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STAFF PAPER

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Project	**IFRS 17 *Insurance Contracts***
Paper topic	Initial application of IFRS 17—presentation of comparative information

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This paper was posted on 25 May 2021 and supersedes Agenda Paper 2 posted on 17 May 2021. Additional information and staff analysis have been added and, based on that additional information, the question for Board members has been amended. See paragraphs 12–13 of this paper for more information.

Purpose of this paper

1. This paper is about the presentation of comparative information on initial application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* by insurers.

2. Recently, some insurers have brought to our attention the significance of an accounting mismatch between financial assets and insurance contract liabilities in the comparative period which can arise from the differences in the transition approaches in IFRS 9 and IFRS 17.

3. These insurers are of the view that these transition differences will make it extremely difficult for them to provide meaningful information for the comparative period. In light of that feedback, this paper discusses whether the Board could consider proposing a narrow-scope amendment that would address the issue of concern, without having a wider effect and creating a risk of unintended consequences.

4. Although it is important that any proposed changes are addressed quickly, the staff will not ask the Board to make any decisions in this meeting, Instead we ask for your views, questions or comments on the staff view and potential next steps described in

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paragraphs 43–44 of this paper.

5. The purpose of this paper is to facilitate a Board discussion about what the objective and principles of a potential amendment would need to be in order to address the issue of concern without creating a risk of unintended consequences. Accordingly, the way we have described the potential amendment does not necessarily reflect how it would eventually be drafted in IFRS Standards. Following this meeting, the staff will consider further refinements to the approach discussed in this paper and, if applicable, present a recommendation for a narrow-scope amendment to IFRS 17 for the Board's tentative decision at a future meeting.

Structure of this paper

6. This paper provides:

   (a) an overview of the IFRS 9 and IFRS 17 transition requirements;

   (b) background on previous Board discussions relevant to this paper;

   (c) recent feedback; and

   (d) staff analysis, staff view, and question for Board members.

7. This paper includes the following appendices:

   (a) Appendix A—extracts of the relevant transition requirements in IFRS 9 and IFRS 17;

   (b) Appendix B—an illustration of transition to IFRS 9 and IFRS 17 for insurers; and

   (c) Appendix C—a table of possible classification changes when an entity transitions from IAS 39 to IFRS 9.

Overview of IFRS 9 and IFRS 17 transition requirements

8. The following table summarises IFRS 9 and IFRS 17 transition for an insurer. The table assumes that the insurer has a 31 December year-end, and applies the temporary exemption from applying IFRS 9 until that exemption expires (1 January 2023).

	IFRS 9	**IFRS 17**
Date of initial application (DOIA)	1 January 2023	1 January 2023
Transition date	Not applicable	1 January 2022[1]
Retrospective application	Required, with some specific exceptions and reliefs	Required, with some specific exceptions and reliefs
Restatement of comparative information	Permitted if possible without hindsight *but not required*	Required for the annual reporting period immediately preceding the DOIA
Scope of items for which retrospective application applies	All financial assets in the scope of IFRS 9 that continue to be recognised *at the DOIA*. An entity is prohibited from applying IFRS 9 to assets derecognised before that date	All insurance contracts in the scope of IFRS 17 that continue to be recognised *at the transition date*, or are recognised on or after that date

Previous Board discussions relevant to this paper

9. During the *Amendments to IFRS 17* project (2019–2020) some stakeholders asked the Board to amend IFRS 9 so that insurers could apply IFRS 9 from the transition date of IFRS 17 (ie 1 January 2022) rather than from the date of initial application (ie 1 January 2023). This would allow insurers to apply IFRS 9 to financial assets

[1] Paragraph C2(b) of IFRS 17 states that the transition date of IFRS 17 is the beginning of the annual reporting period immediately preceding the date of initial application. However, applying paragraph C25 of IFRS 17 if an entity voluntary presents adjusted comparative information for any earlier periods, the transition date would be the beginning of the earliest adjusted comparative period presented.

derecognised during the comparative period. Those stakeholders said that such an amendment would be helpful because the prohibition from applying IFRS 9 to derecognised financial assets:

(a) creates inconsistency for insurers that want to voluntarily restate comparative information for IFRS 9 because some financial assets are accounted for applying IFRS 9 and others IAS 39;

(b) creates operational challenges for insurers that want to voluntarily restate comparative information for IFRS 9 and thus could disincentivise insurers from doing so; and

(c) could create accounting mismatches during the comparative period that would be addressed if IFRS 9 were applied from the transition date.

10. 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 prohibiting an entity from applying IFRS 9 to derecognised items and permitting (but not requiring) an entity to restate comparative periods in some circumstances. The Board acknowledged, both when it developed IFRS 17 and again in the *Amendments to IFRS 17* project, that the transition requirements of IFRS 9 and IFRS 17 differ as a result of the different circumstances that applied when the Board developed the respective transition requirements.

11. Amending the date at which insurers apply the transition requirements in IFRS 9 would be a significant change. 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 9.

Previous agenda paper

12. The staff had posted an agenda paper on 17 May 2021 analysing feedback from some insurers and recommending the Board make a narrow-scope amendment to IFRS 17 to address the issue of accounting mismatches arising from financial assets derecognised in the comparative period. Subsequent information provided by insurers suggested that the staff recommendation included in that agenda paper was too narrow, not sufficiently clear and would not completely address the issue of concern

for those insurers. They also said, implementing the recommended amendment would cause operational challenges.

13. Based on that information, the staff prepared this agenda paper to analyse and clarify additional aspects concerning the presentation of comparative information on initial application of IFRS 9 and IFRS 17.

Recent feedback

14. Some insurers are extremely concerned about the usefulness of the information that would be presented for financial assets in the comparative period on initial application of IFRS 17. They are of the view that such information would be misleading because it would include accounting mismatches that would essentially arise from the continued application of IAS 39 (ie would not represent economic mismatches), which would be very difficult to explain. This included some insurers who said that, in absence of an amendment, they would need to provide extensive supplementary information to assist users of financial statements to understand the ‘actual’ comparative information.

15. These insurers ask the Board to allow them to present significantly improved information about financial instruments that would result from applying the classification requirements of IFRS 9 at the transition date of IFRS 17.

16. Some insurers plan to voluntarily provide restated comparative information on initial application of IFRS 9 alongside the required restated comparative information for IFRS 17, because doing so improves the understandability of the comparative information provided on initial application of the two Standards. It would, for example, enable insurers to apply the fair value option for financial assets accounted for applying IFRS 9 to reduce accounting mismatches.

17. The following table summarises how the different Standards apply for an insurer with a 31 December year-end that voluntarily restates comparative information for IFRS 9 and begins applying IFRS 9 and IFRS 17 from 1 January 2023:

Financial statements	2022	2023	
Information relating to	**2022**	**Restated comparatives for 2022**	**2023**
Financial assets that continue to be recognised at 1 January 2023	IAS 39	IFRS 9	IFRS 9
Financial assets derecognised between 1 January 2022–1 January 2023	IAS 39	IAS 39	Not applicable
Insurance contract liabilities	IFRS 4	IFRS 17	IFRS 17

18. When IFRS 17 becomes effective these insurers may have to report significant accounting mismatches between financial assets and insurance contract liabilities at the beginning of the comparative period when financial assets have been derecognised during the comparative period. These mismatches arise because IFRS 9 does not apply to assets derecognised at the date of initial application and thus it is not permitted to restate comparative information for derecognised assets to reflect the application of IFRS 9. Appendix C sets out a table of possible classification changes when an entity moves from IAS 39 to IFRS 9 and analyses whether a change in classification would result in a change in the measurement of the financial asset.

19. Furthermore, such prohibition would create operational challenges because the population of financial assets that is derecognised would only be known by the end of the comparative period. While the classification of financial assets in many cases can only be made at the date of initial application (for example that is the date at which the business model is required to be assessed) the insurer would have collected all the information required in anticipation of the restatement of such assets by that time. Although these insurers chose not to apply IFRS 9 in 2022, they question the basis for not being permitted to present available and relevant information for the comparative period when they do first apply IFRS 9 in 2023, which in their view, would

significantly improve the usefulness of comparative information to users of financial statements.

20. It should be noted that these issues will:

(a) exist only in the comparative information presented on initial application of IFRS 17 and mismatches arising because of requirement to continue to apply IAS 39 only arise for assets derecognised during the comparative period.

(b) arise only for some insurers, and for some of those insurers the effect of the accounting mismatch may not be significant. Some insurers already measure financial assets related to their insurance contract liabilities at fair value rather than amortised cost, and some insurers already use current information to measure insurance contracts applying IFRS 4.

21. Other insurers have told us that accounting mismatches of similar nature can arise for those who are not planning to provide restated comparatives for IFRS 9. The accounting mismatches that we are focussing on above are those that arise because some financial assets must continue to be accounted for in accordance with IAS 39. For insurers that choose not to restate, *all* of the financial assets would continue to be accounted for applying IAS 39—so for these insurers accounting mismatches between insurance contract liabilities measured using current information and financial assets measured as required by IAS 39 would similarly affect presentation of comparative information on initial application of IFRS 17 and IFRS 9.

Staff analysis and views

22. In the light of recent feedback, the staff continue to agree with the Board's previous decision not to amend IFRS 9 so that insurers can apply IFRS 9 from the transition date (1 January 2022) rather than the date of initial application (1 January 2023).

23. Changing the IFRS 9 transition requirements to be applied from the IFRS 17 transition date would give rise to new challenges for financial assets in the comparative period, would result in all insurers being required to apply IFRS 9 from that date, including those that are not restating comparative information for financial assets. This would be a big change to the implementation of IFRS 9 at this stage. For instance, the insurer would be *required* to apply the expected credit loss model in

IFRS 9 to all relevant financial assets (ie including those derecognised before the date of initial application of the Standard). This would significantly disrupt implementation of IFRS 9 for insurers, including those who do not face the issues discussed in this paper, hence creating a risk of unintended consequences.

24. Furthermore, presenting financial assets in the comparative period at amortised cost but changing the impairment model from an incurred loss to the expected credit loss model would not reduce an accounting mismatch between financial assets and insurance contract liabilities. In other words, a change would be introduced that is not part of the accounting mismatch issue that has been raised.

25. On the other hand, the staff note that it would not be possible for insurers who plan to restate comparative information on initial application of IFRS 9 to apply the expected credit loss model in IFRS 9 to the derecognised assets because paragraph 7.2.18 of IFRS 9 requires an entity to assess whether there has been a significant increase in credit risk based on the credit risk on the *date of initial application* (ie 1 January 2023) compared to the credit risk on initial recognition. As the financial assets have been derecognised at the date of initial application of IFRS 9, an entity would not be able to determine what the credit risk on that date would have been. Thus, to get the application to work additional changes would be required to IFRS 9.

26. For the reasons described in paragraphs 23–25, the staff think the Board should continue avoiding an approach that would require the application of IFRS 9 at the transition date of IFRS 17. This would also avoid application of expected credit loss model (ie the impairment requirements in Section 5.5) in IFRS 9 to financial assets that have been derecognised during the comparative period. We acknowledge that this could lead to a timing difference in profit or loss for the expected credit losses that would have been recognised if IFRS 9 was applied during the comparative period. However, we think this would only be a temporary difference as any expected credit losses would be realised when the financial asset is derecognised—so this would be apparent in the comparative period. Therefore, we consider there would be no loss of information and the benefits of such an approach would outweigh the disadvantages from the timing difference.

27. We also note that classification and measurement of financial assets, as required in the IFRS 9 transition requirements, is based on facts and circumstances *at the date of*

initial application.[2] Hence, to achieve what stakeholders requested, additional changes would need to be made to IFRS 9. For example, the Board would need to change the transition requirements in IFRS 9 to permit or require the classification and measurement of financial assets based on facts and circumstances at the transition date as opposed to the date of initial application.

28. As noted in paragraph 23, this would be a significant amendment to the transition requirements in IFRS 9 that could result in a risk of unintended consequences. In addition, the Board would need to carefully consider the conditions of the amendment. As an example, the Board would need to consider whether the amendment is:

    (a) required or permitted; and

    (b) applicable only to derecognised financial assets, only to financial assets related to insurance contract liabilities or to all financial assets.

29. If the Board were to change the IFRS 9 transition requirements only for insurers who are restating comparative information for financial assets, it would introduce significant diversity amongst insurers because important assessments required by IFRS 9 such as determining entity’s business model for managing financial assets and applying expected credit loss model would be undertaken at different periods by insurers.

30. Despite the analysis in paragraphs 22−29, we are sympathetic to the concern expressed in recent feedback. We note that IFRS 9 introduces significant improvements in accounting for financial instruments, including simpler and principle-based classification requirements, that would enhance the usefulness of information provided to users of financial statements. These improvements are particularly important for insurers because they hold significant financial assets related to their insurance contract liabilities.

31. We think the Board could consider adding a specific transition requirement to IFRS 17 to enable insurers to present comparative information on a basis that is consistent with how IFRS 9 would be applied going forward, without unnecessarily

[2] Apart from the assessment of the cash flow characteristics of a financial asset, which is based on the facts and circumstances that existed at initial recognition of the financial asset.

disturbing the transition requirements in IFRS 9.

32. This is a very specific issue that is relevant only to some insurers and only for the comparative period. As such, we think if the Board were to consider an amendment to address this issue, that amendment should be a new requirement in the IFRS 17 transition requirements, and that it should be targeted to reduce the risk of unintended consequences. Hence, it should:

    (a) apply only for the purpose of presenting comparative information on initial application of IFRS 9 and IFRS 17;

    (b) not result in the application of the expected credit loss requirements of IFRS 9 to financial assets derecognised during the comparative period; and

    (c) not change the transition requirements in IFRS 9.

33. We also think such an amendment should be optional for entities. This would avoid disrupting implementation and creating further work for entities that do not need an amendment to address accounting mismatches. For example, introducing a requirement to apply IFRS 9 instead of IAS 39 to such financial assets at this time could be unduly disruptive to implementation processes (such as in necessitating assessments to be made prior to the date of initial application).

34. This could be achieved through an optional classification overlay approach that permits insurers, to the extent that IFRS 9 was not applied to all or a particular financial asset in the comparative period, to classify financial assets related to insurance contract liabilities in a way that would achieve greater consistency with the classification determined on initial application of IFRS 9.

35. Therefore, an insurer applying this classification overlay approach would present comparative information that would:

    (a) provide improved information about classification of financial instruments that will enable improved analysis by users of financial statements;

    (b) avoid significant accounting mismatches that would not arise if IFRS 9 were applied, hence would be artificial and misleading to users of financial statements; and

    (c) provide information about classification of financial assets that is expected to be generally consistent with that presented from the initial application of IFRS

9, enhancing comparability between periods.

36. To achieve this, we think the optional approach would need to have the following characteristics:

(a) it would permit an insurer, to the extent that IFRS 9 was not applied to all or particular financial assets in the comparative period,[3] to elect to apply a classification overlay that would achieve greater consistency with the classification determined on initial application of IFRS 9.

(b) it would apply only:

(i) to a financial asset that is related to insurance contract liabilities; and

(ii) if the information needed to apply the classification overlay approach was obtained at the transition date of IFRS 17 and thus the approach can be applied without the use of hindsight.

37. The application of this *classification overlay* approach would not mean the insurer applies IFRS 9 requirements to financial assets that are derecognised before the date of initial application, therefore, an entity would not determine its business model for managing those financial assets or apply the expected credit loss requirements of IFRS 9 (ie the entity would continue to apply incurred credit loss model in IAS 39).

38. The application of the classification overlay approach is intended to enable insurers achieve classification outcomes that are more consistent with the ultimate classification category that would result on application of IFRS 9 at the date of its initial application. For example, applying the classification overlay approach, for the purpose of presenting comparative information, an entity could classify a dereocgnised financial asset that would otherwise be in the amortised cost category under IAS 39, as either fair value through profit or loss or fair value through OCI, provided that achieves greater consistency with application of IFRS 9.

39. We think the Board should allow insurers to choose the extent to which they apply the optional classification overlay approach (ie the approach would apply on an instrument-by-instrument basis). We acknowledge that the optional nature and the availability of such a choice reduces comparability amongst insurers. However, the

[3] That is, to the extent comparative information are not restated or to the extent that IAS 39 is required to be applied to derecognised assets.

staff note that the fair value option in IFRS 9 is applied on an instrument-by-instrument basis. Requiring insurers to apply the classification overlay approach to all eligible financial assets would be inconsistent with that option. Furthermore, there would be no loss of information if an insurer applies the overlay approach to only some financial assets. As described in paragraph 35, if an insurer applies the overlay approach, it will provide improved information about those assets. Moreover, not requiring an insurer to apply the approach to all eligible financial assets minimises the cost of applying the overlay approach and permits insurers to decide how broadly to apply it. Insurers may have different approaches to determining eligible financial assets depending on the extent of the accounting mismatches that may arise from the financial assets they hold. It would be very challenging for the Board to robustly specify the population of financial assets that cause an accounting mismatch.

40. In addition, the staff consider that the risk that an insurer could apply the classification overlay approach selectively with the intention of achieving a particular accounting outcome is mitigated by the following features:

    (a) insurers want to reduce accounting mismatches in the comparative period and achieve greater consistency with how IFRS 9 will be applied going forward; and

    (b) an insurer would be permitted to elect applying the classification overlay approach only on initial application of IFRS 17 and only for the purpose of presenting comparative information (ie this would be a one-off option).

41. For the avoidance of doubt, the staff note that applying the approach as a classification *overlay* would not change the transition requirements in IFRS 9 which would continue to apply based on facts and circumstances at the date of initial application. Furthermore, assessments required by IFRS 9, such as determining the entity’s business model for managing the financial assets or significant increases in credit risk would still have to be made at the date of application of IFRS 9. This also includes providing the disclosures set out in paragraphs 42I– 42S of IFRS 7 *Financial Instruments: Disclosures* at the date of initial application of IFRS 9.

42. The staff acknowledge that insurers applying this approach may incur additional costs to apply this classification overlay for the comparative period (eg 2022) and then do the initial application of IFRS 9 in the reporting period that includes the date of initial

application (2023). However, we observe that as the classification overlay approach would be optional rather than mandatory and, if applied, would affect only some insurers, they would only apply it when benefits outweigh implementation costs.

Staff view and potential next steps

43. Considering the analysis in paragraphs 22−42, the staff are of the view that the Board could consider proposing a narrow-scope amendment to IFRS 17 to add a classification overlay approach that would:

(a) permit an insurer, to the extent that IFRS 9 was not applied in the comparative period, to elect to apply a classification overlay that would achieve greater consistency with the classification determined on initial application of IFRS 9.

(b) apply only:

(i) to a financial asset that is related to insurance contract liabilities; and

(ii) if the information needed to apply the classification overlay approach was obtained at the transition date of IFRS 17 and thus is possible without the use of hindsight

44. The staff note that if the Board were to propose the classification overlay approach as a narrow-scope amendment, to provide the intended relief for entities transitioning to IFRS 17, it would need to be finalised and endorsed before 1 January 2023. We also note that to apply any such narrow-scope amendment entities would need to begin collecting information from 1 January 2022. Hence, to provide certainty to stakeholders, we would aim to finalise the narrow-scope amendment by the end of this year.

Question for Board members
Do Board members have any views, questions or comments on the staff view and potential next steps described in paragraphs 43–44 of this paper, that would help us further refine a possible narrow scope amendment to IFRS 17?

Appendix A—Extracts of relevant transition requirements in IFRS 9 and IFRS 17

Relevant transition requirements in IFRS 9

A1. Paragraphs 7.2.1 of IFRS 9 states:

> 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.

A2. Paragraph 7.2.2 of IFRS 9 states:

> 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. …

A3. Paragraph 7.2.3 of IFRS 9 states:

> At the date of initial application, an entity shall assess whether a financial asset meets the condition in paragraph 4.1.2(a) or 4.1.2A 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.

A4. Paragraph 7.2.8 of IFRS 9 states:

> At the date of initial application an entity may designate:
>
> (a) a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5; or
>
> (b) an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5.
>
> Such a designation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

A5. Paragraph 7.2.15 of IFRS 9 states:

> Despite the requirement in paragraph 7.2.1, an entity that adopts the classification and measurement requirements of this Standard (which include the requirements

related to amortised cost measurement for financial assets and impairment in Sections 5.4 and 5.5) shall provide the disclosures set out in paragraphs 42L–42O of IFRS 7 but need not restate prior periods. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. However, if an entity restates prior periods, the restated financial statements must reflect all of the requirements in this Standard. …

A6. Paragraph 7.2.18 of IFRS 9 states that for impairment:

At the date of initial application, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognised (or for loan commitments and financial guarantee contracts at the date that the entity became a party to the irrevocable commitment in accordance with paragraph 5.5.6) and compare that to the credit risk at the date of initial application of this Standard.

Relevant transition requirements in IFRS 17

A7. Paragraph C1 of IFRS 17 states:

An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023. If an entity applies IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply IFRS 9 Financial Instruments on or before the date of initial application of IFRS 17.

A8. Paragraph C2 of IFRS 17 states:

For the purposes of the transition requirements in paragraphs C1 and C3–C33:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 17; and

(b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

A9. Paragraph C4 of IFRS 17 states:

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

(a) identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied; …

A10. Paragraph C29 of IFRS 17 states:

At the date of initial application of IFRS 17, an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:

(a) may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of IFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of IFRS 17.

(b) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is no longer met because of the application of IFRS 17.

(c) may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is met.

(d) may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

(e) may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

A11. Paragraph C31 of IFRS 17 states:

An entity that applies paragraph C29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between:

(a) the previous carrying amount of those financial assets; and

(b) the carrying amount of those financial assets at the date of initial application.

Appendix B—Illustration of transition to IFRS 9 and IFRS 17 for insurers

B1. The following table illustrates the timing of transition to IFRS 9 and IFRS 17 for insurers, and the requirements for restating comparative information on initial application. The table assumes that the insurer has applied the temporary exemption from IFRS 9 until the expiry date of that exemption (1 January 2023). The staff recommendation explored in this paper (referred to as 'the classification overlay approach') intends to resolve challenges that may arise due to the requirements in the blue box below.

		2022	2023
2022 financial statements	Financial assets	IAS 39	
	Insurance contract liabilities	IFRS 4	
2023 financial statements	Financial assets	Either: - IAS 39 (same as 2022 FS); or - Combination of IFRS 9 for assets existing at 1.1.23 and IAS 39 for assets derecognised before 1.1.23	IFRS 9
	Insurance contract liabilities	IFRS 17	IFRS 17

1 January 2022
Transition date to IFRS 17

1 January 2023
Date of initial application of IFRS 9 and IFRS 17

Appendix C— Table of possible classification changes when an entity transitions from IAS 39 to IFRS 9

C1. The following table considers all possible classification changes for financial assets that could occur when an insurer transitions from IAS 39 to IFRS 9. For each possible classification change, the table:

(a) specifies whether the change in classification results in a change in the measurement of the financial asset on the balance sheet, and changes in profit or loss and other comprehensive income (OCI); and

(b) considers whether the classification overlay approach discussed in this paper would permit an entity to achieve greater consistency between the IAS 39 and IFRS 9 information presented in the financial statements on initial application of IFRS 9.

IAS 39 classification	**IFRS 9 classification**	**Does the change in classification result in changes in:**			**Change addressed by classification overlay approach?**
		A. Measurement of the financial asset	**B. P&L**	**C. OCI**	
Amortised cost (Held-to-maturity, and loans and receivables)	Amortised cost	No	Yes (ECL)	No	No
	Fair value through OCI (FVOCI)	Yes	Yes (ECL)	Yes	Yes (A and C only)
	Fair value through profit or loss (FVPL)	Yes	Yes	No	Yes
Available-for-sale debt	Amortised cost	Yes	Yes (ECL)	Yes	Yes (A and C only)
	FVOCI	No	Yes (ECL)	Yes (ECL)	No
	FVPL	No	Yes	Yes	Yes
Available-for-sale equity	FVPL	No	Yes	Yes	Yes
	FVOCI presentation	No	Yes (on disposal)	Yes (on disposal)	Yes
FVPL debt	Amortised cost	Yes	Yes	No	Yes
	FVOCI	No	Yes	Yes	Yes
	FVPL	No	No	No	Not applicable
FVPL equity	FVPL	No	No	No	Not applicable
	FVOCI presentation	No	Yes	Yes	Yes