International Financial Reporting Standard

Initial Application of IFRS 17 and IFRS 9 – Comparative Information

December 2021

BASIS FOR CONCLUSIONS – AMENDMENTS

[IFRS 17]

[Related to AASB 2022-1]

Amendments to the Basis for Conclusions on IFRS 17 *Insurance Contracts*

A footnote is added to the ends of paragraphs BC398A and BC398B. For ease of reading new text is not underlined.

* In December 2021, the Board amended IFRS 17 to add a transition option relating to comparative information about financial assets presented on initial application of IFRS 17 (see paragraphs BC398G–BC398R).

Paragraphs BC398G–BC398R and the heading before paragraph BC398G are added. For ease of reading new text is not underlined.

Initial Application of IFRS 17 and IFRS 9—Comparative Information

BC398G In 2021 the Board received information that, for some entities, the differing transition requirements of IFRS 17 and IFRS 9 (see paragraph BC389 and paragraphs BC398A–BC398B) could lead to significant accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of the two Standards. In response to that feedback, in December 2021, the Board issued *Initial Application of IFRS 17 and IFRS 9—Comparative Information*. The Board concluded that amending IFRS 17 to enable entities to reduce those mismatches close to the effective date would not disrupt implementation. The amendment could be finalised in a timely manner, would be optional and would relate only to the presentation of comparative information on initial application of IFRS 17.

BC398H The Board decided to make the transition option (classification overlay) available for:

(a) entities that first apply IFRS 17 and IFRS 9 at the same time and that choose to restate comparative information applying IFRS 9. These entities could apply the classification overlay to financial assets derecognised in the comparative period (that is, financial assets to which IFRS 9 is not applied).

(b) entities that first apply IFRS 17 and IFRS 9 at the same time and that do not restate comparative information applying IFRS 9. These entities could apply the classification overlay to any financial asset in the comparative period.

(c) entities that have applied IFRS 9 before they apply IFRS 17. For these entities, the classification overlay relates only to the application of paragraph C29 of IFRS 17 and can be applied only to financial assets derecognised in the comparative period. Initially, the Board had proposed that the classification overlay could be applied only by the entities described in (a) and (b). However, stakeholders informed the Board that similar, albeit less significant, accounting mismatches could arise for entities that applied IFRS 9 before they first apply IFRS 17. Such mismatches could arise because these entities cannot apply paragraph C29 of IFRS 17 to financial assets derecognised in the comparative period. Therefore, the Board decided to make the classification overlay available to these entities, but only for financial assets derecognised in the comparative period.

BC398I Initially, the Board proposed that the classification overlay would not apply to financial assets held in respect of an activity unconnected with contracts within the scope of IFRS 17. Such a boundary would have enabled entities to reduce accounting mismatches between insurance contract liabilities and related financial assets and therefore would have addressed the key concern raised by stakeholders. However, respondents to the exposure draft informed the Board that permitting an entity that first applies IFRS 17 and IFRS 9 at the same time to apply the classification overlay to financial assets held in respect of non-insurance activities could improve the usefulness of comparative information presented on initial application. These respondents explained that because such entities qualified for the temporary exemption from applying IFRS 9 (see paragraph 20G of IFRS 4), the proportion of financial assets they hold in respect of non-insurance activities is not significant. Nevertheless, the ability to apply the classification overlay to all financial assets would significantly reduce operational complexity for those entities and would result in more financial assets being presented in a manner consistent with IFRS 9. The Board therefore concluded that the benefits of expanding the availability of the classification overlay would outweigh any perceived costs.

BC398J The Board noted that, applying the classification overlay, an entity aligns the classification and measurement of a financial asset in the comparative information with what the entity expects the classification and measurement of that financial asset would be on initial application of IFRS 9. The Board concluded that this expected IFRS 9 classification and measurement should be determined at the transition date to IFRS 17 to enable entities to prepare to apply the classification overlay. The Board concluded that entities could make this determination by using reasonable and supportable information available at the transition date. As an example, an entity could use preliminary assessments of the business model and cash flow characteristics performed to prepare for the initial application of IFRS 9.

BC398K The Board noted that the classification overlay does not amend the transition requirements of IFRS 9. Therefore, entities that choose to apply the classification overlay to some or all of their financial assets are still required to apply the requirements of IFRS 9 to financial assets that continue to be recognised at the date of initial application of IFRS 9. This means that at the date of initial application of IFRS 9, entities that apply the classification overlay will be required to assess whether the classification of financial assets that continue to be recognised at that date is in accordance with IFRS 9. If the classification determined applying the classification overlay does not meet the requirements of IFRS 9 on the date of initial application of IFRS 9, the entity would be required to update the classification of a financial asset on that date and apply the updated classification retrospectively (see paragraph 7.2.3 of IFRS 9).

BC398L The Board considered the measurement consequences of an entity applying the classification overlay. It noted that, applying the classification overlay, the carrying amount of a financial asset would be determined consistently with how that financial asset would be measured on initial application of IFRS 9 (see also paragraph BC398M). If, for example, using the classification overlay, an entity presented a financial asset previously measured at amortised cost as instead measured at fair value through profit or loss, the carrying amount of that asset at the transition date to IFRS 17 would be its fair value measured at that date. Applying paragraph C28D of IFRS 17, any difference in the carrying amount of the financial asset at the transition date resulting from applying the classification overlay would be recognised in opening retained earnings (or other component of equity, as appropriate) at that date.

BC398M The Board decided to permit, but not require, an entity to apply the impairment requirements in Section 5.5 of IFRS 9 for the purpose of applying the classification overlay. The Board observed that some entities may not be prepared to apply the impairment requirements in IFRS 9 for the comparative period presented on initial application of IFRS 9. In the Board's view, these entities should be allowed to apply the classification overlay because, even without the application of the IFRS 9 impairment requirements, the classification overlay would result in useful information to the users of the financial statements. Consequently, the Board concluded that, if based on the classification determined applying paragraph C28B the financial asset would be subject to the impairment requirements of IFRS 9 but the entity does not apply those requirements in applying the classification overlay, the entity continues to present any amount recognised in respect of impairment in the prior period in accordance with IAS 39. Otherwise, any impairment amount previously recognised for that financial asset is reversed.

BC398N The Board decided not to require entities to disclose the quantitative effects of applying the classification overlay at the transition date to IFRS 17. For example, the Board decided not to require specific disclosure of the carrying amounts of financial assets to which the classification overlay has been applied, and of the adjustments resulting from applying the classification overlay. Applying the classification overlay results in the comparative information being more consistent with the application of IFRS 9. As a result, applying the classification overlay would improve rather than reduce the usefulness of information for users of financial statements. Therefore, the Board concluded that requiring such quantitative disclosures would impose costs on preparers of financial statements with little benefit to users of financial statements.

BC398O In deciding to require qualitative disclosures about the classification overlay (see paragraph C28E(a)), the Board noted that other IFRS Standards might require entities to provide additional information about the classification overlay. For example, IAS 1 requires entities to disclose material accounting policy information (see paragraphs 117–122 of IAS 1) and provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (see paragraph 31 of IAS 1). Furthermore, in presenting comparative information as required by IAS 1 for the amounts reported in the current period's financial statements (which include the notes), an entity also provides narrative descriptions or disaggregations of the comparative information to support information for items presented in the primary financial statements.

BC398P The Board considered, but rejected, a suggestion from stakeholders to change the date on which the Board requires disclosures about the initial application of IFRS 9 (see paragraphs 42I–42S of IFRS 7). These stakeholders suggested the Board amend IFRS 7 to require such disclosures as at the date the classification overlay is first applied (that is, the transition date to IFRS 17) instead of as at the date of initial application of IFRS 9. The Board noted that the classification overlay is an option that only some entities will choose to use and is available on an instrument-by-instrument basis. In the Board's view, applying the classification overlay is not equivalent to—or a substitute for—the initial application of IFRS 9, hence disclosures about the classification overlay cannot replace disclosures about the initial application of IFRS 9. The disclosures about the initial application of IFRS 9 provide users of financial statements with comparable information about the effects of applying IFRS 9 because all entities are required to provide those disclosures as at the date of initial application of IFRS 9.

BC398Q The Board noted that IFRS 17 requires that an entity present adjusted comparative information for the annual reporting period immediately preceding the date of initial application of IFRS 17 and permits an entity to present adjusted comparative information for earlier periods. The Board therefore decided to make the classification overlay available for comparative periods for which information has been restated applying IFRS 17. This decision is consistent with the objective of the classification overlay, which is to enable entities to reduce accounting mismatches between financial assets and insurance contract liabilities that may arise in the comparative information presented on initial application of IFRS 17. IAS 8 does not allow the use of hindsight when an entity applies a new accounting policy to a prior period. Therefore, an entity would collect relevant information on a timely basis to apply the classification overlay to the comparative periods without the use of hindsight.

BC398R The Board concluded that the classification overlay should be optional on an instrument-by-instrument basis to allow an entity to assess whether, for a particular financial asset, the benefits of applying the classification overlay outweigh the costs. However, the Board observed that the option to apply the classification overlay on an instrument-by-instrument basis does not prevent an entity from applying it at a higher level of aggregation, for example, by considering the level at which the entity would assess its business model when applying IFRS 9.