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IFRS<sup>®</sup> Standards  
Exposure Draft ED/2021/8

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

Proposed amendment to IFRS 17

Comments to be received by 27 September 2021

IASB<sup>®</sup>

 IFRS<sup>®</sup>

## **Exposure Draft**

### **Initial Application of IFRS 17 and IFRS 9 – Comparative Information Proposed amendment to IFRS 17**

*Comments to be received by 27 September 2021*

Exposure Draft ED/2021/8 *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* is published by the International Accounting Standards Board (Board) for comment only. Comments need to be received by 27 September 2021 and should be submitted by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or online at <https://www.ifrs.org/projects/open-for-comment/>.

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## Introduction

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### Why is the Board publishing this Exposure Draft?

Many insurance entities will first apply IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* for annual reporting periods beginning on or after 1 January 2023. The two Standards provide different reliefs to help entities make the transition to the new requirements. Recently, the International Accounting Standards Board (Board) received information that, for some entities, these differences are expected to have a significant effect on the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9.

This Exposure Draft proposes a narrow-scope amendment to IFRS 17 to enable these entities to improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9.

### Proposal in this Exposure Draft

This Exposure Draft proposes a narrow-scope amendment to the transition requirements in Appendix C of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. This proposed amendment relates to financial assets for which comparative information presented on initial application of IFRS 17 and IFRS 9 has not been restated for IFRS 9. Applying the proposed amendment, an entity would be permitted to present comparative information about such a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The Exposure Draft proposes no change to the transition requirements in IFRS 9.

### Who would be affected by the proposal?

The proposed amendment could affect any entity that first applies IFRS 17 and IFRS 9 at the same time; however, application of the proposed amendment would be optional.

### Next step

The Board will consider the comments it receives on the Exposure Draft and will decide whether to proceed with the proposed amendment. The Board plans to complete any resulting amendment by the end of 2021.

## Invitation to comment

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### Introduction

The Board invites comments on the proposal in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) respond to the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the proposal that is not clear or would be difficult to translate; and

- (e) identify any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

### **Question for respondents**

Do you agree with the proposed amendment in this Exposure Draft? Why or why not? If not, what alternative do you propose and why?
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### **Deadline**

The Board will consider all written comments received by **27 September 2021**.

### **How to comment**

Please submit your comments electronically:

Online	<a href="https://www.ifrs.org/projects/open-for-comment/">https://www.ifrs.org/projects/open-for-comment/</a>
By email	<a href="mailto:commentletters@ifrs.org">commentletters@ifrs.org</a>

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at [commentletters@ifrs.org](mailto:commentletters@ifrs.org) before submitting your letter.

## **[Draft] Amendment to IFRS 17 *Insurance Contracts***

Paragraphs C2A and C28A–C28E and the heading before paragraph C28A are added.  
For ease of reading these paragraphs have not been underlined.

### **Appendix C Effective date and transition**

*This appendix is an integral part of IFRS 17 Insurance Contracts.*

#### **Effective date**

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C2A [Exposure Draft] *Initial Application of IFRS 17 and IFRS 9 – Comparative Information*, issued in [date], added paragraphs C28A–C28E. An entity that elects to apply paragraphs C28A–C28E shall apply them when it first applies IFRS 17.

#### **Transition**

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...

#### **Comparative information**

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##### **Entities that first apply IFRS 17 and IFRS 9 at the same time**

- C28A An entity that first applies IFRS 17 and IFRS 9 at the same time is permitted to apply the classification overlay in paragraphs C28B–C28E for the purpose of presenting comparative information about a financial asset, if the comparative information for that financial asset has not been restated for IFRS 9. Comparative information for a financial asset will not be restated for IFRS 9 if either the entity chooses not to restate prior periods (see paragraph 7.2.15 of IFRS 9), or if the entity chooses to restate prior periods but the financial asset has been derecognised during those prior periods (see paragraph 7.2.1 of IFRS 9). If an entity applies the classification overlay, it shall disclose that fact.
- C28B An entity that applies the classification overlay to a financial asset 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 (for example, using preliminary assessments performed to prepare for the transition to IFRS 9).
- C28C An entity shall use the expected classification determined applying paragraph C28B to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. However, in applying the classification overlay, an entity is not required to apply the impairment requirements in Section 5.5 of IFRS 9. Any difference between the previous carrying amount of the financial asset and the carrying amount at the transition date that results from applying the classification

overlay shall be recognised in opening retained earnings (or other component of equity, as appropriate) at the transition date.

C28D Notwithstanding paragraph C28C, at the date of initial application of IFRS 9, an entity is required to apply the transition requirements in IFRS 9 to a financial asset, regardless of whether the entity has applied the classification overlay to that financial asset.

C28E An entity shall not apply paragraphs C28B–C28C to:

- (a) a financial asset that is held in respect of an activity that is unconnected with contracts within the scope of IFRS 17; and
- (b) comparative information for reporting periods before the transition date to IFRS 17 (see paragraphs C2 and C25).



**Approval by the Board of Exposure Draft *Initial Application of IFRS 17 and IFRS 9—Comparative Information* published in July 2021**

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The Exposure Draft *Initial Application of IFRS 17 and IFRS 9—Comparative Information* was approved for publication by 10 of the 12 members of the International Accounting Standards Board (Board). Messrs Barckow and Perrin abstained in view of their recent appointment to the Board.

Andreas Barckow

Chair

Suzanne Lloyd

Vice-Chair

Nick Anderson

Tadeu Cendon

Zach Gast

Jianqiao Lu

Bruce Mackenzie

Bertrand Perrin

Thomas Scott

Rika Suzuki

Ann Tarca

Mary Tokar

## **Basis for Conclusions on Exposure Draft *Initial Application of IFRS 17 and IFRS 9—Comparative Information***

*This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Initial Application of IFRS 17 and IFRS 9—Comparative Information. It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.*

### **Background**

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- BC1 IFRS 9 *Financial Instruments* became effective for annual periods beginning on or after 1 January 2018. However, IFRS 4 *Insurance Contracts* provides entities whose activities are predominantly connected with insurance (insurance entities) with a temporary exemption that permits, but does not require, the entity to apply IAS 39 *Financial Instruments: Recognition and Measurement* rather than IFRS 9 for annual periods beginning before 1 January 2023.<sup>1</sup> The Board provided this temporary exemption because of additional accounting mismatches and apparent volatility that may arise in profit or loss in the period between the effective dates of IFRS 9 and IFRS 17 *Insurance Contracts*.
- BC2 Entities are required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023. Many insurance entities have taken advantage of the temporary exemption from IFRS 9 and will first apply IFRS 9 and IFRS 17 for annual reporting periods beginning on or after 1 January 2023.
- BC3 However, IFRS 17 and IFRS 9 have different transition requirements. IFRS 17 requires entities to present comparative information applying the requirements of IFRS 17 for the annual reporting period immediately preceding the date of initial application.<sup>2</sup> The Board concluded that providing restated comparative information about insurance contracts for at least one annual reporting period was necessary because of the diversity of previous accounting requirements and the extent of the changes introduced by IFRS 17. In contrast with IFRS 17, IFRS 9 permits, but does not require, the restatement of comparative information. Nevertheless, IFRS 9 does not permit the restatement of comparative information for items derecognised before the date of initial application.

### **Comparative information presented on initial application of IFRS 17 and IFRS 9**

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- BC4 Many insurance entities plan to present restated comparative information for financial assets applying IFRS 9 because doing so will improve the usefulness of the comparative information provided on initial application of IFRS 17 and IFRS 9. However, because IFRS 9 is not applied to financial assets derecognised prior to the date of initial application (see paragraph 7.2.1 of IFRS 9), the

<sup>1</sup> See paragraph 20A of IFRS 4.

<sup>2</sup> Paragraph C2(b) of IFRS 17 states that the transition date of IFRS 17 is the beginning of the annual reporting period immediately preceding the date of initial application. However, if an entity, in applying paragraph C25 of IFRS 17, voluntarily presents restated comparative information for any earlier periods, the transition date would be the beginning of the earliest restated comparative period presented.

comparative information will include a mixture of financial assets classified applying IFRS 9 and financial assets classified applying IAS 39. The differing transition requirements may also result in accounting mismatches between insurance contract liabilities and financial assets arising in the comparative information presented on initial application of IFRS 17 and IFRS 9.

- BC5 Recently, the Board received information from some entities about the significant effect the one-time issue described in paragraph BC4 is expected to have on the usefulness of the comparative information those entities will present on initial application of IFRS 17 and IFRS 9.
- BC6 Some entities also highlighted operational challenges for entities that choose to restate comparative information for IFRS 9. Those challenges will arise because entities that choose to restate comparative information to reflect the application of IFRS 9 will not know the financial assets to which IFRS 9 will apply until the end of the comparative period (that is, until the entity identifies the population of financial assets that have been derecognised during the comparative period).

### **Proposed amendment to IFRS 17**

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- BC7 In the Board's view, the issue described in paragraphs BC4–BC6 could be resolved through a narrow-scope amendment to IFRS 17 as proposed in this Exposure Draft. Such an amendment would permit an entity to apply a classification overlay for the purpose of presenting comparative information about a financial asset on initial application of IFRS 17 and IFRS 9.
- BC8 The purpose of the proposed classification overlay is to resolve the one-time issue described in paragraphs BC4–BC6 in a pragmatic and targeted way, while not otherwise changing the transition requirements in IFRS 17 or IFRS 9. In the Board's view, this approach would reduce the risk of unintended consequences and disruption to the implementation of IFRS 17 and IFRS 9.
- BC9 The Board acknowledged that amending IFRS 17 so close to the effective date might appear to be inconsistent with the intention of providing a stable basis for the implementation of IFRS 17. However, in the Board's view, introducing a new transition relief at this stage is justified because entities became aware of the significant impact of the differing transition requirements, in particular, the potential magnitude of accounting mismatches, only during the advanced stage of implementation. Furthermore, the Board concluded that the proposed amendment could be finalised in a timely manner without disrupting implementation because the proposed classification overlay:
- (a) is an optional relief and therefore would not impose changes on entities; and
  - (b) relates only to the presentation of comparative information on initial application, and therefore has no effect on the application of IFRS 17 and IFRS 9 after the date of initial application.

### The proposed classification overlay

BC10 Applying the proposed classification overlay, an entity would be permitted to present comparative information for a financial asset as if the classification and measurement requirements in IFRS 9 had been applied to that financial asset. In developing this proposal, the Board considered what the scope and the conditions of the classification overlay should be to resolve the issue described in paragraphs BC4–BC6 without disrupting the implementation process. The Board decided that to achieve this objective it should specify that the proposed classification overlay would:

- (a) be available only for financial assets for which comparative information has not been restated for IFRS 9 (see paragraph BC11);
- (b) allow an entity to align classification of these financial assets with the expected classification on initial application of IFRS 9, using reasonable and supportable information (see paragraphs BC12–BC16);
- (c) be optional on an instrument-by-instrument basis (see paragraphs BC17–BC18);
- (d) not apply to financial assets unconnected with contracts within the scope of IFRS 17 (see paragraph BC19); and
- (e) not apply to comparative information for periods before the IFRS 17 transition date (see paragraphs BC20–BC21).

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

BC11 The Board noted that the proposed classification overlay would be available only for the purpose of presenting comparative information about a financial asset if that comparative information has not been restated for IFRS 9. The Board noted that an entity is permitted, but not required, to restate comparative information for IFRS 9 (when restatement is possible without the use of hindsight). If the entity chooses to restate comparative information, IFRS 9 does not permit restatement of comparative information for financial assets derecognised during the comparative period. Therefore, the Board proposes that the classification overlay would be available to both:

- (a) entities that restate comparative information applying IFRS 9. For such entities, the classification overlay would be available only for financial assets derecognised in the comparative period because IFRS 9 does not apply to those assets; and
- (b) entities that do not restate comparative information applying IFRS 9. For such entities, the classification overlay would be available for any financial asset other than financial assets held in respect of an activity that is unconnected with contracts within the scope of IFRS 17 (see paragraph BC19).

**IFRS 9 expected classification**

- BC12 Applying the proposed classification overlay for the purpose of presenting comparative information, an entity would align the classification of a financial asset with the expected classification of that financial asset on initial application of IFRS 9 (based on the assumption the asset continues to be recognised on the date of initial application of IFRS 9, although that need not be the case for the classification overlay to apply (see paragraph BC11)). The Board considered the basis for making that assessment. The Board is proposing that an entity would use reasonable and supportable information available at the transition date to determine the expected classification of a financial asset (for example, using a preliminary assessment of the business model and cash flow characteristics performed to prepare for the transition to IFRS 9). However, applying the proposed classification overlay does not require an entity to complete the assessments required by IFRS 9 in order to determine the classification of a financial asset. Paragraphs BC25–BC28 discuss how the Board expects entities might apply the classification overlay from a practical perspective.
- BC13 The Board noted that applying the proposed classification overlay an entity would classify a financial asset in the comparative period based on a reasonable expectation of how that financial asset would be classified on initial application of IFRS 9. Accordingly, when supported by reasonable and supportable information, an entity could classify:
- (a) a debt instrument as subsequently measured at:
    - (i) amortised cost;
    - (ii) fair value through profit or loss; or
    - (iii) fair value through other comprehensive income;
  - (b) an equity instrument as subsequently measured at:
    - (i) fair value through profit or loss; or
    - (ii) fair value, with changes in fair value presented in other comprehensive income.
- BC14 The Board considered the measurement consequences of an entity applying the proposed classification overlay. If, for example, using the classification overlay, an entity presents a financial asset previously measured at amortised cost as instead measured at fair value through other comprehensive income, the fair value of that financial asset would be measured at the transition date (the beginning of the earliest comparative period for which information has been restated applying IFRS 17). The Board is proposing that any difference in the carrying amount of the financial asset at the transition date resulting from the application of the classification overlay is recognised in opening retained earnings (or other component of equity, as appropriate) at that date. The amounts in the statement of financial position and the statement(s) of comprehensive income for the comparative period from the transition date to the date of initial application would be presented as if the financial asset had

been classified at fair value through other comprehensive income applying IFRS 9.

- BC15 The Board is proposing that an entity is not required to apply the impairment requirements in Section 5.5 of IFRS 9 for the purpose of applying the proposed classification overlay. The Board observed that entities would apply the classification overlay because they want to improve the usefulness of comparative information, but some 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.
- BC16 The Board also considered whether to require an entity to assess the cash flow characteristics of a financial asset for the purpose of applying the classification overlay. IFRS 9 requires the cash flow characteristics of a financial asset to be assessed based on the facts and circumstances that exist at the date of initial recognition. Therefore, an entity could determine whether the contractual cash flows of a financial asset are solely payments of principal and interest before the date of initial application of IFRS 9. The Board decided that it would be sufficient to propose presenting comparative information based on the expected classification as long as that expected classification is based on reasonable and supportable information. For the expected classification to be based on reasonable and supportable information, an entity would need to consider whether the contractual cash flows of a financial asset would meet the requirements in IFRS 9 to be measured at amortised cost or at fair value through other comprehensive income.

#### **Optional on an instrument-by-instrument basis**

- BC17 The Board proposes that the classification overlay would be optional on an instrument-by-instrument basis. The Board considered whether to propose that an entity electing to apply the classification overlay be required to apply it to all financial assets for which comparative information has not been restated for IFRS 9. However, 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. An instrument-by-instrument-basis would allow an entity to assess whether, for a particular financial asset, the benefits of applying the proposed amendment outweigh the costs. The cost-benefit assessment may differ for particular financial assets, for example, due to differences in the difficulty of assessing the expected classification of the financial asset applying IFRS 9 or due to differences in the extent of the accounting mismatch arising from the classification of a financial asset applying IAS 39. However, the Board noted that the option to apply the classification overlay on an instrument-by-instrument basis does not prevent entities from applying it at a higher level of aggregation, for example, by considering the level at which the business model would be assessed when IFRS 9 is applied.

- BC18 The Board considered the risk that an entity could apply the proposed amendment selectively to achieve an opportunistic outcome because the proposed classification overlay is optional and is available on an instrument-by-instrument basis. However, the Board concluded that this risk is mitigated because entities that apply the proposed classification overlay want to reduce accounting mismatches and achieve greater consistency with how IFRS 9 will be applied.

**Not applicable to financial assets unconnected with contracts within the scope of IFRS 17**

- BC19 The Board is proposing that the classification overlay would not apply to financial assets that are unconnected to contracts within the scope of IFRS 17. For example, financial assets held in respect of banking activities would not be eligible for the proposed classification overlay. The Board observed that entities will be familiar with this concept because it is also required by paragraph C29(a) of IFRS 17.

**Not applicable to comparative periods before the IFRS 17 transition date**

- BC20 The purpose of the proposed amendment is to improve the usefulness of comparative information presented when entities first apply IFRS 17 and IFRS 9 at the same time. Accordingly, the proposed classification overlay would be available only for comparative periods for which information has been restated applying IFRS 17. For many entities the proposed classification overlay would apply to one comparative period presented. However, if an entity chooses to restate more than one comparative period on initial application of IFRS 17, the classification overlay would be applied to the earlier period as well. The proposed classification overlay would not be available for comparative information about reporting periods before the transition date to IFRS 17.

- BC21 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* does not allow the use of hindsight when an entity applies a new accounting policy to a prior period. The Board is of the view that an entity would need to begin collecting relevant information from the transition date of IFRS 17 to apply the proposed classification overlay without the use of hindsight.

**Benefits of the proposed classification overlay**

- BC22 In the Board's view, the proposed classification overlay would not result in a loss of information for users of financial statements. The Board expects that the proposed classification overlay would enhance the usefulness of the comparative information because the comparative information for financial assets to which the proposed classification overlay is applied will be consistent with IFRS 9. The proposed classification overlay could therefore enhance comparability between periods.

- BC23 The Exposure Draft proposes no change to the transition requirements in IFRS 9. Applying the proposed classification overlay to financial assets avoids requiring an entity to apply IFRS 9 to those financial assets solely for the purpose of presenting comparative information. That is, while at the transition date an entity would be required to assess the expected classification of financial assets when IFRS 9 is applied using reasonable and supportable information (see paragraph BC12), the transition requirements in IFRS 9 are unchanged. While IFRS 9 is applied retrospectively on initial application, many assessments are required to be made as at the date of initial application. In addition, entities would not be required to apply the impairment requirements in Section 5.5 of IFRS 9 to financial assets to which the classification overlay has been applied. The Board is not requiring an entity to apply IFRS 9 to financial assets prior to the date of initial application as this would result in a significant burden on entities close to initial application of IFRS 9.
- BC24 The Board considered whether an entity applying the proposed classification overlay should be required to distinguish between financial assets to which the classification overlay is applied and other financial assets. The Board concluded that an entity applying the classification overlay should not be required to separately identify such financial assets. Paragraphs BC25–BC28 provide the rationale.
- BC25 The Board has been informed that, in the run-up to applying IFRS 9 for annual periods beginning on or after 1 January 2023, some entities will ‘parallel run’ IFRS 9 alongside IAS 39 throughout the prior reporting period. From a practical perspective this ‘parallel run’ will facilitate retrospective application of IFRS 9 and the preparation of restated comparative information (for entities that choose to restate).
- BC26 The Board observed that although IFRS 9 permits an entity to restate comparative information when that is possible without the use of hindsight, it still requires a number of relevant assessments that determine the classification of financial assets to be based on the facts and circumstances that exist at the date of initial application of the Standard.<sup>3</sup> In particular, the business model assessment and elections to designate financial assets to be measured at fair value through profit or loss are required to be made as at this date. This means that those entities in their parallel run would essentially classify a financial asset based on how the entity expects the financial asset to be classified when applying IFRS 9, assuming that those assets would continue to be recognised at the date of initial application of IFRS 9. In other words, entities would ‘pre-analyse’ how they expect those financial assets to be classified when applying IFRS 9. The Board expects that entities adopting that approach could use that pre-analysis to make the assessments necessary to apply the proposed classification overlay.

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<sup>3</sup> Except for the assessment of a financial asset’s contractual cash flow characteristics, which is based on the facts and circumstances at initial recognition of the financial asset.



- BC27 The Board, however, noted that the classification overlay does not amend the transition requirements of IFRS 9. Accordingly, when entities apply IFRS 9 they will still be required to apply the IFRS 9 requirements to the financial assets that continue to be recognised at the date of initial application. This means, for example, that they would need to assess at the date of initial application whether the classification (pre-analysis) of financial assets that continue to be recognised at that date is correct. If the expected classification (pre-analysis) is no longer appropriate, the entity would need to update the information prepared during the parallel run accordingly.
- BC28 The Board considered whether to require an entity to disclose which financial assets the classification overlay has been applied to. However, the Board decided that requiring an entity to disclose the fact that it has used the classification overlay would be sufficient. Requiring an entity to disclose which financial assets the classification overlay had been applied to would require an entity to track individual financial assets during the comparative period and the cost of doing so would likely outweigh the benefit.



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