Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17)

BACKGROUND PAPER
Reminder of Exposure Draft and summary of feedback
October 2021
**Content**

<table>
<thead>
<tr>
<th>1</th>
<th>Exposure Draft</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Issue raised to the Board</td>
</tr>
<tr>
<td></td>
<td>Objective of the proposal</td>
</tr>
<tr>
<td></td>
<td>Proposal</td>
</tr>
<tr>
<td></td>
<td>Expected effects of the proposal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>Comment letters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Feedback</td>
</tr>
<tr>
<td></td>
<td>Comment letter respondents</td>
</tr>
<tr>
<td></td>
<td>Terms used in Agenda Papers</td>
</tr>
</tbody>
</table>

| 3 | Timeline |

This paper provides background on the project. It is not for discussion and does not include questions for Board members.
1. Exposure Draft
Issue raised to the Board

- In 2023 many insurers will first apply IFRS 9 for financial assets and IFRS 17 for insurance contract liabilities.
- IFRS 9 and IFRS 17 have differing transition reliefs, reflecting different factors and past feedback relevant to transition to each Standard.
- In H1 2021 the Board received feedback that for some insurers the differing transition requirements may result in significant accounting mismatches only in the comparative information (ie prior periods) presented in the 2023 financial statements.

*As a relief, entities are permitted, but not required, to restate prior periods on initial application of IFRS 9. Classification assessments are made on the date of initial application for all entities (ie 1 January 2023 for many insurers). Accordingly, IFRS 9 does not apply to financial assets derecognised in prior periods.
Objective of the proposal

Enable insurers to reduce possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 9 and IFRS 17

Critical conditions

Not to disrupt implementation for unaffected insurers or to risk unintended consequences

To meet these conditions, the Board decided any proposal must be optional, and the option must be additional to the existing transition requirements of IFRS 9 and IFRS 17, rather than changing the existing transition requirements of either Standard.
**Proposal** (slide 1 of 3)

**IFRS 17 transition date**
- Beginning of period immediately preceding date of initial application
  - eg 1 January 2022
- IFRS 17 applied from transition date
  - Comparative information restated
- Option to restate prior periods for IFRS 9
  - (only for assets not derecognised before the date of initial application of IFRS 9)

**Date of initial application of IFRS 9 and IFRS 17**
- Beginning of period Standards first applied
  - eg 1 January 2023
- IFRS 17
- IFRS 9 applied from date of initial application

Optional 'classification overlay' for presenting comparative information about financial assets not restated for IFRS 9
Applying the **classification overlay**, an insurer will:

1. Use reasonable and supportable information at transition date to determine expected classification on initial application of IFRS 9

2. Present comparative information consistent with IFRS 9 requirements for that classification category*

Targeted to apply to financial assets:
1. held in respect of insurance activities
2. for which prior periods have not been restated for IFRS 9

Not required to separately identify financial assets for which:
1. comparative information has been restated for IFRS 9
2. classification overlay has been applied

Permitted on an instrument-by-instrument basis

*Not required to apply IFRS 9 impairment requirements
This decision tree illustrates how the classification overlay fits in with an insurer’s existing options relating to presenting comparative information about financial assets on initial application of IFRS 9 and IFRS 17.
## Expected effects of the proposal

### Usefulness of information for users of financial statements

- The classification overlay will provide preparers with an option to align 2022 comparative information more closely with how IFRS 9 is applied in 2023.
- This option could increase, but cannot reduce, the usefulness of comparative information presented on initial application of IFRS 9 and IFRS 17.

### Comparability

- Comparability is often reduced by transition reliefs necessary to assist preparers first apply a Standard.
- IFRS 9 is no different—preparers have transition options, including whether to restate prior periods and whether to use the fair value option.
- For preparers that restate prior periods, comparability will be affected by how many financial assets are derecognised in 2022.
- While the classification overlay is an additional option, it can facilitate improved comparability between periods by bringing more financial assets closer to IFRS 9 application.

### Benefits

- Reduce accounting mismatches between financial assets and insurance contract liabilities.
- Improve comparability between comparatives and 2023 information about financial assets.
- Reduce operational complexity for insurers restating for IFRS 9.
2. Comment letters
Feedback

46 comment letters

All respondents support the proposal

Some changes suggested, mostly relating to scope

Scope
Agenda Paper 2A

Other matters
Agenda Paper 2B
Comment letter respondents

Respondents by geographical location

- Asia: 35%
- Europe: 30%
- Latin America: 6%
- Global: 13%
- Africa: 7%
- North America: 9%

Respondents by type

- Standard-setting body [incl. endorsement advice bodies]: 33%
- Accountancy bodies: 24%
- Preparers: 24%
- Accounting firms: 15%
- Regulators: 4%
Terms used in Agenda Papers

- Agenda Papers 2A and 2B use these terms to describe the extent to which particular feedback was shared by respondents:

<table>
<thead>
<tr>
<th>Term</th>
<th>Extent of response among respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almost all</td>
<td>all except a very small minority</td>
</tr>
<tr>
<td>Most</td>
<td>a large majority, with more than a few exceptions</td>
</tr>
<tr>
<td>Many</td>
<td>a small majority or large minority</td>
</tr>
<tr>
<td>Some</td>
<td>a small minority, but more than a few</td>
</tr>
<tr>
<td>A few</td>
<td>a very small minority</td>
</tr>
</tbody>
</table>

- In determining which term to use in a particular case, the staff considered not just the number of responses in question, but also more subjective factors, such as whether a response reports the views of a single individual or the views of a broader group.

- The staff have also considered the nature of the comments and whether they are qualitatively significant to mention despite the number of respondents that may share that view.
3. Timeline
Timeline

* Expected timeline subject to Board decisions at its October 2021 meeting