

IFRS® Foundation
Agenda ref 2

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

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

1 Exposure Draft

Issue raised to the Board

Objective of the proposal

Proposal

Expected effects of the proposal

2 Comment letters

Feedback

Comment letter respondents

Terms used in Agenda Papers

3 Timeline



This paper provides background
on the project
It is not for discussion and does
not include questions for Board
members

A grayscale world map is centered in the background. Overlaid on the map are several concentric, semi-transparent curved bands that sweep across the frame from the bottom left towards the top right. A network of dotted lines is also visible, connecting various points across the map.

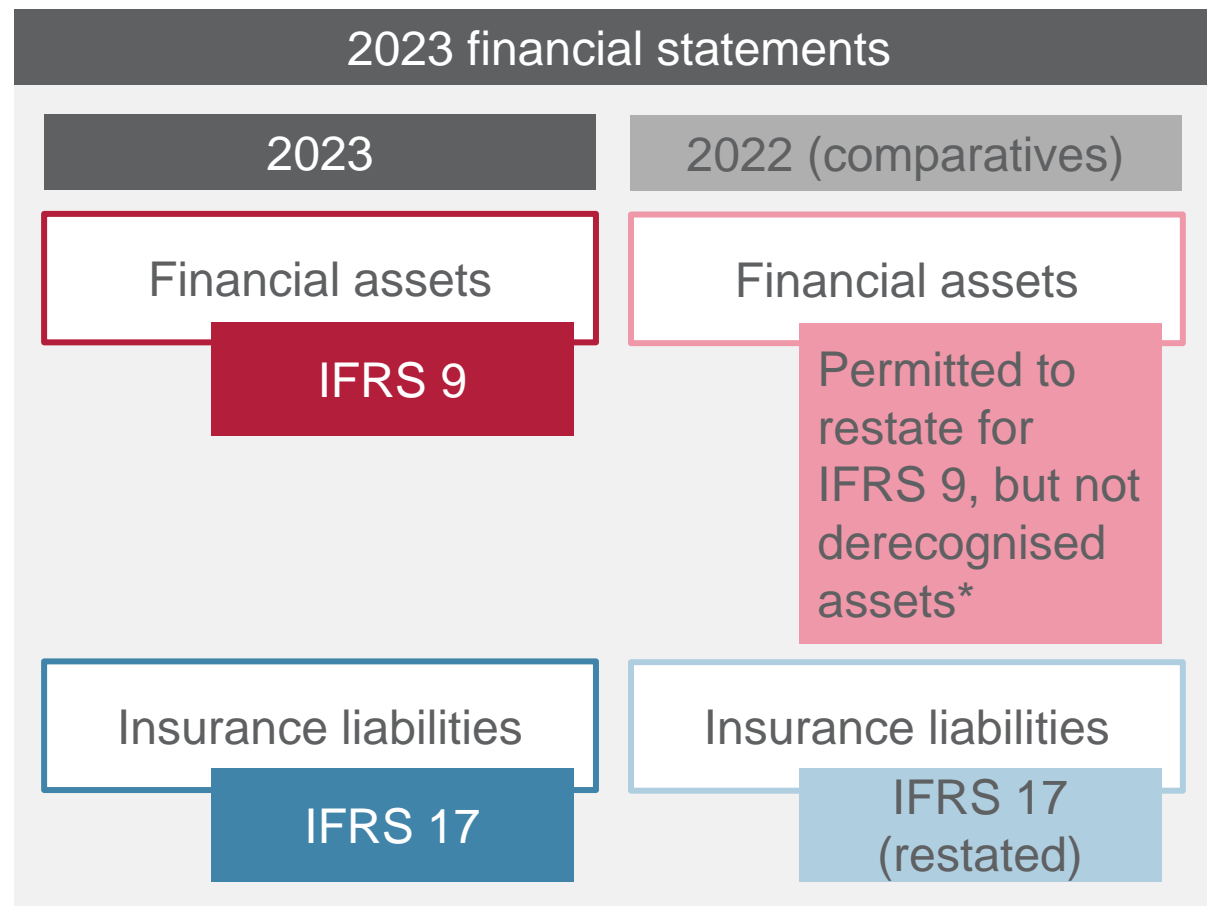
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1. Exposure Draft

Issue raised to the Board

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- 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



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

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)



Proposal

Optional 'classification overlay' for presenting comparative information about financial assets not restated for IFRS 9

Date of initial application of IFRS 9 and IFRS 17

Beginning of period Standards first applied
eg 1 January 2023

IFRS 17

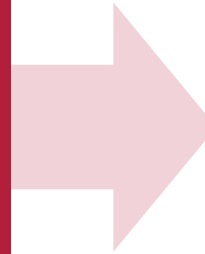
IFRS 9 applied from date of initial application

Proposal (slide 2 of 3)

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

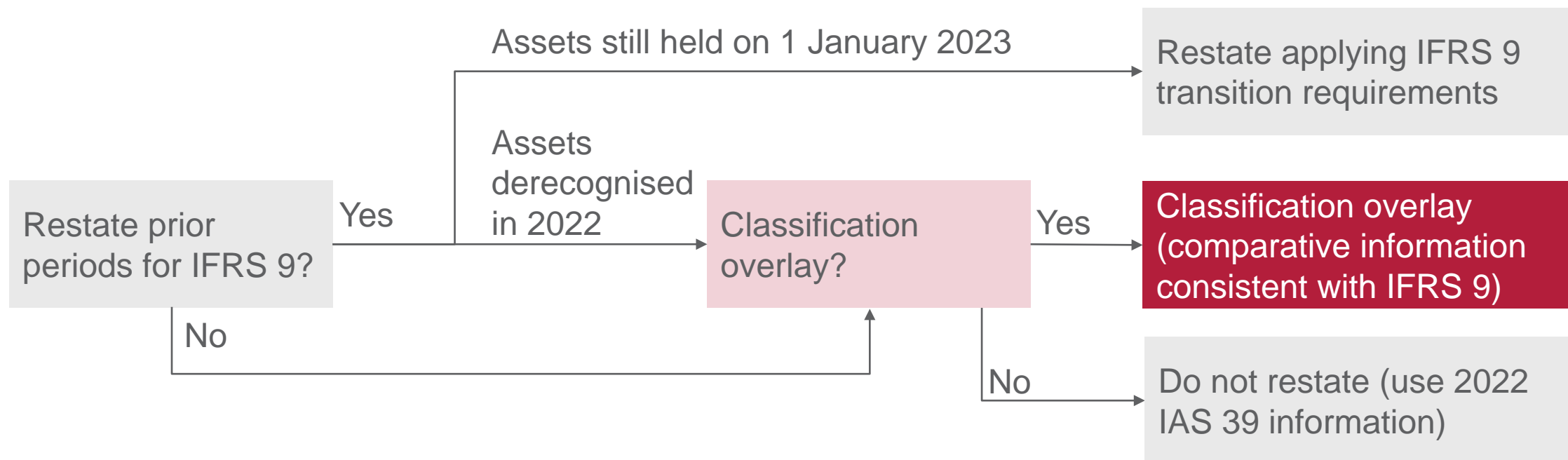
Not required to separately identify financial assets for which:

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

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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

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2. Comment letters



46 comment letters



All respondents support the proposal



Some changes suggested, mostly relating to scope

Scope

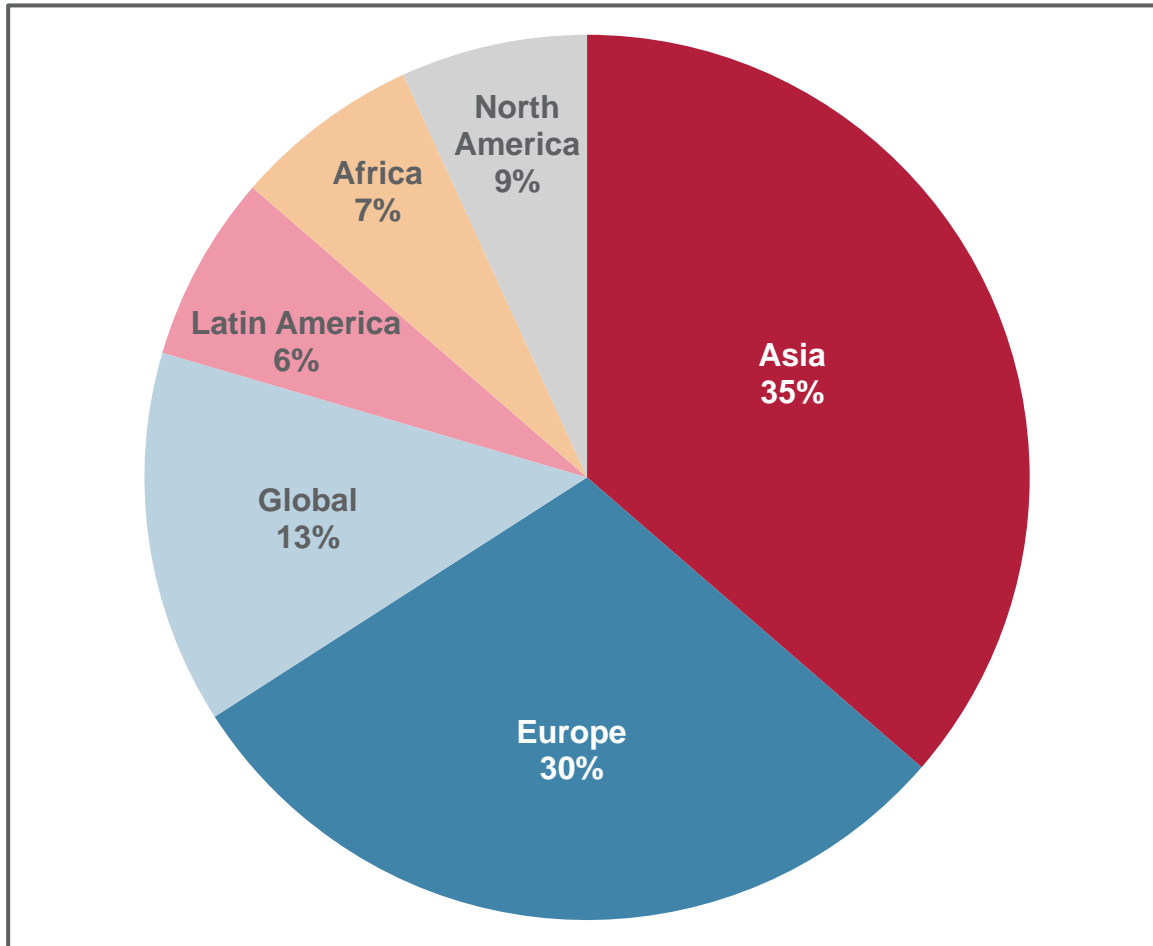
Agenda Paper 2A

Other matters

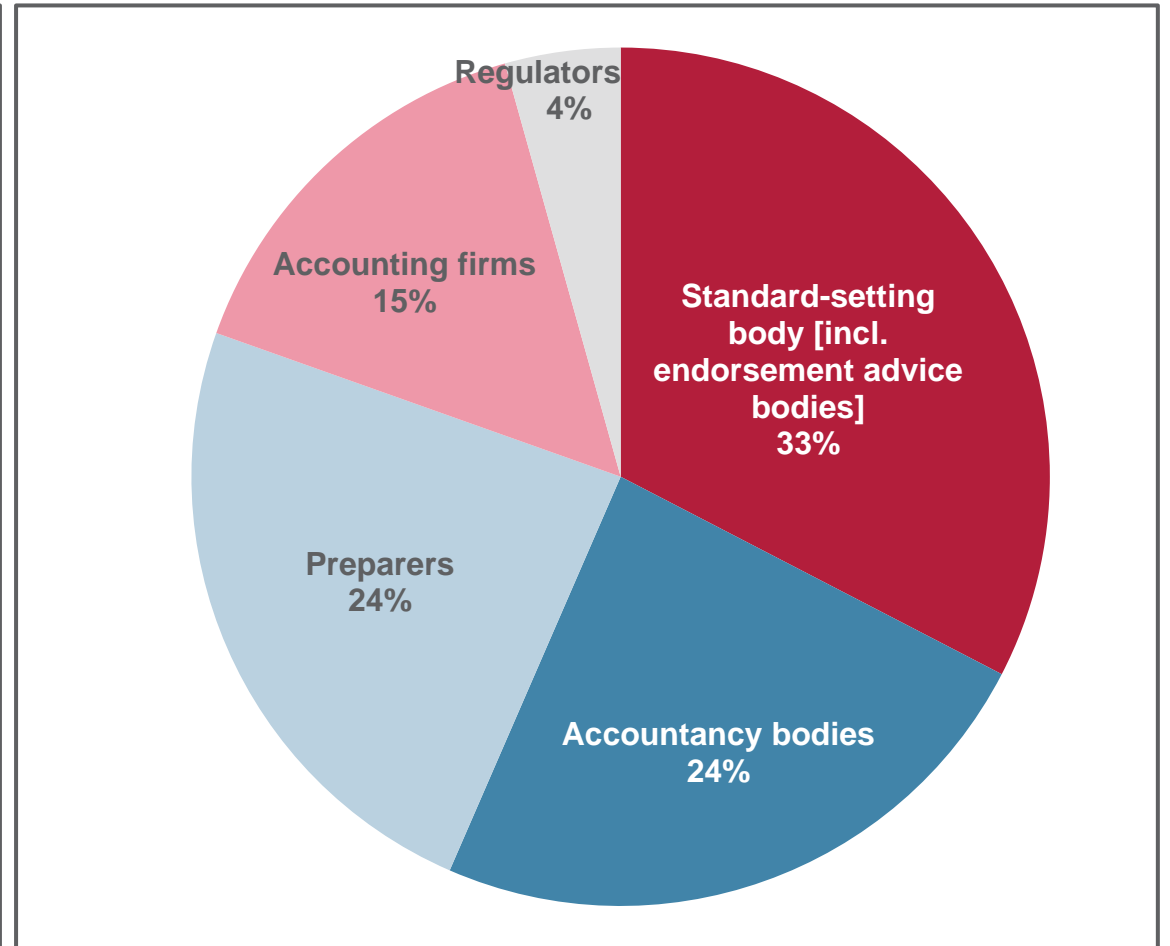
Agenda Paper 2B

Comment letter respondents

Respondents by geographical location



Respondents by type



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:

Term	Extent of response among respondents
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

- 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

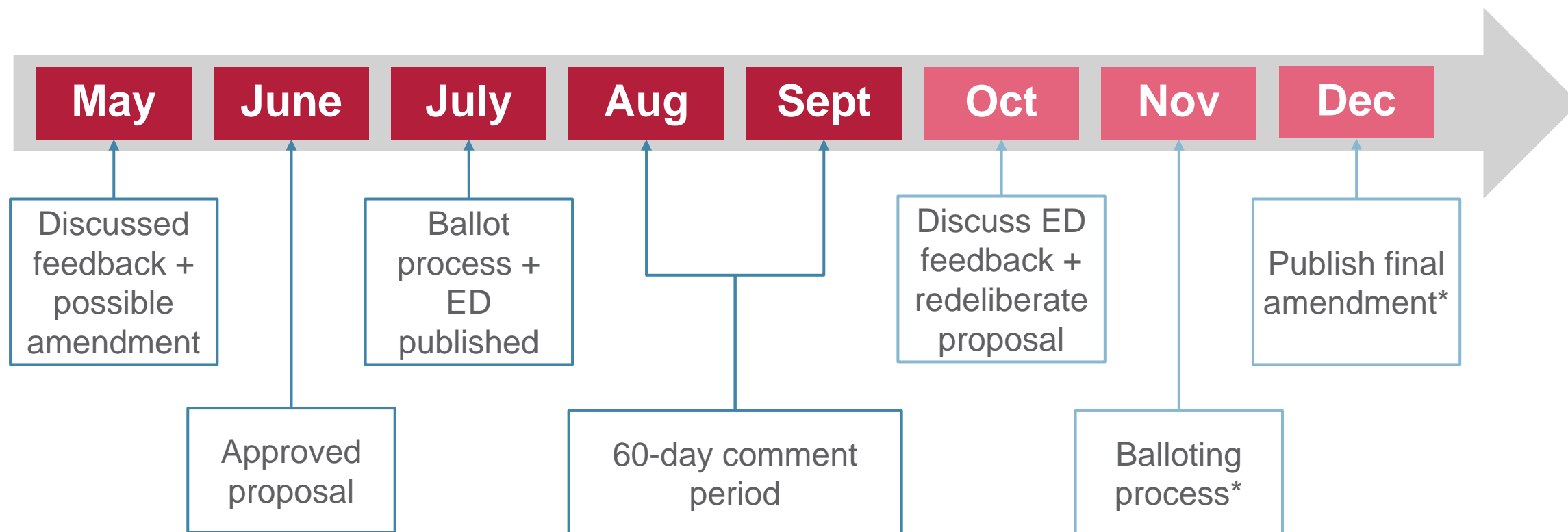
A grayscale world map is centered in the background. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. A network of thin, dotted white lines is also visible, forming a grid-like pattern across the map.

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3. Timeline

Timeline

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

STAFF PAPER

October 2021

IASB® meeting

Project	Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17)	
Paper topic	Classification overlay—scope	
CONTACT(S)	Laura Kennedy	lkennedy@ifrs.org
	Iliriana Feka	ifeka@ifrs.org
	Riana Wiesner	rwiesner@ifrs.org

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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. This paper sets out feedback, staff analysis, recommendations, and questions for Board members relating to the scope of the proposed amendment.
3. While all respondents supported the proposal, most suggested the Board expand the scope of the proposed amendment. This paper is structured in two parts, reflecting the two areas of feedback relating to the scope:
 - (a) [removing the scope restriction relating to whether a financial asset is held in respect of insurance activities \(Question 1\)](#); and
 - (b) [expanding the scope to apply for entities that already applied IFRS 9 *Financial Instruments* \(Question 2\)](#).

Summary of staff recommendations

4. The staff recommend that in finalising the amendment to IFRS 17, the Board:
 - (a) remove the proposed restriction from applying the classification overlay to a financial asset that is held in respect of an activity that is unconnected with contracts within the scope of IFRS 17; and
 - (b) expand the proposed scope of the classification overlay to entities that already applied IFRS 9.

1—Removing the scope limitation relating to whether a financial asset is held in respect of insurance activities

Proposal

5. Paragraph C28E(a) of the Exposure Draft proposes that an entity would not be permitted to apply the classification overlay to financial assets that are held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. For example, financial assets held in respect of banking activities would not be eligible for the classification overlay. This is consistent with a different transition relief in paragraph C29(a) of IFRS 17.

Feedback

6. Most respondents suggested the Board remove the scope restriction described in paragraph 5 of this paper, which would align the scope of the classification overlay with that of the temporary exemption from IFRS 9 for insurers.
7. Respondents noted that the temporary exemption from IFRS 9 was not limited to apply only to financial assets held in respect of insurance activities. Rather, a qualifying insurer was permitted a temporary exemption from IFRS 9 for all of its financial assets. Respondents see no reason the classification overlay should be more restricted in scope than the temporary exemption from IFRS 9, given that both aim to reduce accounting mismatches between financial assets and insurance contract liabilities.
8. Respondents also explained that the restricted scope causes operational complexity with no perceived benefit. They noted that one of the benefits of using the

classification overlay is that they can prepare to apply the classification overlay in the exact same way that they will prepare to restate comparatives for IFRS 9. They said that if they could apply the classification overlay to all financial assets for which comparatives haven't been restated for IFRS 9, they could therefore prepare comparatives in the same way for all financial assets which would significantly reduce operational complexity.

9. Respondents also expressed a view that the use of the classification overlay can only improve the comparative information presented on initial application of IFRS 9, because it will result in the comparative information being more comparable to the IFRS 9 information presented for the reporting period. As such, they see no reason to restrict the use of the classification overlay.

Staff analysis and recommendations

10. Use of the classification overlay will have three benefits for insurers preparing their first set of financial statements applying IFRS 17 and IFRS 9, namely it will:
 - (a) enable insurers to reduce potentially significant accounting mismatches between financial assets and insurance contract liabilities in the comparative information;
 - (b) improve comparability between the information about financial assets presented for the reporting period (eg the 2023 financial information) and the prior period (eg the 2022 comparatives); and
 - (c) reduce the operational complexity involved in preparing the comparative information.
11. It is feedback relating to the benefit described in paragraph 10(a)—that is, significant accounting mismatches between financial assets and insurance contract liabilities—that persuaded the Board to propose adding the classification overlay to the IFRS 17 transition requirements.
12. That feedback focused on concerns about accounting mismatches between insurance contract liabilities and the related financial assets (ie assets held by an insurer to enable it to meet its obligations under the insurance contracts). It was this focus of the feedback, and the Board's desire to target the proposal directly at the issue of concern,

that led to the proposal in the Exposure Draft connecting the scope to financial assets held in respect of insurance activities.

13. An insurer could only qualify for the temporary exemption from applying IFRS 9 if the insurer's activities were predominantly connected with insurance and:¹
 - (a) the carrying amount of its liabilities arising from contracts within the scope of this IFRS, is significant compared to the total carrying amount of all its liabilities;
 - (b) the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is:
 - (i) greater than 90 per cent; or
 - (ii) less than or equal to 90 per cent but greater than 80 per cent, and the insurer does not engage in a significant activity unconnected with insurance.

14. Although the criteria for the temporary exemption was based on the insurer's liabilities, the staff note that it is reasonable to assume that an entity that qualified for the temporary exemption would not have a significant proportion of financial assets that are unconnected with insurance activities. The staff is therefore of the view that the cost of requiring insurers to apply different approaches to the restatement of comparative information would outweigh any perceived benefits of excluding 'unrelated' financial assets from the classification overlay.

15. Although relief from operational complexity arising from restating comparative information was not the reason the Board proposed the classification overlay, the staff can understand why removing the scope restriction in paragraph C28E(a) of the Exposure Draft would reduce operational complexity for some insurers choosing to use the classification overlay.

16. Furthermore, we agree that the use of the classification overlay will only increase, rather than reduce, the usefulness of the comparative information presented on initial application of IFRS 9 and IFRS 17. In other words, there would be no information

¹ Paragraph 20G of IFRS 4 *Insurance Contracts*

loss if the classification overlay is applied to those financial assets held in respect of non-insurance activities.

17. Therefore, the staff view is that the suggestion from respondents would be an improvement on the amendment proposed in the Exposure Draft. The staff recommend that in finalising the amendment to IFRS 17, the Board removes the proposed restriction from applying the classification overlay to a financial asset that is held in respect of an activity that is unconnected with contracts within the scope of IFRS 17.

Question 1 for Board members

Do you agree with the staff recommendation in paragraph 17 of this paper?

2—Expanding the scope to entities that already applied IFRS 9

Proposal

18. Paragraph C28A of the Exposure Draft proposes that an entity that first applies IFRS 17 and IFRS 9 at the same time is permitted to apply the classification overlay. Paragraph C28C of the Exposure Draft goes on to explain that in applying the classification overlay, an entity presents comparative information as if the classification and measurement requirements of IFRS 9—rather than IAS 39—had been applied to the financial asset.
19. The proposed classification overlay would not apply to entities that have already applied IFRS 9 before initial application of IFRS 17.

Feedback

20. A few respondents suggested the Board expand the scope of the classification overlay so that it can be applied by insurers that have already applied IFRS 9.
21. Respondents explained that those insurers have the same concerns about accounting mismatches in the comparative period relating to derecognised financial assets as insurers that will first apply IFRS 17 and IFRS 9 at the same time, which resulted in the Board proposing the classification overlay.

Staff analysis and recommendations

22. When the Board developed IFRS 17, it acknowledged that entities that already applied IFRS 9 could encounter accounting mismatches between financial assets and insurance contract liabilities on initial application of IFRS 17. Hence, the Board provided the redesignation requirements in paragraph C29 of IFRS 17.
23. Paragraph C29 of IFRS 17 provides insurers that already applied IFRS 9 with the ability to redesignate financial assets on initial application of IFRS 17, similar to the designation requirements on transition to IFRS 9. On initial application of IFRS 17, an insurer that has already applied IFRS 9 may redesignate financial assets using paragraph C29 of IFRS 17 to reduce accounting mismatches with insurance contract liabilities that might arise only when IFRS 17 is applied to those insurance contracts. Consistent with the transition requirements in IFRS 9, paragraph C29 of IFRS 17 applies at the date of initial application, and therefore does not apply to the financial assets derecognised in the comparative period.
24. The staff are sympathetic to the concerns of respondents relating to derecognised financial assets. We understand that, for example, an entity may have classified a financial asset derecognised in the comparative period as measured at amortised cost applying IFRS 9 previously, but may wish to present those financial assets as at fair value through profit or loss in the comparative information presented on initial application of IFRS 17 to reduce accounting mismatches with comparative information about insurance contracts that has been restated for IFRS 17.
25. However, based on feedback we expect this may be an issue for very few entities, and for those entities, we are not aware how significant the accounting mismatches arising from the financial assets derecognised in the comparative period would be. It is our expectation that, given those entities already apply IFRS 9, they would experience less significant accounting mismatches between financial assets and insurance contract liabilities in the comparative period compared to entities that applied IAS 39 in the comparative period.
26. Nonetheless, we think that the classification overlay could be expanded to apply for entities that already applied IFRS 9.
27. As set out in the Exposure Draft, applying the proposed classification overlay to a financial asset an entity “shall use reasonable and supportable information available at

the transition date to determine how the entity expects that financial asset to be classified on initial application of IFRS 9” (ie how the asset would be classified applying the transition requirements in IFRS 9). In the staff view, if the Board were to expand the scope of the classification overlay to apply for entities that already applied IFRS 9, it would be consistent for those entities to be required to “use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying paragraph C29 on initial application of IFRS 17”.

28. On balance, while we are not aware of this being a significant issue for entities that already applied IFRS 9, the staff view is that the scope of the classification overlay should be expanded to apply for such entities. As noted in paragraph 16 of this paper, we think the use of the classification overlay can only increase, not reduce, the usefulness of comparative information about financial assets presented on initial application of IFRS 17. We do not see a risk that expanding the scope in this way would result in less useful comparative information. Furthermore, it would not disrupt implementation because the classification overlay will be optional.

29. Therefore, the staff recommend that in finalising the amendment to IFRS 17, the Board expand the proposed scope of the classification overlay to apply for entities that already applied IFRS 9.

Question 2 for Board members
Do you agree with the staff recommendation in paragraph 29 of this paper?

STAFF PAPER

October 2021

IASB® meeting

Project	Initial Application of IFRS 17 and IFRS 9— Comparative Information (Amendment to IFRS 17)	
Paper topic	Classification overlay—other matters	
CONTACT(S)	Iliriana Feka	ifeka@ifrs.org
	Laura Kennedy	lkennedy@ifrs.org
	Riana Wiesner	rwiesner@ifrs.org

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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?

STAFF PAPER

October 2021

IASB® meeting

Project	Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17)	
Paper topic	Finalising the amendment	
CONTACT(S)	Laura Kennedy	lkennedy@ifrs.org
	Iliriana Feka	ifeka@ifrs.org
	Riana Wiesner	rwiesner@ifrs.org

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

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 Papers 2–2B of this Board meeting discuss the Exposure Draft, feedback, and topics for redeliberation based on feedback. This paper asks Board members:
 - (a) whether they are satisfied that the Board has complied with the applicable due process steps and should begin the balloting process to issue the amendment to IFRS 17; and
 - (b) whether they intend to dissent from the issuance of the amendment to IFRS 17.

Summary of the amendment to IFRS 17

3. If the Board agrees with the staff recommendations in Agenda Papers 2A and 2B, the amendment will be finalised as proposed in the Exposure Draft (see Agenda Paper 2 for summary) except that the scope will be amended so that the amendment applies also for:

- (a) financial assets held in respect of activities unconnected to insurance contracts; and
- (b) entities that already applied IFRS 9.

Due process steps taken

4. Paragraphs 6.19–6.24 of [the *Due Process Handbook*](#) set out the steps the Board takes to complete the deliberations of an amendment to an IFRS Standard after the comment period of an exposure draft ends.
5. In line with the *Due Process Handbook*, in this project the Board has:
 - (a) at its May and June 2021 public meetings discussed the issue raised by stakeholders and its proposed response;
 - (b) in July 2021 published for public consultation an exposure draft of the proposed narrow-scope amendment, after confirming that it was satisfied that it had followed the applicable due process steps for publishing an exposure draft;
 - (c) at its October 2021 public meeting:
 - (i) reviewed a summary of feedback from comment letters; and
 - (ii) redeliberated the topics raised in that feedback.
6. The Board did not have a consultative group or conduct field work for this amendment. The amendment is responsive to feedback, narrow-in-scope and optional. As such, for this amendment it was deemed that public consultation in the form of an exposure draft would provide the Board with sufficient information to finalise the amendment.
7. If the Board agrees with the staff recommendations in Agenda Papers 2A–2B, the final amendment will include changes compared to that proposed in the Exposure Draft. When finalising an amendment, the Board needs to consider whether the revised proposal includes any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the basis for conclusions accompanying the exposure draft. The Board also needs to consider whether it will learn anything new by re-exposing the proposals. If the Board

is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any new concerns, it should proceed to finalise the proposed requirements.

8. In the staff view, re-exposure of this narrow-scope amendment is not needed. Respondents to the Exposure Draft expressed overwhelming support for the amendment, and the changes recommended by staff are responsive to feedback from many respondents. No feedback on the Exposure Draft would indicate that respondents would disagree with those changes.

Next steps

9. This paper asks Board members whether they agree to starting the balloting process for issuing the amendment to IFRS 17.
10. In line with the Board's intention when it proposed the amendment, the staff expect that the final amendment will be issued before the end of 2021. Respondents to the Exposure Draft expressed support for this timeline.
11. The amendment (which is optional) will be applied (once) on initial application of IFRS 17, and will be available to be used for all comparative periods that have been restated for IFRS 17 (including periods before this amendment is finalised, so long as the entity has collected the information needed to apply the amendment for those comparative periods).

Questions for Board members

1. Are you satisfied that the Board has complied with the applicable due process steps and should begin the balloting process to issue the amendment to IFRS 17?
2. Do you intend to dissent from the amendment to IFRS 17?