

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## **IFRS 17 and IFRS 9 – Comparative information - Summary and analysis of the comment letters received**

### **Objective**

- 1 The objective of this paper is to provide EFRAG TEG with a summary of comments received on the draft endorsement advice on *Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17)* ('the Amendment').

### **Structure of the paper**

- 2 This comment letter analysis contains:
  - (a) Background;
  - (b) Summary of respondents;
  - (c) Summary of respondents' views;
  - (d) Main positions in EFRAG's proposed final comment letter;
  - (e) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft endorsement advice, EFRAG Secretariat's recommendations and questions to EFRAG TEG; and
  - (f) Appendix 2 – list of respondents.

### **Background**

- 3 The narrow-scope Amendment addresses an important issue related to accounting mismatches between insurance contract liabilities and financial assets arising in the comparative information presented on initial application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*. The Amendment relates only to the presentation of comparative information. The Amendment becomes effective on initial application of IFRS 17.
- 4 EFRAG published a draft endorsement advice on the Amendment on 28 December 2021. In the draft endorsement advice, EFRAG's overall preliminary assessment is that the Amendment satisfies the criteria for endorsement for use in the EU and therefore recommends its endorsement.

### **Summary of respondents**

- 5 At the time of writing, six comment letters have been received (one in draft). The list of respondents is in Appendix 2 of this agenda paper and the comment letters can be found [here](#).

**Summary of respondents' views**

- 6 All six respondents concur with EFRAG's draft endorsement that concludes that the amendment can be recommended for EU endorsement. Two respondents propose that the letter should include a concern that a further amendment to the EU top-up is required. Please refer to paragraphs 17 and 18 in the Appendix for further information.

**Main positions in EFRAG's proposed final endorsement advice**

- 7 The EFRAG Secretariat do not propose any changes to the draft endorsement advice for purposes of the final endorsement advice. The EFRAG Secretariat considers not to include the EU top-up in the endorsement advice as this is outside EFRAG's mandate and is in the remit of the European Commission and it was not in the request for information from the European Commission.

**Question to EFRAG TEG**

- 8 Does EFRAG TEG agree with the EFRAG Secretariat's recommendations in Appendix 1 below?

## **Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft endorsement advice, EFRAG Secretariat recommendations and questions to EFRAG TEG**

### **Question 1 – Technical criteria for endorsement**

#### *EFRAG's tentative position*

EFRAG's initial assessment of the Amendment is that it meets the technical criteria for endorsement. In other words, the Amendment is not contrary to the principle of true and fair view and meets the criteria of understandability, relevance, reliability, comparability and lead to prudent accounting. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendment.

#### *Summary of constituents' comments*

- 9 Six constituents agreed that the Amendment meets the technical criteria for endorsement.

#### *EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 10 No changes to the DEA are proposed.

### **Question 2 – European public good – improvement in financial reporting**

#### *EFRAG's tentative position*

EFRAG's initial assessment is that the Amendment is likely to improve the quality of financial reporting

#### *Summary of constituents' comments*

- 11 Six constituents agreed that the Amendment is likely to improve the quality of financial reporting

#### *EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 12 No changes to the DEA are proposed.

### **Question 3 – European public good - Costs and benefits**

#### *EFRAG's tentative position*

EFRAG's initial assessment is that the Amendment is likely not to result in significant costs for preparers and not directly impact users.

EFRAG's initial assessment is that both preparers and users will benefit from the Amendment.

EFRAG's initial assessment is that the benefits to be derived from the Amendment in the EU, are likely to outweigh the costs involved.

#### *Summary of constituents' comments*

- 13 Six constituents agreed that the benefits to be derived from the Amendment in the EU, are likely to outweigh the costs involved.

#### *EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 14 No changes to the DEA are proposed.

## Question 4 – Overall assessment with respect to the European public good

### EFRAG's tentative position

EFRAG has initially concluded that endorsement of the Amendment would be conducive to the European public good.

#### *Summary of constituents' comments*

- 15 Six constituents agreed that the Amendment would be conducive to the European public good.

#### *EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 16 No changes to the DEA are proposed.

### **Additional comments**

#### *Summary of constituents' comments*

- 17 Two constituents considered that EFRAG should signal to the European Commission that it may need to consider the interaction between this Amendment and the Commission Regulation (EU) 2017/1988 of 3 November 2017 which endorsed the 'Amendments to IFRS 4<sup>1</sup>: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'.

- 18 The concern is whether IFRS 17 paragraph C28A as issued would allow the classification overlay to be applied by the insurance part of conglomerates where a part of the group has applied IFRS 9 *Financial Instruments* previously. The current wording refers to "**An entity that first applies IFRS 17 and IFRS 9 at the same time** is permitted to apply paragraphs C28B–C28E (classification overlay)". One of the constituents suggests permitting the classification overlay approach to roll-up into conglomerate groups, not only at the level of the insurance companies.

#### *EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 19 The EFRAG Secretariat recommends not to include this point in the endorsement advice as this is not in the scope of EFRAG's mandate nor in the request for information from the European Commission. Therefore, no changes to the DEA are proposed.

- 20 However, should EFRAG TEG consider including this in the endorsement advice, below is a possible text to use:

- 21 In the endorsement advice on *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Amendments to IFRS 4*, that was published on 13 January 2017, EFRAG indicated that:

*Without qualifying our advice, we note that the Amendments address many of the concerns raised in our endorsement advice on IFRS 9 but do not address the cost concerns of many entities undertaking insurance activities that are not predominant insurers.*

- 22 EFRAG considers that the above text continues to hold with respect to the Amendment *Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17)*. Therefore, EFRAG considers that the interaction between this Amendment and the European Commission Regulation (EU) 2017/1988 of 3

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<sup>1</sup> Regulation published in the Official Journal of the European Union dated 9 November 2017 - accessible [here](#). This regulation introduced a 'top-up' that permitted the insurance sector of a financial conglomerate to defer the application of IFRS 9.

November 2017, which endorsed *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Amendments to IFRS 4*, needs to be considered.

**Question for EFRAG TEG**

- 23 Does EFRAG TEG agree not to mention, in the final endorsement advice, the extension of the classification overlay to financial conglomerates that apply the top-up (based on the temporary exemption under IFRS 4)? Please explain.

## Appendix 2 – List of respondents

1 Below is the list of respondents to the draft endorsement advice.

| <b>Respondent</b>                           | <b>Country</b> | <b>Type/Category</b>  |
|---|----------------|-----------------------|
| Insurance Europe and CFO Forum              | Europe         | Preparer organisation |
| Allianz SE                                  | Germany        | Preparer              |
| The Dutch Accounting Standards Board (DASB) | Netherlands    | Standard setter       |
| German Insurance Association (GDV)          | Germany        | Preparer organisation |
| Draft comment letter                        | France         |                       |
| European Savings and Retail Banking Group   | Europe         | Preparer organisation |