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

Proposed amendment and highlights from the Deloitte comment letter

Francesco Nagari, Deloitte Global IFRS Insurance Leader | September 2021

# Agenda

- Background
- Proposed amendment
- Key observations and related Deloitte's position set out in the comment letter on the Exposure Draft (ED)  
*Initial Application of IFRS 17 and IFRS 9 — Comparative Information*
- Next steps

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## Background

- Many insurers have taken advantage of the **temporary exemption to defer** the application of IFRS 9, *Financial Instruments* (effective 1 January 2018) and will first apply IFRS 9 and IFRS 17 *Insurance Contracts* for annual reporting periods beginning on or after 1 January 2023.
- However, these two Standards provide **different transition requirements** relating to the presentation of comparative information.
  - IFRS 17 **requires** the restatement of comparative information.
  - IFRS 9 **permits**, but does not require, the restatement of comparative information and **does not permit** the restatement of comparative information for items **derecognised** before the date of its initial application.

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## Background (cont'd)

Comparison of the **transition requirements** of IFRS 9 and IFRS 17 for an insurer<sup>1</sup> that applies temporary deferral of applying IFRS 9:

ED Paragraph	IFRS 9	IFRS 17
Date of initial application	1 January 2023	1 January 2023
Transition date	Not applicable	1 January 2022 ( <i>or the beginning of the earliest adjusted comparative period presented</i> )
Retrospective application	<b>Required</b> , with some specific exceptions and reliefs	<b>Required</b> , with some specific exceptions and reliefs
Restatement of comparative information	<b>Permitted</b> , if possible without hindsight	<b>Required</b> for the annual reporting period immediately preceding the date of initial application
Items within scope of retrospective application	All financial assets in the scope of IFRS 9 that continue to be recognised <b>at the date of initial application</b>	All insurance contracts in the scope of IFRS 17 that continue to be recognised <b>at the transition date, or are recognised on or after that date</b>

<sup>1</sup> Insurer is assumed to have a 31 December year-end

**Note:** The table included above is an extract from Agenda Paper 2 of the May 2021 IASB meeting.

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## Background (cont'd)

The following table summarises how the different Standards apply for an insurer<sup>1</sup> that voluntarily restates comparative information for IFRS 9 and begins applying IFRS 9 and IFRS 17 from 1 January 2023:

	2022 Financial Statements	2023 Financial Statements	
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	<u>IAS 39</u>	Not applicable
Insurance contract liabilities	IFRS 4	<u>IFRS 17</u>	IFRS 17

1 Insurer is assumed to have a 31 December year-end

**Note:** The table included is an extract from Agenda Paper 2 of the May 2021 IASB meeting.

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## *Background (cont'd)*

Below are some of the **key implementation issues** noted as a result of the **different transition requirements** between IFRS 9 and IFRS 17 for insurers initially applying these two IFRSs concurrently and choosing to restate IFRS 9 comparative information:

- Because IFRS 9 is not permitted to be applied to derecognised financial assets, the comparative information will include a **mixture of financial assets classified and measured using both IFRS 9 and IAS 39**.
- An **accounting mismatch** between insurance contract liabilities and financial assets arising in the comparative information presented on initial application of IFRS 17 and IFRS 9 may occur, resulting in a **significant impact** on the usefulness of the comparative information.
- **Operational challenges** for insurers choosing to restate comparative information because of the **need to wait till the end of the comparative period to identify** financial assets to which IFRS 9 will apply.

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## *Proposed amendment*

The **proposed classification overlay** would **permit** an entity to present comparative information for a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset **from transition date of IFRS 17**. For most insurers that date would be 1 January 2022.

Applying the proposed classification overlay could **enhance the comparability** between periods by producing comparative information consistent with IFRS 9 as it would apply from the date of initial application.

The **key features** of the proposed classification overlay include:

- **Scope:**
  - **optional application** to financial assets for which comparative information has **not been restated for IFRS 9 excluding** financial assets **unconnected with insurance contracts**;
  - **not applicable** to comparative information for periods **before the IFRS 17 transition date**;

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## *Proposed amendment*

The **key features** of the proposed classification overlay include (*cont'd*):

- **instrument-by-instrument** basis of application;
- use of **reasonable and supportable information** available at the **transition date**;
- **optional application** of IFRS 9 impairment requirements (instrument-by-instrument basis);
- recognition of the impact of the classification overlay in the **opening retained earnings** (or other component of equity, as appropriate) at the **transition date of IFRS 17**;
- **disclosure** of the fact that the entity applies classification overlay.



An insurer is still required to apply the IFRS 9 transition requirements to a financial asset on which classification overlay has been applied at the date of initial application of IFRS 9.

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## *Financial assets for which the comparative information has not been restated for IFRS 9*

The proposed classification overlay is only available to financial assets for which comparative information has not been restated for IFRS 9. As such, the proposed approach will be available to both:



Financial assets **derecognised** in the comparative information for insurers **restating** comparative information applying IFRS 9.



restatement of these financial assets are not permitted under IFRS 9

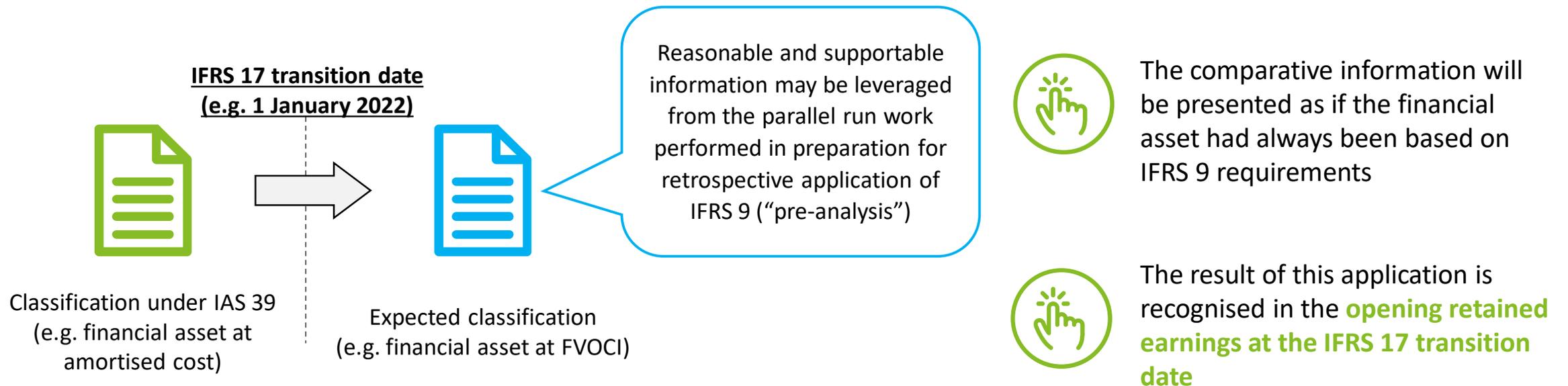


**All financial assets** for insurers **not restating** comparative information applying IFRS 9.

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## *IFRS 9 expected classification*

Applying the proposed classification overlay, the expected classification of a financial asset will be determined using **reasonable and supportable information** available at the **transition date**:

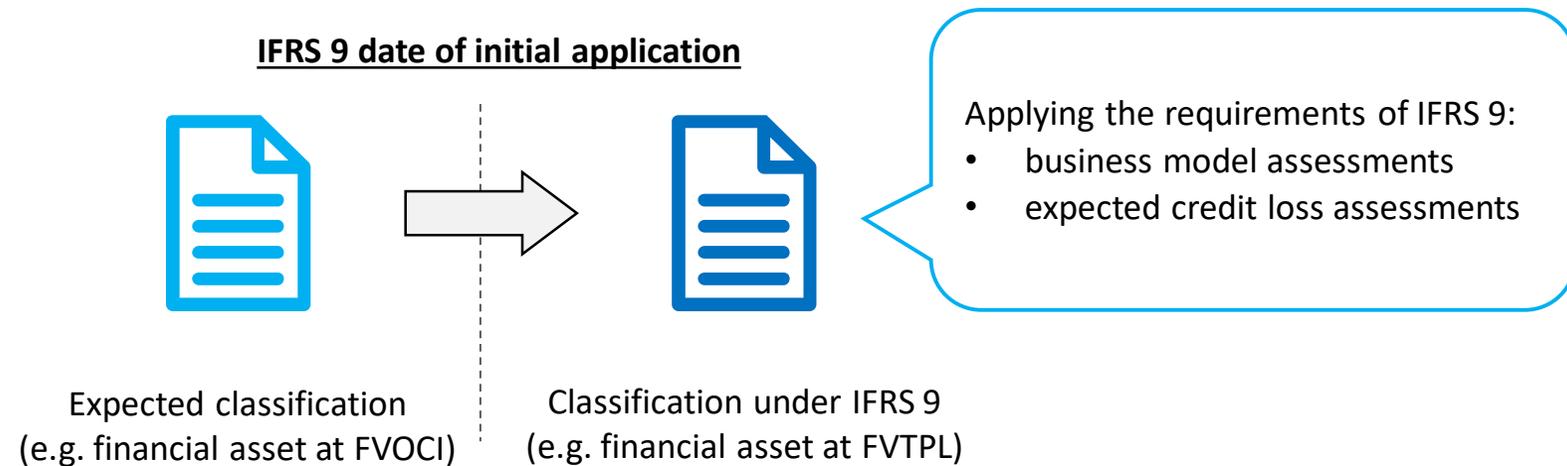


# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## *IFRS 9 expected classification (cont'd)*

The proposed classification overlay, however, does not amend the transition requirements of IFRS 9.

Entities are still required to apply the IFRS 9 requirements for financial assets not yet derecognised at the date of initial application. Deloitte expects that the scenarios in which changes will be required to be very limited in practice.



# Key observation in the Deloitte comment letter on the *ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information*

- Deloitte is **supportive** of the proposals in the Exposure Draft (ED) and have provided **recommendations** in a few areas where we believe proposals could be improved. These are:
  - **Alignment of scope** for the classification overlay with that of the scope set out in IFRS 4 for the temporary deferral of IFRS 9 application.
  - **Accounting policy choice**, rather than an instrument-by-instrument basis, for the application of the **IFRS 9 expected credit loss impairment (ECL) model**.
  - **Additional disclosure requirements** to provide more useful information to users of financial statements on **why and how** the classification overlay has been applied.

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## Highlight of the Deloitte's position set out in the comment letter

ED Paragraph	Deloitte Comment Letter
<b>Para. C28E(a):</b> Scope of applicability of classification overlay	<p><u>Our position</u></p> <p><i>“We note that paragraph C28E(a) of the ED would prohibit the application of the classification overlay to financial assets held in respect of an activity that is <b>unconnected</b> with contracts within the scope of IFRS 17.”</i></p> <p><i>“Whilst we acknowledge that the financial assets that would not be eligible for the classification overlay would be insignificant to the overall financial statements of the entity, we believe that the <b>difference in the scope</b> of the temporary exemption from IFRS 9 versus the scope of this ED will create <b>unnecessary operational complexities.</b>”</i></p> <p><u>Our proposal</u></p> <p><i>“We suggest that the Board should allow an entity that applied the temporary exemption from IFRS 9 immediately before the adoption of IFRS 17 to <b>be allowed to apply</b> the classification overlay proposed in the ED to <b>all its financial assets.</b>”</i></p>

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## *Highlight of the Deloitte's position set out in the comment letter*

ED Paragraph	Deloitte Comment Letter
<p><b>Para. C28C:</b> Level of applicability of the optional application of the IFRS 9 ECL model</p>	<p><u><i>Our position</i></u></p> <p><i>“We <b>support</b> the proposal to <b>allow (but not require)</b> an entity to apply expected credit loss (ECL) impairment model of IFRS 9.”</i></p> <p><u><i>Our proposal</i></u></p> <p><i>“We would recommend that the decision <b>to apply, or not, the ECL requirements</b> as set out in IFRS 9 should be an <b>accounting policy choice</b> applied consistently rather than a decision made on an instrument-by-instrument basis, as it may be inferred from the ED. Application of the option as an accounting policy choice would ensure that the use of the IFRS 9 ECL model is <b>consistent for all financial instruments</b> in the comparative period.”</i></p>

# ED Initial Application of IFRS 17 and IFRS 9 — Comparative Information

## *Highlight of the Deloitte's position set out in the comment letter*

ED Paragraph	Deloitte Comment Letter
<b>Para. C28A:</b> Disclosure requirement on the use of classification overlay	<p><u><i>Our position</i></u></p> <p><i>“We <b>support</b> the proposal to require an entity to disclose the fact that it has used the classification overlay.”</i></p> <p><u><i>Our proposal</i></u></p> <p><i>“We believe that it would be useful if entities <b>disclose the rationale</b> for choosing to apply the classification overlay (e.g. reduce accounting mismatch) and <b>how they have applied</b> the requirements (e.g. whether they have been applied to some or all financial assets and whether ECL requirements as set out in IFRS 9 are applied) to give users of financial statements further information on how the financial information presented has been prepared.</i></p>

# Next steps

- The IASB will consider the comments received on the Exposure Draft as at **27 September 2021** and will decide whether to proceed with the proposed amendment.
- The IASB plans to complete any resulting amendment by the **end of 2021**.

# Contact details

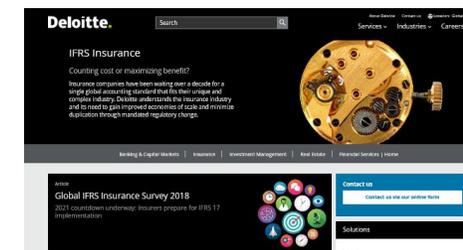
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