in these financial liabilities.

Financial assets (i.e., cash in bank, accrued interest income, funds held by members) are eligible to be classified and measured at amortised cost.

Financial liabilities (i.e., funds provided by members) are measured at amortised cost.

Technical Position

Mechanism	Technical Position
FARM and UAFs	The financial assets of FARM and UAFs (i.e., cash and cash equivalents, accrued interest income, funds held by members) are held in held-to-collect (HTC) business model, meet the SPPI criterion and are eligible to be classified and measured at amortised cost. FARM and UAFs' financial liabilities (i.e., funds provided by members) are measured at amortised cost.
RSP	The financial assets of the RSPs (i.e., cash in bank, accrued interest income, funds held by members) are held in held-to-collect (HTC) business model, meet the SPPI criterion and are eligible to be classified and measured at amortised cost. RSPs' financial liabilities (i.e., funds provided by members) are measured at amortised cost.

Question 4: What are the principles of derecognition of financial assets and liabilities?

Technical References and Guidance

IFRS 9

3.2.3 An entity shall derecognise a financial asset when, and only when:

(a) the contractual rights to the cash flows from the financial asset expire, or

(b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.

(See paragraph 3.1.2 for regular way sales of financial assets.)

3.2.4 An entity transfers a financial asset if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of the financial asset, or

(b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 3.2.5.

3.2.5 When an entity retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met.

(a) The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.

(b) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.

(c) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 Statement of Cash Flows) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

Transfers that qualify for derecognition

3.2.10 If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset in accordance with paragraph 3.2.13.

3.2.11 If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.

3.2.12 On derecognition of a financial asset in its entirety, the difference between:

(a) the carrying amount (measured at the date of derecognition) and

(b) the consideration received (including any new asset obtained less any new liability assumed)

shall be recognised in profit or loss.

Transfers that do not qualify for derecognition

3.2.15 If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.

3.3 Derecognition of financial liabilities

3.3.1 An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires.

3.3.2 An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3.3.3 The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

3.3.4 If an entity repurchases a part of a financial liability, the entity shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying amount allocated to the part derecognised and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in profit or loss.

Technical Analysis

A financial asset may be removed from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to a third party. Similarly, a financial liability may be removed when the obligation is discharged, cancelled or expired or there is a transfer to a third party.

When a financial instrument that is measured at amortized cost is derecognized, the gain or loss is recognized in P&L. In the case of a transfer, upon derecognition of the financial instrument, the difference between the carrying amount of the financial instrument and the consideration paid or received shall be recognized in the P&L.

IFRS 9 further states that in some circumstances the renegotiation or modification of the contractual cash flows of a financial asset can lead to its derecognition. A quantitative and qualitative evaluation should be performed to determine whether the modification is substantial, and thereby conclude if the modification would result in derecognition.

On a quantitative basis, terms are considered to have been substantially modified when the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate - i.e. of the original debt instrument - differs by at least 10 percent from the present value of the remaining cash flows under the original terms, also discounted using the original effective interest rate.

From a qualitative point of view, a modification is considered substantial - requiring derecognition - if there has been a significant qualitative change. Examples would include (not all inclusive):

- Change in counterparty
- Change in currency
- Change principal amount maturity, interest rate (where not considered substantive under the quantitative test)
- Change in prepayment options/contingent terms

When a modification is considered substantial, it would result in the derecognition of the existing financial asset, and the recognition of the modified financial asset would be recorded as a new instrument and initially measured at its fair value less transaction costs. Ignoring any other fees and costs, derecognition would effectively result in an overall gain or loss equal to the difference between the amortized cost of the old asset and the fair value of the new asset minus the amount of expected credit loss recognized as an impairment allowance on the new asset.

FARM and UAFs

If a financial instrument is transferred or the right to contractual cash flows or obligation associated with the financial instrument ends, the financial instrument may be derecognized as discussed above. Modifications will have to be further assessed for eligibility for derecognition based on the criteria listed in IFRS 9.

Guidance per IFRS 9 is followed to determine if the criteria for derecognition and/or modification are met.

RSPs

If a financial instrument is transferred or the right to contractual cash flows or obligation associated with the financial instrument ends, the financial instrument may be derecognized as discussed above. Modifications will have to be further assessed for eligibility for derecognition based on the criteria listed in IFRS 9.

Guidance per IFRS 9 is followed to determine if the criteria for derecognition and/or modification are met.

Technical Position

Mechanism	Technical Position
FARM and UAFs	In the event of a transfer or if the contractual right to cash flows ends, the financial asset may be derecognized. Similarly, in the event of a transfer or if the obligation associated to the financial liability is discharged, cancelled or expired, the financial liability may be recognized. Modifications to financial instruments may require further assessment in order to determine eligibility for derecognition.
RSP	In the event of a transfer or if the contractual right to cash flows ends, the financial asset may be derecognized. Similarly, in the event of a transfer or if the obligation associated to the financial liability is discharged, cancelled or expired, the financial liability may be recognized. Modifications to financial instruments may require further assessment in order to determine eligibility for derecognition.

Question 5: What are the principles of impairment of financial assets?

Technical References and Guidance

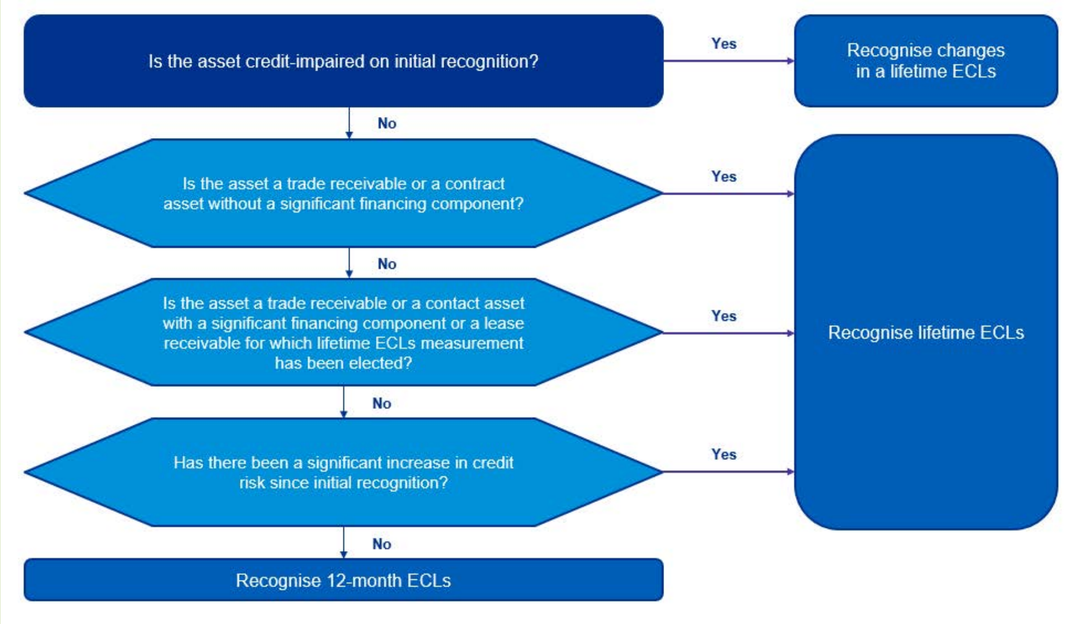
IFRS 9

5.5.1 An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).

5.5.3 Subject to paragraphs 5.5.13–5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

5.5.5 Subject to paragraphs 5.5.13–5.5.16, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The following flowchart provides an overview of when each measurement basis applies.



5.5.7 If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that paragraph 5.5.3 is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

5.5.8 An entity shall recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.

5.5.15 Despite paragraphs 5.5.3 and 5.5.5, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:

(a)trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that:

(i)do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15); or

(ii)contain a significant financing component in accordance with IFRS 15, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all such trade receivables or contract assets but may be applied separately to trade receivables and contract assets.

(b)lease receivables that result from transactions that are within the scope of IFRS 16, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all lease receivables but may be applied separately to finance and operating lease receivables.

5.5.16 An entity may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other.

Technical Analysis

The following table sets out instruments that are in and out of the scope of the impairment requirements of IFRS 9:

In scope	Out of scope
• Financial assets that are debt instruments measured at **amortized 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	• Investments in equity instruments • Financial instruments measured at FVTPL

The impairment model in IFRS 9 is an expected credit loss (ECL) model; it is not necessary for a loss event to occur before an impairment loss is recognized. 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.

Impairment is measured at an amount equal to 12-month ECLs, lifetime ECLs or changes in lifetime ECLs (where purchased or originated credit impaired - POCI).

Per the impairment requirements in IFRS 9, cash & cash equivalents that are classified as financial assets measured at amortised cost are subject to the general approach. However, due to the fact that a current account is on demand, 12-month and lifetime expected losses are the same, thus the expected credit losses will be close to nil. Under the general approach, the first step is to determine if credit risk has increased significantly since initial recognition. It can be assumed that the credit risk has not increased significantly since initial recognition if the financial asset is determined to have low credit risk (5.5.10) which then allows the entity to record a 12-month ECL instead of a lifetime ECL. All of cash and cash equivalent and funds held by members are with well known and good credit rating insurance companies therefore having a low risk of default. This will not affect FARM, UAFs and RSPs considering that they only have cash operating funds and funds held by members fully cashable with maturity less than 12 months under this category.

Measurement 12-month expected credit loss allowance

ECLs are defined as "the weighted average of credit losses (or present value of all cash shortfalls) with the respective risks of a default occurring as the weights" (per definition in IFRS 9 Appendix A). Measurement of the ECLs should reflect a probability weighted amount determined by evaluating a range of possible outcomes, reflect time value of money (if material) and reflect reasonable and supportable information (5.5.17). If cash & cash equivalents pass the low credit risk exception only the 12-month ECL allowance is required (5.5.5). 12-month ECLs are a portion of lifetime ECLs and represent the lifetime cash shortfall that will result if a default occurs in the 12 months after the reporting date (B5.5.43). Though cash & cash equivalents are expected to have an impairment provision, given the nature of the assets, it is not expected to be material. This does not apply to FARM, UAFs and RSPs.

Impact on financial statements (comparative year)

The impairment of cash & cash equivalents and funds held by members under IFRS 9 will have no impact to the financial statements of FARM, UAFs and RSPs.

FARM and UAFs

The financial assets of FARM and UAFs (i.e., cash and cash equivalents, accrued interest income, funds held by members) are mainly due on demand, and do not contain a significant financing component. Historically, all amounts have been collected and if a specific member is not in a position to pay, the liability is covered by the other members in the group. This obligation of members is in accordance with Article XV – Joint Liability For Association Business of the Plan of Operation. It is also important to note that all members are regulated insurance companies thus limiting, but not fully eliminating, the risk of impairment at initial recognition. As such, they do not meet the criteria above for impairment assessment.

No assessment required

RSPs

The financial assets of the RSPs (i.e., cash in bank, accrued interest income and funds held by member) are mainly due on demand, free of interest, and do not contain a significant financing component. Similar to FARM, historically, all amounts have been collected and if a specific member is not in a position to pay, the liability is covered by the other members in the group. This obligation of members is in accordance with Article XV – Joint Liability For Association Business of the Plan of Operation. It is also important to note that all members are regulated insurance companies thus limiting, but not fully eliminating, the risk of impairment at initial recognition. As such, they do not meet the criteria above for impairment assessment.

No assessment required

Technical Position

Mechanism	Technical Position
FARM and UAFs	The financial assets of FARM are out of scope of the impairment requirements of IFRS 9.
RSP	The financial assets of the RSPs are out of scope of the impairment requirements of IFRS 9.

Question 6: What is the date and method of transition adopted for IFRS 9?

Technical References and Guidance

IFRS 9

7.2 Transition

7.2.1 An entity shall apply this Standard retrospectively, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, except as specified in paragraphs 7.2.4–7.2.26 and 7.2.28. This Standard shall not be applied to items that have already been derecognised at the date of initial application.

7.2.2 For the purposes of the transition provisions in paragraphs 7.2.1, 7.2.3–7.2.28 and 7.3.2, the date of initial application is the date when an entity first applies those requirements of this Standard and must be the beginning of a reporting period after the issue of this Standard. Depending on the entity's chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

Transition for classification and measurement (Chapters 4 and 5)

7.2.3 At the date of initial application, an entity shall assess whether a financial asset meets the condition in paragraphs 4.1.2(a) or 4.1.2A(a) on the basis of the facts and circumstances that exist at that date. The resulting classification shall be applied retrospectively irrespective of the entity's business model in prior reporting periods.

Exposure Draft: Initial Application of IFRS 17 and IFRS 9—Comparative Information

This Exposure Draft proposes a narrow-scope amendment to the transition requirements in Appendix C of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. This proposed amendment relates to financial assets for which comparative information presented on initial application of IFRS 17 and IFRS 9 has not been restated for IFRS 9. Applying the proposed amendment, an entity would be permitted to present comparative information about such a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The Exposure Draft proposes no change to the transition requirements in IFRS 9.

AP2B: Classification overlay—other matters (ifrs.org).

29. In developing the classification overlay, the Board was clear that the proposed amendment would not be changing the transition requirements in IFRS 9 and IFRS 17, including the transition disclosures required by IFRS 7. This approach provides one clear date of initial application of these two Standards and ensures all insurers that have taken advantage of the temporary exemption from IFRS 9 are required to provide disclosures about initial application of IFRS 9 as at the date of initial application, regardless of the approaches they followed to present comparative information. As a result, users of financial statements will be provided with consistent and comparable information about the effects of applying IFRS 9 to all such insurance entities, and to all of their financial instruments in scope of IFRS 9.

As noted above on transition to IFRS 9 paragraph 7.2.1, the mechanism will be required to apply the standard retrospectively but IFRS 9 should not be applied to instruments that have already been derecognized at the date of the initial application.

In addition, IASB issued a recent exposure draft on IFRS 17 and IFRS 9 on the comparative classification overlay to ensure that users are provided with comparative information in the financial statements. Given the lesser complexity of the instruments included in all mechanisms, this exposure draft would not impact the current positions as documented below.

FARM & UAFs

To align with the early adoption of IFRS 17, IFRS 9 will be adopted for the year commencing November 1, 2022 with restated comparative information disclosed for the year ended October 31, 2022 and a restated opening statement of financial position as of November 1, 2021. See IFRS 17 Transition paper.

On transition, the adoption of IFRS 9 does not impact the mechanism based on the nature of the instruments held. The impact of transition on each instrument is illustrated below.

Included below are only the financial statement captions falling under IFRS 9 as per Question 1 above.

Financial statement caption	Measurement	Disclosure
Cash and cash equivalents	*No impact*	*No impact*
Accrued interest income[3]	*No impact*	*No impact*
Funds held by / provided by members	*No impact expected as noted above since no impairment is expected and no other changes applicable to this instrument*	*No impact expected*

Early adoption for the year commencing November 1, 2022

No significant impact on transition on both measurement and disclosure

RSPs

To align with the early adoption of IFRS 17, IFRS 9 will be adopted for the year commencing November 1, 2022 with restated comparative information disclosed for the year ended October 31, 2022 and a restated opening statement of financial position as of November 1, 2021. See IFRS 17 Transition paper.

On transition, the adoption of IFRS 9 does not impact the mechanism based on the nature of the instruments held. The impact of transition on each instrument is illustrated below.

[3] *For the purpose of IFRS 9, Accrued interest income is not considered to be a separate instrument but should rather be considered along with the host contract (cash and cash equivalent).*

Included below are only the financial statement captions falling under IFRS 9 as per Question 1 above.

Financial statement caption	Measurement	Disclosure
Cash and cash equivalents	*No impact*	*No impact*
Accrued interest income[4]	*No impact*	*No impact*
Funds held by / provided by members	*No impact expected as noted above since no impairment is expected and no other changes applicable to this instrument*	*No impact expected*

Early adoption for the year commencing November 1, 2022

No significant impact on transition on both measurement and disclosure

Technical Position

Mechanism	Technical Position
FARM and UAFs	Early adoption for the year commencing November 1, 2022 No significant impact on transition on both measurement and disclosure
RSP	Early adoption for the year commencing November 1, 2022 No significant impact on transition on both measurement and disclosure

[4] *For the purpose of IFRS 9, Accrued interest income is not considered to be a separate instrument but should rather be considered along with the host contract (cash and cash equivalent).*