

IFRS 17 *Insurance Contracts* – Narrow-scope amendment

Executive Summary

Project Type	Influencing
Project Scope	Limited (Narrow-scope amendment)
Purpose of the paper	
This paper requests Board approval of the final comment letter to the IASB and the related feedback statement.	
Summary of the Issue	
<p>The IASB published Exposure Draft ED/2021/8 <i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed Amendment to IFRS 17)</i> on 28 July 2021. It proposes a narrow-scope amendment to IFRS 17 <i>Insurance Contracts</i> to enable insurance entities to improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9 <i>Financial Instruments</i>.</p> <p>The IASB's comment deadline is 27 September 2021. The IASB plans to issue any resulting amendment by the end of 2021.</p>	
Decisions for the Board	
<ul style="list-style-type: none"> Does the Board approve the comment letter to the IASB at Appendix 1? Does the Board approve the feedback statement at Appendix 2 for publication on the UKEB website? 	
Recommendation	
We recommend the Board approves the comment letter to the IASB and the feedback statement for publication.	
Appendix	
Appendix 1	Draft of Final comment letter to IASB – IFRS 17 Narrow-scope amendment
Appendix 2	Feedback statement – IFRS 17 Narrow-scope amendment

Purpose

1. The purpose of this paper is to request Board approval of the UKEB's comment letter to the IASB on the IASB's Exposure Draft ED/2021/8 *Initial Application of IFRS 17 and IFRS 9 - Comparative Information (Proposed Amendment to IFRS 17)* (the IASB's ED) and the UKEB's feedback statement.

Background

2. The IASB's ED was published on 28 July 2021. It proposes a narrow-scope amendment to IFRS 17 *Insurance Contracts* to enable insurance entities to improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9 *Financial Instruments*.
3. The IASB's ED proposes narrow-scope amendments to the IFRS 17 transition requirements for entities that first apply IFRS 17 and IFRS 9 at the same time. The proposed amendment will apply to financial assets for which comparative information is not to be restated in accordance with IFRS 9, on initial application of IFRS 17 and IFRS 9. The proposed amendment to IFRS 17 would permit an entity to present comparative information about such financial assets as if the classification and measurement requirements of IFRS 9 had been applied to those financial assets. The IASB's ED proposes no change to the transition requirements in IFRS 9.
4. The IASB's comment deadline is 27 September 2021. The IASB plans to issue any resulting amendment by the end of 2021.

Comment letter and feedback statement

5. The Board approved the Project Initiation Plan at its meeting on 20 July. Due to the short comment period set by the IASB, mainly falling over the summer break, the UKEB also agreed to designate a Sub-Committee of the Board for the review and approval of the draft comment letter so it could be issued for stakeholder comment.
6. The UKEB's draft comment letter was published on the website inviting stakeholder comment on 9 August. It expressed support for the IASB's proposals but suggested further enhancements to the detailed proposals. It was open for public comment until 31 August 2021.
7. In addition to publishing the draft comment letter on the UKEB's website and advertising it via the usual channels, we also shared it directly with the Insurance Technical Advisory Group, the Association of British Insurers, insurance companies likely to be impacted by the proposed amendment and specialist users of insurers' accounts.
8. We received two formal responses from stakeholders (a membership organisation and an accounting firm), both supporting the IASB's proposals and agreeing with the UKEB's views presented in the draft comment letter.

9. As no substantive comments dissenting from the views presented were received, the wording of the final comment letter is the same as the draft comment letter, other than for some minor drafting refinements.
10. The feedback statement reflects the comments we received and the fact that the final comment letter is unchanged from the draft. It should be noted that the format is different to feedback statements published on other projects. Board comment is welcome on their preferred format.

Questions for the Board
11. Do Board members have any suggested amendments to the comment letter included in Appendix 1 or to the feedback statement included in Appendix 2?
12. Subject to any suggested amendments, does the Board approve the comment letter at Appendix 1 for issuance to the IASB?
13. Does the Board approve the feedback statement at Appendix 2 for publication on the UKEB website?

Next Steps

14. Subject to Board approval, we will submit the final comment letter at Appendix 1 to the IASB and publish both the comment letter and feedback statement at Appendix 2 on the UKEB website.

Dr Andreas Barckow
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London
E14 4HD

(Date) September 2021

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).

Classification

We do not expect the proposed classification overlay to be widely adopted in the UK as we understand that, for most UK insurance companies, 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, as this would allow insurance companies to assess whether, for a particular financial asset, the benefits of applying the proposed classification overlay outweigh the costs. 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 and the irrevocable designation of financial assets at fair value through profit or loss to eliminate or reduce an accounting mismatch.

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 this classification overlay, based on reasonable and supportable information available at the transition date.

Impairment

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.

Disclosure

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 and 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

Pauline Wallace
Chair
UK Endorsement Board

DRAFT

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

Purpose

1. The purpose of this Feedback statement is to summarise the UKEB's outreach activities on the IASB's Exposure Draft ED/2021/8 *Initial Application of IFRS 17 and IFRS 9 - Comparative Information (Proposed Amendment to IFRS 17)* (the IASB's ED) and the comments received on the UKEB's Draft Comment Letter to the IASB.

Background

2. The IASB's ED was published on 28 July 2021. It proposes a narrow-scope amendment to IFRS 17 *Insurance Contracts* to enable insurance entities to improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9 *Financial Instruments*.
3. The IASB's ED proposes narrow-scope amendments to the IFRS 17 transition requirements for entities that first apply IFRS 17 and IFRS 9 at the same time. The proposed amendment applies to financial assets for which comparative information presented on initial application of IFRS 17 and IFRS 9 has not been restated for IFRS 9. The proposed amendment would permit an entity to present comparative information about such financial assets as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The IASB's ED proposes no change to the transition requirements in IFRS 9.
4. The IASB's comment deadline is 27 September 2021. The IASB plans to issue any resulting amendment by the end of 2021.

Comment letter

5. Due to the limited number of UK stakeholders expected to be impacted materially by the proposed amendment, the UKEB Secretariat conducted outreach activities directly with those likely to be impacted by the IASB's ED.
6. In anticipation of a short comment deadline (a 60-day comment period), the UKEB Secretariat discussed the expected amendments with the Insurance Technical Advisory Group (Insurance TAG) on 8 July (before the IASB's ED was published) and ascertained the Insurance TAG members' preliminary views.

7. The UKEB's draft comment letter, incorporating the Insurance TAG preliminary views as well as the result of desktop research, was published on 9 August. It expressed support for the IASB's proposals but suggested further enhancements to the detailed proposals. It was open for public comment until 31 August 2021.
8. In addition to publishing the draft comment letter on the UKEB's website and advertising it via the usual channels, we also shared it directly with the Insurance TAG, the Association of British Insurers, insurance companies likely to be impacted by the proposed amendment and specialist users of insurers' accounts.
9. We received two formal responses from stakeholders (a membership organisation and an accounting firm), both supporting the IASB's proposals and agreeing with the UKEB's views presented in the draft comment letter.
10. As no substantive comments dissenting from the views presented were received, the wording of the final comment letter is the same as the draft comment letter, other than for some minor drafting refinements.