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## **IFRS 17 and IFRS 9 comparative information: Remaining issues**

### **Issues Paper**

#### **Objective**

- 1 The objective of this paper is to consider unaddressed issues and how these should be incorporated into the FCL.

#### **Background**

- 2 Given the urgency of the project and issuing the draft comment letter, some EFRAG TEG members agreed that some of their remaining concerns could be addressed when finalising the final comment letter.
- 3 The three issues are as follows:
  - (a) Comparing the temporary exemption to the classification overlay;
  - (b) The use of hindsight; and
  - (c) Duplication of transition disclosures.

#### **Description of the issue(s)**

##### *Comparing the temporary exemption (IFRS 4) to the classification overlay*

- 4 On this topic, paragraph 24 of the DCL states the following:  
“On the basis of cost/benefit considerations, EFRAG recommends the IASB in finalising the proposals, to align the scope of the classification overlay and the temporary exemption from applying IFRS 9, in order to avoid operational complexity (using two general ledgers relating to IAS 39 and IFRS 9). As a result, EFRAG also recommends the deletion of the example in paragraph BC19 of the proposed amendment prohibition.”
- 5 One EFRAG TEG member commented that the temporary exemption in IFRS 4 (IASB version) applies to an entity which has activities that are predominantly connected with insurance (i.e., whether the carrying amount of liabilities is within the in scope of IFRS 4), while the overlay approach looks at whether the financial asset side is connected with insurance contracts in scope of IFRS 17. Then the question is whether it is possible to use the wording of the temporary exemption in the context of the classification overlay since it would lack any reference to eligibility of financial assets.
- 6 The member also commented that it is unclear that such alignment would be helpful in the context of the European top-up.

##### *EFRAG Secretariat analysis*

- 7 As highlighted in the DCL, the basis of the of the exemption and overlay differs in that the one is on an instrument-by-instrument basis whereas the other refers a

reporting entity. However, the current drafting means that an insurer with some banking activities who applied the exemption in IFRS 4 would not have any guidance as to how to apply IFRS 9 to the financial assets relating to those banking activities. For at least these operations this would create similar problems to those that convinced the IASB to include this project on its workplan.

- 8 Therefore, the FCL could suggest that the IASB deletes paragraph C28E(a) to ensure that the overlay could be applied to all financial assets by entities applying the temporary exemption as implied by the words in C28A (“that first applies IFRS 17 and IFRS 9 at the same time is permitted to apply the classification overlay”).
- 9 The EFRAG Secretariat notes that the same issues would apply to those groups who applied the EU top-up where the non-insurance activities may be more significant. However, this would need to be resolved as part of the endorsement process.

**Questions for EFRAG TEG**

- 10 Does EFRAG TEG agree with the proposal or are there any unintended consequences to such a proposal, e.g., not applying ECL to banking assets?

*The use of hindsight*

- 11 The ED does not address the use of hindsight in the proposed amendment, except in the Basis for Conclusions (BC21 and BC26), even though entities may elect to show 2 years of comparatives (i.e., 2021 and 2022) and the amendment will not be finalised until late 2021. This would be well after the transition date for those preparing comparatives for 2021.
- 12 In the absence of any guidance in the amendment, there might be questions as to whether applying the classification overlay is at all possible when the ED was only published at the end of July. Generally, one way to limit the use of hindsight is to require documentation that is contemporary to the date when information is required for accounting purposes (e.g., fair values or management intent) but this may prove difficult in the particular instance.
- 13 Therefore, there is a suggestion could be included that the FCL that the final amendment should:
  - (a) Explicitly states whether the classification overlay may be applied from a date that pre-dates the publication of the ED or the final amendment; and
  - (b) Include a requirement to disclose how the entity have applied the optional overlay without the use of hindsight.

*EFRAG Secretariat analysis*

- 14 The EFRAG Secretariat agrees with the proposal.

**Questions for EFRAG TEG**

- 15 Does EFRAG TEG agree with the proposal?

*Duplication of transition disclosures*

- 16 Another EFRAG TEG member agrees with the one respondent that it is not clear if IFRS 9 transition disclosures would be required at both the effective date of 1 January 2023 as well as at the transition date which under the classification overlay approach would be, for example, 1 January 2022. Requiring disclosures at both dates may confuse the users of the financial statements as to why IFRS 9 transitional disclosures are provided for two different years. Furthermore, two sets of transitional disclosures would create an operational burden for no added benefit. The amendment to IFRS 17 should therefore clarify that IFRS 9 transitional

disclosures are only required as at 1 January 2022, given that first application impacts in equity for IFRS 17 will refer also to this date, but not at both dates.

*EFRAG Secretariat analysis*

- 17 The EFRAG Secretariat notes that transition requirements for new standards apply only to the first year of application of that standard. Furthermore, paragraph C28A clarifies that an entity either applies the overlay or it applies the requirements in IFRS 9 when it chooses not to restate the comparatives. Therefore, the EFRAG Secretariat considers such clarification may not be necessary and would not amend the EFRAG comment letter.

**Questions for EFRAG TEG**

- 18 Does EFRAG TEG consider that the EFRAG comment letter should be amended for this issue?