

STAFF PAPER

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Project	Initial Application of IFRS 17 and IFRS 9— Comparative Information (Amendment to IFRS 17)	
Paper topic	Classification overlay—other matters	
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Introduction

1. This paper has been prepared for the Board's redeliberations of the amendment to IFRS 17 *Insurance Contracts* proposed in the Exposure Draft [Initial Application of IFRS 17 and IFRS 9—Comparative Information](#) (Exposure Draft).
2. Agenda Paper 2A of this Board meeting analyses feedback relating to the scope of the proposed amendment. This paper sets out feedback, staff analysis, recommendations, and questions for Board members on other matters relating to the proposed amendment.
3. This paper is structured in two parts, reflecting the other matters raised by respondents to the Exposure Draft:
 - (a) [Impairment \(Question 1\)](#); and
 - (b) [Disclosures \(Question 2\)](#).

Summary of questions for Board members

4. We recommend that the Board make no substantial changes to the classification overlay proposed in the Exposure Draft relating to impairment of financial assets or disclosures. However, as explained in the staff analysis, feedback has highlighted some potential drafting improvements that we will consider when preparing the final amendment.

1—Impairment

Proposal

5. Paragraph C28C of the Exposure Draft proposes that in applying the classification overlay, an entity is not required to apply the impairment requirements in Section 5.5 of IFRS 9 *Financial Instruments*.
6. Paragraph BC15 of the Basis for Conclusions on the Exposure Draft explains that the Board observed that entities would apply the classification overlay because they want to improve the usefulness of comparative information, but some of these entities may not yet be prepared to apply the impairment requirements in IFRS 9. In the Board's view, these entities should not be prohibited from applying the classification overlay because the comparative information would still be improved, even if entities do not apply the impairment requirements in IFRS 9.

Feedback

7. Respondents fully agreed with the proposal. However, some said they would benefit from a few clarifications, namely they:
 - (a) suggested the Board explicitly state that, in applying the classification overlay, an entity is *permitted* to apply the impairment requirements in IFRS 9.
 - (b) asked whether the impairment requirements in IFRS 9 are applied on an 'all or nothing' basis ie either applied to all, or none, of the financial assets to which the entity applies the classification overlay.
 - (c) asked whether, if an entity applies the classification overlay without applying the impairment requirements in IFRS 9 in the comparative period, the entity is required to apply the impairment requirements in IAS 39 *Financial Instruments: Recognition and Measurement*.
8. Related to the question in paragraph 7(b) of this paper, feedback from preparers suggested that those who are advanced in their implementation of IFRS 9 intend to apply the classification overlay, including the impairment requirements in IFRS 9, to all their assets in the comparative period because this would help them achieve greater alignment with the information provided on initial application of IFRS 9. Other preparers intend to apply the classification overlay, without applying the impairment requirements in IFRS 9 to any assets because they will not be yet fully prepared.

Staff analysis and recommendations

9. Paragraphs BC15–BC22 of the Basis for Conclusions on the Exposure Draft explain that the classification overlay is designed to enable entities to provide comparative information for financial assets that will be more consistent with IFRS 9, without imposing requirements on entities that may not yet be prepared to apply them. For this reason, paragraph C28C of the Exposure Draft was drafted in such a way to avoid misunderstanding that in order to apply the classification overlay an entity is *required* to apply the impairment requirements in IFRS 9.
10. We therefore think the proposed amendment and related explanations in the Basis for Conclusions on the Exposure Draft (see paragraphs 5–6 of this paper) are clear that entities applying the classification overlay are not prohibited from applying the impairment requirements in IFRS 9. We therefore do not recommend changing the drafting of paragraph C28C of the Exposure Draft, but will consider other drafting improvements to clarify this aspect of the amendment.
11. The Board proposed that the classification overlay would be optional on an instrument-by-instrument basis. This is because, as explained in paragraph BC17 of the Basis for Conclusions on the Exposure Draft, the Board observed that for some entities the issue that the classification overlay aims to resolve may not be relevant for all financial assets held by the entity. The Board was therefore of the view that an instrument-by-instrument-basis would allow an entity to assess whether, for a particular financial asset, the benefits of applying the classification overlay outweigh the costs.
12. Consistent with the feedback from preparers (see paragraph 8 of this paper), the staff expect that an entity that chooses to apply the classification overlay, would either choose to apply the impairment requirements in IFRS 9 to all of its financial assets or to none at all.
13. Lastly, with regards to the question in paragraph 7(c) of this paper, we do not think the Board intended to require the application of the IAS 39 impairment requirements (in addition to that already applied in the prior reporting period) for the purpose of presenting comparative information using the classification overlay.
14. The proposed amendment is an *overlay* to the classification of financial assets as presented in the prior reporting periods (eg 2022). Applying the proposed

classification overlay, as applying impairment requirements in IFRS 9 is not required, an entity would simply align the classification of a financial asset with the expected classification of that financial asset on initial application of IFRS 9. The Board did not propose requiring entities to restate the impairment of financial assets only for the purpose of presenting comparative information. For example, consider a bond that was measured at fair through profit or loss applying IAS 39 in 2022, ie no impairment recognised for that financial asset in the prior reporting period. If, applying the classification overlay, the financial asset is presented as measured at fair value through other comprehensive income, the insurer is not required to determine what the IAS 39 impairment for the bond would have been in 2022 if it was classified as available-for-sale.

15. Based in the analysis in paragraphs 9–14 of this paper, we do not recommend the Board change the amendment proposed in the Exposure Draft. However, in the light of the feedback and our analysis in this section, we will consider some drafting improvements when preparing the final amendment.

Question 1 for Board members—Impairment

Do you agree with the staff recommendation in paragraph 15 of this paper?

2—Disclosures

Proposal

16. Paragraph C28A of the Exposure Draft proposes that if an entity applies the classification overlay, it discloses that fact. Paragraph BC28 of the Basis for Conclusions on the Exposure Draft explains that the Board considered, but rejected, proposing to require an entity to disclose which financial assets the classification overlay has been applied to. Doing so would require an entity to track individual financial assets during the comparative period and the cost of doing so would likely outweigh the benefit.

Feedback

17. Respondents supported the disclosure proposal. Preparers explicitly agreed with the Board’s rationale for not requiring additional disclosures. They said that requiring entities to track individual assets in the comparative period for disclosure purposes, particularly for entities that will restate comparative information applying IFRS 9, would negate one of the benefits of the classification overlay—that is, reducing the operational complexity involved in preparing the comparative information.
18. We did not receive any comment letters from users of financial statements. However, some respondents suggested additional disclosures, while other respondents suggested changing the timing of the disclosures required on the initial application of IFRS 9.

Additional disclosures about the effects of the classification overlay

19. Some respondents, particularly national standard-setters and accounting firms, suggested the Board requires disclosures about:
 - (a) the financial assets to which the classification overlay has been applied;
 - (b) whether the impairment requirements in IFRS 9 have been applied; and
 - (c) the amount resulting from the application of the classification overlay recognised in the opening retained earnings (or other appropriate component of equity) at the transition date.
20. They said that, given the optional nature of the classification overlay, these additional disclosures would increase comparability among insurers.

Disclosures about initial application of IFRS 9

21. Because the application of the classification overlay would result in comparative information that is more consistent with IFRS 9, some respondents (mainly preparers), asked whether the Board will require disclosures about initial application of IFRS 9 (set out in paragraphs 42I–42S of IFRS 7 *Financial Instruments: Disclosures*) to be provided both as at the date of initial application of the classification overlay (eg 1 January 2022), and as at the date of initial application of IFRS 9 (eg 1 January 2023).
22. This included suggestions that the Board amend IFRS 7 to change the date on which it requires disclosures about initial application of IFRS 9 to require those disclosures as

at the date of initial application of the classification overlay, instead of, as at the date of initial application of IFRS 9, as required by IFRS 7.

23. These respondents said that applying the classification overlay would result in significant changes to their comparative information, and hence they would need to provide supplementary information to enhance understanding of the comparatives. Such supplementary information would, in their view, be similar to the disclosures about initial application of IFRS 9 (eg reconciliation between the measurement categories presented in accordance with IAS 39 and those presented applying the classification overlay). They therefore believe that requiring entities that apply the classification overlay to provide disclosures about initial application of IFRS 9 as at the date of initial application of the classification overlay (rather than date of initial application of IFRS 9), would provide more useful information to users of financial statements. In their view, it would also be less costly for preparers to provide this information *only* as at the date of initial application of the classification overlay and not again as at the date of initial application of IFRS 9.

Staff analysis and recommendations

Additional disclosures about the effects of the classification overlay

24. We continue to agree with the Board’s observation that requiring entities to provide comprehensive disclosures about the financial assets to which the classification overlay has been applied, would require an entity to track individual financial assets during the comparative period. The cost of doing so would likely outweigh the benefit and therefore negate the operational benefits of this relief to preparers, with little benefit to users of financial statements. This is because the classification overlay is:
- (a) time-limited—it only provides transitional relief for entities that will first apply IFRS 9 and IFRS 17 for annual reporting periods beginning on or after 1 January 2023;
 - (b) targeted in scope—relates only to the presentation of comparative information on initial application; and
 - (c) relates to an accounting, not an economic, phenomenon—it is designed to resolve *accounting* mismatches between financial assets and insurance

contract liabilities in the comparative information and therefore does not depict an economic phenomenon.

25. There will already be a lack of comparability between comparative information presented by different insurers on initial application of IFRS 9 due to the transition reliefs and options provided by IFRS 9, particularly because entities are permitted but not required to restate comparative information for IFRS 9. In addition, there will be a lack of comparability between entities that do choose to restate for IFRS 9 depending on how many financial assets they derecognised in the comparative period. The classification overlay does not increase that lack of comparability. While the classification overlay is an additional option, it can only make the comparative information more consistent with the application of IFRS 9, not less consistent. Therefore, in our view, the use of the classification overlay would only improve, not reduce, the usefulness of comparative information about financial assets. This is one of the reasons the Board did not propose disclosures about the effects of the classification overlay.
26. For the reasons noted in paragraphs 24–25 of this paper, the staff recommend the Board does not require additional disclosures when finalising the amendment to IFRS 17.

Disclosures about initial application of IFRS 9

27. Applying the classification overlay does not equal nor replace the initial application of IFRS 9, hence disclosures about the classification overlay (even if required) cannot replace disclosures about initial application of IFRS 9. Information that could suggest otherwise, in our view, would be misleading because:
- (a) the classification overlay is optional—some entities will choose to apply it and others will not. Applying the impairment requirements in IFRS 9 is not required. As a result, only some entities would provide disclosures about the classification overlay. Also, disclosures related to the impairment applying IFRS 9 would not necessarily be provided. This is different to the disclosures as at the date of initial application of IFRS 9 whereby all entities that first apply IFRS 9 at that date would provide such disclosures, including disclosures about the impairment determined in accordance with IFRS 9.

- (b) the classification overlay is optional on an instrument-by-instrument basis—an entity may apply the classification overlay only to some of its assets. This is different to the disclosures as at the date of initial application of IFRS 9 whereby the entity is required to apply IFRS 9 requirements to all financial assets in scope of IFRS 9, therefore disclosures about the effects of applying IFRS 9 would provide complete information.
28. As the Board explained in paragraph BC27 of the Basis for Conclusions on the Exposure Draft, entities choosing to apply the classification overlay are still required to apply the IFRS 9 requirements to the financial assets recognised at the date of initial application—just like other entities that did not apply the classification overlay. This means, for example, that entities would need to assess at the date of initial application whether the classification of financial assets that continue to be recognised at that date is consistent with the requirements in IFRS 9. If the classification resulting from application of classification overlay is no longer appropriate, the entity would need to update the information (including the comparative information) accordingly.
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.
30. The Board did not propose requiring disclosures in addition to those required by IFRS 7 as at the date of initial application of IFRS 9. This approach is consistent with other IFRS Standards, ie disclosures about initial application are generally required only once (not both at the transition date, and at the date of initial application).
31. The staff note that entities that apply the classification overlay approach may voluntarily choose to provide supplementary information to enhance the

understandability of comparative information. IFRS Standards do not prohibit entities from doing so.

32. Therefore, the staff recommend the Board finalise the amendment to IFRS 17 without amending disclosures about initial application of IFRS 9.

Question 2 for Board members—Disclosures

Do you agree with the staff recommendations in paragraphs 26 and 32 of this paper?