

International Accounting Standards Board
Attn. Mr. H. H. Hoogervorst
7 Westferry Circus
London, E14 4HD
United Kingdom

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Dear Mr. Hoogervorst

Treatment of comparatives on transition to IFRS 9 in combination with IFRS 17

This letter has been drafted by the European Insurance CFO Forum (“CFO Forum”), a body representing the views of 23 of Europe’s largest insurance companies, and Insurance Europe, representing 95% of the premium income of the European insurance market. Accordingly, it represents the consensus view of the European insurance industry.

We welcome, and continue to support, the IASB decision to extend the temporary exemption from applying IFRS 9 to enable qualifying insurers to adopt IFRS 9 and IFRS 17 simultaneously for annual periods beginning on or after 1 January 2023.

Background to the issue of comparatives

There is an inconsistency in the treatment of the comparative period in the first year of applying IFRS 9 and IFRS 17. Entities are required to restate the comparative period for the impact of IFRS 17 upon initial adoption of IFRS 17. By contrast, retrospective application is not required on adoption of IFRS 9, meaning that the comparative period does not need to be restated. As IFRS 17 and IFRS 9 are highly interrelated, this inconsistency may negatively affect the usefulness of insurers’ financial statements in the first year of adopting IFRS 9 and 17.

To mitigate this inconsistency, many insurers intend to voluntarily restate the comparative year under IFRS 9. However, for those insurers electing to take this option, IFRS 9 prohibits a full restatement of comparatives. This is because paragraph 7.2.1 of IFRS 9 prohibits an entity from applying IFRS 9 to financial instruments that are derecognised prior to the initial application of the standard. In practice, this requirement means that insurers will have to simultaneously apply IFRS 9 and IAS 39 to financial instruments for the comparative period: financial instruments derecognised during the comparative period will be accounted for according to IAS 39 until the point of derecognition, whereas the remaining financial instruments will have to be accounted for according to IFRS 9.

In April 2019, as part of the review of IFRS 17 sweep issues, the IASB decided not to change this transitional IFRS 9 requirement. In our view, the fact that other industries had already adopted IFRS 9 does not prove the relevance of the transition requirement in paragraph 7.2.1 of IFRS 9, as most of these preparers chose not to present restated comparatives and, therefore, did not face the issue. Furthermore, we do not see that the unintended consequences of changing the transition requirements raised by the IASB staff in Agenda Paper 2C of the April 2019 IASB meeting will be material in practice.

Impact of this issue on the insurance industry

Recent discussions within the insurance industry confirm this issue remains important and its impact is now more widely understood, given the advanced status of IFRS 9 and IFRS 17 implementation programmes. This issue impacts both the usefulness of the financial information and operational complexity. In the first financial statements prepared under IFRS 9 and IFRS 17, the requirements of paragraph 7.2.1 of IFRS 9 will result in non-

comparable accounting treatments between the current and comparative periods, particularly in the following areas where IFRS 9 and IAS 39 requirements differ:

- the classification, measurement and treatment of capital gains arising from disposals, notably due to changes in business models and assets not meeting SPPI requirements under IFRS 9 (for example equity instruments and puttable instruments); and
- the impairment of financial assets measured at amortised cost and at fair value through other comprehensive income, which is determined on an incurred loss basis under IAS 39 and an expected credit loss basis under IFRS 9.

The existing transition requirements will have an adverse effect on communication with the market on the impact of IFRS 9 and IFRS 17. Entities choosing to restate comparative information under IFRS 9 would need to adjust the 2022 opening position several times after each (interim) reporting date in 2022 as assets are derecognised throughout the year. It will therefore be necessary to wait until 2022 reporting is complete before finalising the comparative information for use in the 2023 interim and full year reporting periods. The requirement to adjust the 2022 comparatives throughout the year will also impair the trust markets can place on transition information disclosed by insurers during 2022.

The existing transition requirements will also be operationally burdensome for insurance companies, notably in the following areas:

- Entities generally use an investment subledger which processes transactions on an instrument-by-instrument basis and is directly interfaced to the general ledger. The opening balances at 1 January 2022 will be produced in the investment subledger in January 2022; changing the designation of assets derecognised in 2022 to measure them using IAS 39 is therefore complex in practice.
- The requirement to continue using IAS 39 for assets derecognised in 2022, and IFRS 9 for all other assets, would require a transitional chart of accounts for only the comparative period that includes both IAS 39 and IFRS 9.
- Disclosures for financial instruments, in particular those relating to the movement from opening to closing balances, would need to be amended for the comparative reporting period only.

We also note that EFRAG, in its Final Endorsement Advice, acknowledges the operational burden that may be caused by applying both IFRS 9 and IAS 39 in the comparative period.

We consider the costs and resources needed to address these operational requirements to be disproportionately high, especially in the context of the already challenging nature of IFRS 17 and IFRS 9 implementation projects, whilst the non-comparable accounting treatments between the current and comparative periods add no value for users of financial statements. On the contrary, if the measurement basis for financial instruments will change, users would be better informed by presenting fully restated comparatives and entities may prepare such fully restated information anyway for presentation outside the financial statements.

We also note that, in 2016, the IASB stated that insurers would be given a temporary exemption from applying IFRS 9 until the effective date of IFRS 17 to avoid accounting mismatches between insurance liabilities and related financial assets. The requirement in paragraph 7.1.2 of IFRS 9 to continue using IAS 39 for assets derecognised in 2022 creates such accounting mismatches in the comparative period, thereby partially counteracting the purpose of allowing insurers to apply IFRS 9 at the same time as IFRS 17.

Proposed solution

For entities that intend to apply IFRS 9 retrospectively, we believe that fully restating the comparative period would provide more relevant information than the existing transition requirements in paragraph 7.2.1 of IFRS 9 and that there is still time to introduce an optional full retrospective application.

A narrow-scope amendment to IFRS 9 that would allow entities to retrospectively apply IFRS 9 to items that are derecognised before the date of initial application could resolve the issues identified above without impacting

entities that have already implemented IFRS 9. We propose an amendment to the second sentence of Paragraph 7.2.1 of IFRS 9 as follows (new text underlined):

“This Standard ~~shall not~~ is not required to be applied to items that have already been derecognised at the date of initial application.”

This amendment would resolve the issue faced by insurers by permitting assets derecognised in the comparative period to be measured using IFRS 9, while retaining the option for entities to use IAS 39 for such assets if preferred or already applied.

We would appreciate the opportunity to discuss the above with you at your earliest convenience.

Yours sincerely



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