



INITIAL APPLICATION OF IFRS 17 AND IFRS 9— COMPARATIVE INFORMATION

Issued 27 September 2021

ICAEW welcomes the opportunity to comment on the Exposure Draft *Initial Application of IFRS 17 and IFRS 9—Comparative Information* published by the International Accounting Standards Board in July 2021, a copy of which is available from this [link](#).

This response of 27 September 2021 has been prepared by the ICAEW Financial Services Faculty. As a leading centre for thought leadership on financial services, the faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk management, auditing and reporting issues facing the financial services sector. The faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

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KEY POINTS

1. ICAEW is supportive of the proposed narrow scope amendment to the Standard. It provides a means for insurers to make their financial asset comparative information more meaningful through the use of a classification overlay whereby they would be permitted to present comparative information for financial assets as if the classification and measurement requirements in IFRS 9 had been applied.
2. The amendment could help ease operational complexities and one time classification differences in the comparative presented by some insurers on initial application of the standards. These could arise from the different transitional requirements of IFRS 17 and IFRS 9.
3. The proposed approach would enable insurers to reduce accounting mismatches and inconsistencies and enhance comparability between different reporting periods. The amendment could also reduce implementations costs because the comparative information would not need to be restated for all IFRS 9 requirements.
4. Considering the above points, we are confident that UK insurers would welcome the narrow scope amendment. However, we do have some observations to make and recommend their assessment.
5. Entities that have already adopted IFRS 9 have the identical problem that the ED is seeking to solve when they change the classification of financial instruments backing insurance contracts as permitted by IFRS 17 C29. It is only equitable and will make sure users get more consistent and more informative comparative information for these entities to be included in the scope of the amendment.
6. The ED prohibits application of the overlay to financial assets that are unconnected with IFRS 17 contracts – we don't agree with this limitation for entities that are applying IFRS 9 for the first time and would like to see this opened up, so that such assets are included in the overlay approach. This is because insurers will be changing the classification of all their financial assets. Were the amendment to be extended to the reclassification of financial instruments backing insurance contracts as permitted by IFRS 17 C29, then the extension should be limited to only financial instruments backing insurance contracts, since these are the only financial assets permitted to change classification.
7. In BC15 the ED describes how an entity is not required to apply the impairment requirements of Section 5.5 of IFRS 9 for the purpose of applying the proposed classification overlay. This presumably means that the requirements of IAS 39 are to be followed. We would recommend that the IASB makes this clear and also whether this is an asset by asset choice or applicable to all assets in the comparative period.
8. IFRS 7 requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and several other matters. However, the ED does not clarify how to present comparatives following application of the overlay approach. BC28 suggests that disclosing which assets the overlay had been applied is not required for cost reasons, but it is difficult to see how the balance sheet could be reconciled to the overlay without this exercise. We do not, therefore, believe that such a reconciliation should be required in this situation and that this should be made explicit as part of the amendments.