AGENDA PAPER

IFRS® Foundation Trustees meeting – Due Process Oversight Committee

	June 2021	Agenda ref	1C
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Initial application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*—shortened comment letter period

Purpose

1. At its June 2021 meeting, the Board will consider a staff recommendation to publish an exposure draft proposing a narrow-scope amendment to IFRS 17 *Insurance Contracts*. The amendment relates to information presented in the comparative period on initial application of IFRS 17 and IFRS 9 *Financial Instruments* by insurers. This proposed amendment has arisen in response to new information obtained from insurers now that they are more advanced in their implementation efforts. It is designed both to assist insurers and their users of financial statements by improving the information presented in the financial statements on the initial application of these Standards.

2. **The purpose of this paper is to seek the approval of the Due Process Oversight Committee (DPOC) for a shortened comment period for this potential exposure draft**.

3. In accordance with paragraph 6.7 of the *Due Process Handbook*, the Board normally allows a minimum period of 120 days for comment on an exposure draft. If the matter is narrow in scope and urgent the Board may set a comment period of no less than 30 days, but it will only set a period of less than 120 days after consulting, and obtaining approval from, the DPOC.

Background to the proposed amendment

4. Many insurers have taken advantage of the temporary exemption from applying IFRS 9 and will apply it for the first time when they first apply IFRS 17—for example, on 1 January 2023 for an insurer with a 31 December year-end.

5. IFRS 17 requires an entity to provide one year of restated comparative information for their insurance contracts. In contrast, IFRS 9 permits, but does not require, restated comparative information for financial instruments. Many insurers are considering providing restated comparative information for financial instruments because doing so can improve the understandability of the comparative information provided on initial application of the two Standards.

6. However, if an entity chooses to restate comparative information for financial instruments, IFRS 9 does not permit restatement of comparative information for assets derecognised during comparative period. The entity continues to apply IAS 39 *Financial Instruments: Recognition and Measurement* to these assets.

7. The requirement to continue applying IAS 39 may result in some financial assets being classified differently in the comparative period than would otherwise be the case. This may result in one-time accounting mismatches that would not otherwise arise (for example, if insurance contract liabilities are measured at current value and related financial assets are measured at amortised cost) and may make implementation more complex as it is then necessary to identify which financial assets are derecognised in the comparative period.

8. During the *Amendments to IFRS 17* project (2019–2020) some stakeholders asked the Board to amend the transition requirements in IFRS 9 so that those requirements are better aligned with the transition requirements in IFRS 17. This would allow insurers to apply IFRS 9 to financial assets derecognised during the comparative period.

9. At that time, the Board noted that when IFRS 9 was being developed the Board had extensively discussed and consulted on the IFRS 9 transition requirements, including this issue. The Board concluded in the *Amendments to IFRS 17* project that amending the transition requirements in IFRS 9 would be a significant and fundamental change to IFRS 9 and in the Board’s view, it had not received evidence that suggested that such an

amendment was necessary. As such, the Board did not amend IFRS 9 or IFRS 17 in response to the feedback in paragraph 8.

10. However, as insurers are now advanced in preparing for the initial application of IFRS 17 and IFRS 9, they have obtained a better understanding of the magnitude of these classification differences in the comparative period. Recently, some insurers have brought to the Board's attention *new information about the significance of such differences* and have explained that they are concerned about the usefulness of the information that would be presented to users of financial statements in the comparative period on initial application of IFRS 17 in conjunction with IFRS 9.

11. In light of that feedback, at its May 2021 meeting, the Board discussed the objective and principles of a potential amendment in order to resolve these classification differences without creating a risk of unintended consequences. The Board considered that it could add a specific transition requirement to *IFRS 17* that would provide the necessary relief for those that need it without disrupting the implementation process for those that do not need it. The purpose of that relief would be to provide these insurers with the *option* to present comparative information on a basis that is consistent with how IFRS 9 would be applied going forward, without unnecessarily disturbing implementation processes for both IFRS 17 and IFRS 9.

12. The Board acknowledged that amending IFRS 17 at this time is inconsistent with its intention to provide stability for insurers to finalise implementation processes. However, the Board noted that new information was now available arising from the more advanced stage of implementation by insurers. It considered an amendment could be justified given the magnitude of the classification differences for some insurers and that the nature of the amendment would not impose change on insurers but rather enable them to take advantage of the amendment when it is appropriate in their circumstances.

Proposed amendment to be recommended to the Board by the staff at the June meeting

13. Following the Board's May discussion, the staff have developed a targeted and narrow scope amendment to IFRS 17 for the Board to consider at its June 2021 meeting.

14. The proposed amendment to IFRS 17 would essentially permit an insurer to classify relevant financial assets in the comparative information in a way that achieves greater consistency with the expected classification of similar financial assets[1] applying IFRS 9.

15. The proposed amendment would be optional and would apply on an instrument-by-instrument basis. If the entity chooses to restate comparative information for IFRS 9, the option would be available for financial assets derecognised in the comparative period. If the entity chooses not to restate comparative information for IFRS 9, the option would be available to any financial asset related to insurance contract liabilities.

16. The proposed amendment would not result in information loss for the users of financial statements. In fact, it should enhance the usefulness of the comparative information because it:

    (a) enables entities to avoid significant mismatches and inconsistencies due to classification that would be artificial and potentially misleading to users of financial statements; and

    (b) provides improved information about the classification of financial assets that is expected to be generally consistent with that presented from the initial application of IFRS 9. Therefore, enhancing comparability between periods (ie data series) and improving analysis by users of financial statements.

17. Although implementing the proposed amendment may add some incremental costs, those costs are not expected to be significant and would be far less than applying IFRS 9 from the transition date of IFRS 17, as previously requested by insurers to address this issue. Applying the proposed amendment would be optional, so any incremental costs could be avoided by choosing not to apply it. Effectively, an insurer can assess whether the benefits of applying this approach outweigh the costs of doing so in respect of particular assets. Applying the proposed amendment could potentially result in a *reduction* in the operational costs and efforts of entities that would have otherwise had to track individual financial assets during the comparative period in order to identify which assets are derecognised and thus must continue to be accounted for under IAS 39 (see paragraph 7).

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[1] By similar financial assets, we mean financial assets managed in the same way and with similar contractual cash flow characteristics.

Recommended comment period

18. If the Board supports publication of the proposed narrow-scope amendment at its June 2021 meeting, it will also be asked to set the comment period for the exposure draft.

19. The proposed relief will be of benefit to entities transitioning to IFRS 17 if finalised before 1 January 2022. This is because to apply this amendment entities would need to begin collecting information from 1 January 2022. Hence, to provide certainty to stakeholders, the Board will aim to finalise this amendment by the end of 2021 (subject to stakeholders' feedback on the exposure draft and the Board's decisions during its redeliberations).

20. Considering the timeline to publish an exposure draft and finalise the amendment, the staff plan to recommend that the Board provides a comment period of 60 days (subject to the DPOC approving a shortened comment period). Given the limited number of insurers affected, the narrow scope of the proposal and its intended outcome, we think such a comment period would provide stakeholders with sufficient time to consider and comment on the proposal.

21. Consequently, the staff is asking the DPOC to approve a shortened comment period of no less than 30 days for the exposure draft. Although our plan is to recommend to the Board a comment period of 60 days, given the importance of the timely finalisation of the amendment, we would like to ask for the DPOC approval of a comment period of no less than 30 days in case the Board decides on a period shorter than 60 days.

Question for the DPOC

22. **Does the DPOC give its approval for a shortened comment period of no less than 30 days for the potential forthcoming exposure draft of a narrow-scope amendment to IFRS 17?**