



Potential new transition option for IFRS 17

Global IFRS Institute

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Amendment discussed to alleviate potential accounting mismatches with IFRS 9

Highlights

- What’s the issue for insurers?
- How do the accounting mismatches arise?
- Potential new transition option for IFRS 17
- Next steps

When transitioning to IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*, significant accounting mismatches may arise between financial assets and insurance contract liabilities in the comparative information.

The International Accounting Standards Board (the Board) has tentatively supported proposing a narrow-scope **amendment** to IFRS 17 to alleviate the potential mismatches.

What is the issue for insurers?

Assuming an insurer has a 31 December year end and applies the temporary exemption from applying IFRS 9 until that exemption expires (1 January 2023), the transition requirements of both standards are summarised below:

“A future amendment aiming to alleviate accounting mismatches in comparative information when initially applying IFRS 17 would help insurers to better explain their results.”

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	IFRS 9	IFRS 17
Date of initial application	1 January 2023	1 January 2023
Date of transition	Not applicable	1 January 2022 ¹
Retrospective application	Required, with some specific exceptions and reliefs	
Restatement of comparative information	Permitted if possible without hindsight but not required	Required for the annual reporting period immediately preceding the date of initial application

IFRS 9		IFRS 17
Scope of items for which retrospective application applies	All financial assets in the scope of IFRS 9 that continue to be recognised at 1 January 2023. An insurer is prohibited from applying IFRS 9 to assets derecognised before that date	All groups of insurance contracts in the scope of IFRS 17 that continue to be recognised at the date of transition, or are recognised on or after that date

¹ Unless the insurer voluntarily presents adjusted comparative information for any earlier periods.

Due to the different transition requirements of the two standards, accounting mismatches may arise for insurers who:

- do not plan to restate their comparative information for financial assets under IFRS 9; or
- plan to restate their comparative information for IFRS 9 but have derecognised financial assets in the comparative period.

The IFRS 9 transition requirements also present operational challenges for insurers who plan to restate because IAS 39 *Financial Instruments: Measurement and Recognition* – rather than IFRS 9 – must be applied for assets derecognised in the comparative period. This will require the insurer to track these assets until the end of the comparative period to finalise its opening statement of financial position.

How do the accounting mismatches arise?

The accounting mismatches arise from either classification or measurement differences when transitioning from IAS 39 to IFRS 9.

One of the mismatches may occur because of financial assets that continue to be measured at amortised cost under IAS 39 in the comparative period while the corresponding insurance contract liabilities would be measured using current information under IFRS 17.

Accounting mismatches may also arise between retained earnings and accumulated other comprehensive income. Using the other comprehensive income option in IFRS 17 may lead to accounting mismatches when comparing to the IAS 39 classifications of the assets backing those insurance contract liabilities.

These mismatches would be reflected in equity as at 1 January 2022 and the comparative financial results reported for 2022 in the 2023 interim and annual financial statements. For example, insurance contract liabilities under IFRS 17 would have increased if there had been a decrease in discount rates between initial recognition of the contracts and the reporting period. However, equity at 1 January 2022 would not reflect an offsetting effect from an increase in the fair value of assets that are measured at amortised cost using historical effective interest rates under IAS 39.

The table below illustrates this mismatch for an insurer that voluntarily restates comparative information for 2022 under IFRS 9 in its 2023 financial statements.

Financial statements	2022	2023	
Information relating to	2022	Restated comparatives for 2022	2023
Financial assets that continue to be recognised at 1 January 2023	IAS 39	IFRS 9	IFRS 9
Financial assets derecognised between 1 January 2022–1 January 2023	IAS 39	IAS 39	Not applicable
Insurance contract liabilities	IFRS 4 <i>Insurance Contracts</i>	IFRS 17	IFRS 17

The mismatch may be greater for insurers who do not restate their comparative information as all financial assets would be measured under IAS 39 in the comparative year.

Potential new transition option for IFRS 17

The Board has discussed proposing a narrow-scope amendment to IFRS 17 to help alleviate these potential mismatches by adding a classification overlay approach.

The classification overlay approach would permit an insurer, to the extent that IFRS 9 was not applied to financial assets in the comparative period, to elect to apply a classification to those assets in the comparative period. This approach should achieve greater consistency with the classification that would be determined on the date of initial application of IFRS 9. The overlay approach would not mean the insurer would have to determine their business models or apply the expected credit loss requirements of IFRS 9 prior to the date of initial application of IFRS 9, but would allow an insurer to overlay IFRS 9 classifications onto their IAS 39 accounting. The approach would apply on an instrument-by-instrument basis.

The classification overlay approach would apply only:

- to financial assets that are related to insurance contract liabilities; and
- if the information needed to apply the classification overlay approach was obtained at the date of transition to IFRS 17 and is therefore applied without the use of hindsight.

This potential amendment is aimed at alleviating the potential accounting mismatches for both assets derecognised in the comparative period and for insurers that do not intend to restate their comparative information under IFRS 9. The Board will investigate expanding the overlay to additional comparative periods if they are voluntarily presented by an insurer.

The Board's focus with the potential amendment will be anchored in addressing accounting mismatches while ensuring it does not disrupt the stable implementation platform for IFRS 9 and IFRS 17 programmes. Any amendment will be focused on improving information for stakeholders and is expected to be optional.

Next steps

The Board will reconvene on this topic and will be presented with a recommendation for a narrow-scope amendment to IFRS 17 at a future meeting. In that meeting, the Board will then be asked for a tentative decision on the narrow-scope amendment prior to preparing and publishing an exposure draft. The comment period of the exposure draft may follow a condensed timeline so that the amendment could be finalised and endorsed before 1 January 2022.

Finalising a narrow-scope amendment in 2021 would be necessary as companies would need to begin collecting information from 1 January 2022 to comply.

Insurers should follow the Board's deliberations and get ready to comment on the expected exposure draft.

Irrespective of any amendment, insurers need to understand how the issues discussed impact their implementation of IFRS 9 and IFRS 17. This includes:

- analysing whether they plan to restate comparative information under IFRS 9;
- their operational readiness for transition; and
- how they plan to communicate the impacts of transition to investors.

We will continue to report on the Board's deliberations and the expected draft on our **Insurance Contracts** hot topics page.

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