

A new transition option for IFRS 17

Global IFRS Institute

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Joachim Kölschbach
Partner
KPMG AG
Wirtschaftsprüfungsgesellschaft

“The proposed narrow-scope amendment will benefit insurers transitioning to IFRS 17.”

Joachim Kölschbach
KPMG Global IFRS Insurance Leader

Proposal for an amendment to increase the usefulness of comparative information

Highlights

- What’s the issue for insurers?
- What’s the optional classification overlay approach?
- What are the benefits of this approach?
- Have your say by 27 September 2021

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 published an exposure draft (ED) for a narrow-scope **amendment** to IFRS 17 to alleviate the potential mismatches. The ED is open for comment until 27 September 2021. We encourage insurers and users of financial statements to read and comment on the proposal.

What’s the issue for insurers?

The different transition requirements of IFRS 17 and IFRS 9 could result in operational complexities and one-time classification differences in the comparative information presented by some insurers on initial application of these standards.

To alleviate these issues, the ED proposes a classification overlay approach to provide insurers with an option to present comparative information about financial assets on a basis that is more consistent with how IFRS 9 will be applied in future reporting periods, without unnecessarily disturbing the implementation processes for both IFRS 17 and IFRS 9.

What’s the optional classification overlay approach?

The proposed amendment would create an optional classification overlay approach: insurers that first apply IFRS 17 and IFRS 9 at the same time would be able to choose to apply a ‘classification overlay’ in the comparative period(s) presented on initial application of IFRS 17 and IFRS 9. The optional approach would apply to both insurers that restate and those that do not restate comparative information for IFRS 9.

Optional approach would:	What does this mean?				
Apply to financial assets that are connected to contracts in the scope of IFRS 17 and to which IFRS 9 has not been applied in the comparative period(s)	The approach would not apply to financial assets held for an activity that is unconnected with contracts in the scope of IFRS 17 (e.g. banking activities).				
Allow an insurer to classify those financial assets in the comparative period(s) in a way that aligns with how the insurer expects those assets would be classified on initial application of IFRS 9	<p>Under the approach, an insurer would not need to complete the assessment of the business model or contractual cash flow characteristics before the date of initial application of IFRS 9. An insurer would use reasonable and supportable information available at the date of transition to determine the expected classification of the financial assets under IFRS 9.</p> <p>Although the measurement requirements of IFRS 9 would generally apply based on the expected classification, the insurer would not be expected to apply the IFRS 9 expected credit losses impairment model to these financial assets in the comparative information.</p> <p>The classifications that an insurer could apply are as follows:</p>				
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Apply for comparative periods that have been restated for IFRS 17 – i.e. from the date of transition to the date of initial application of IFRS 17	The approach would be available for an insurer that chooses to restate more than one comparative period on initial application of IFRS 17. The Board believes that an insurer would need to begin collecting relevant information from the date of transition of IFRS 17 to apply the classification overlay approach.				
Apply on an instrument-by-instrument basis	The approach would be optional on an instrument-by-instrument basis; however, the Board expects insurers to apply the approach at a higher level of aggregation, similar to the level at which the business model would be assessed for IFRS 9.				

What are the benefits of this approach?

The optional approach would enhance the usefulness of comparative information by:

- enabling insurers to avoid significant mismatches and inconsistencies that do not reflect economic mismatches; and
- enhancing the comparability between periods by providing information about the classification of financial assets that is expected to be consistent with that presented for periods from the initial application of IFRS 9.

Additionally, the approach would avoid the need to separately identify financial assets derecognised during the comparative period if the insurer were to choose to restate comparative information for IFRS 9. The proposed amendment could also reduce implementation costs, because the comparative information would not need to be restated for all IFRS 9 requirements and the approach need not be applied to all financial assets connected with contracts within the scope of IFRS 17.

Next steps

The Board is seeking feedback on the exposure draft and will consider comments before deciding whether and how to finalise the narrow-scope amendment to IFRS 17.

Read the exposure draft and do not miss your opportunity to have your say before 27 September 2021 through the Board's website.

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