Dear Dr Barckow

Invitation to Comment: Exposure Draft ED/2021/8 Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed Amendment to IFRS 17)

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK’s National Standard Setter for IFRS. The UKEB also leads the UK’s engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the International Accounting Standards Board’s (IASB) due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

We welcome the opportunity to provide comment on the IASB’s Exposure Draft Initial Application of IFRS 17 and IFRS 9 – Comparative Information (the IASB’s ED).

We do not expect the proposed classification overlay to be widely adopted in the UK as we understand that, for most UK insurers, their classification of financial assets in accordance with IAS 39 Financial Instruments: Recognition and Measurement is broadly aligned with their expected classification on adoption of IFRS 9 Financial Instruments.

Nevertheless, we support the proposals in the IASB’s ED. The classification overlay will enable insurers to increase the relevance and understandability of comparative information on transition to IFRS 17 Insurance Contracts, by permitting them to avoid classification mismatches that arise purely from differences in transition requirements between IFRS 9 and IFRS 17.

We agree that the classification overlay should be optional and be applied on an instrument-by-instrument basis for the reasons given in BC17 of IASB’s ED. This is also consistent with other related requirements in IFRS 9 which are applied at an instrument-by-instrument level, such as the assessment of whether the contractual terms of a financial asset are solely payments of principal and interest on the principal amount outstanding (IFRS 9 4.1.2(b)) and the irrevocable designation of financial assets at fair value through profit or loss to eliminate or reduce an accounting mismatch (IFRS 9 4.1.5).

We also agree that entities should present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to financial assets within the
scope of the classification overlay based on reasonable and supportable information available at the transition date.

We support permitting, but not requiring, entities to apply the impairment requirements in IFRS 9 to financial assets within the scope of the classification overlay. However, we recommend that the proposals in the IASB's ED are further enhanced by clarifying that the chosen approach to the application of IFRS 9 impairment requirements is an accounting policy decision that shall be consistently applied in accordance with IAS 8 paragraph 13, and is not made on an instrument-by-instrument basis. Impairment requirements are not directly related to eliminating accounting mismatches, which is the main issue the IASB’s ED addresses.

For an insurer the classification overlay also enables greater relevance and comparability of financial information between periods. However, as a result of its optional nature, the classification overlay may reduce comparability between insurers. We believe that disclosure requirements in the IASB’s ED should be enhanced to provide greater transparency for users of financial information.

We consider that, as a minimum, the following information should be disclosed at the date of transition to IFRS 17:

- A general description of the classification overlay, the fact that it has been applied and the reason for its application.
- The financial assets subject to the classification overlay, and how they have been reclassified.
- The impairment approach used (i.e. whether the expected credit loss model in IFRS 9 has been applied).
- The amount recognised in opening retained earnings (or other appropriate component of equity) resulting from the application of the classification overlay at the date of transition to IFRS 17, presenting separately the effects arising from changes in classification requirements from those related to impairment requirements.

Given insurance companies will need to collect the information necessary for these disclosures in order to apply the classification overlay, we do not think they represent any additional cost burden over and above the requirements in the IASB’s ED.

If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk

Yours sincerely

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UK Endorsement Board