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14 September 2021

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EFRAG Draft Comment Letter on ED/2021/8 *Initial Application of IFRS 17 and IFRS 9 – Feedback from Allianz Group*

Dear Jean-Paul,

Thank you for sharing EFRAG's draft comment letter on ED/2021/8 Initial Application of IFRS 17 and IFRS 9 with us.

In summary, we believe that the key messages of your draft comment letter are in full alignment with our perception of the ED. For your reference, please find attached our comment letter that we have submitted to the IASB today on behalf of Allianz Group.

If you have any questions or if you would like to discuss our comment letter in further detail, please feel free to contact Job Schöningh (job.schoeningh@allianz.com) or us.

Yours sincerely,

Dr. Roman Sauer
Head of Group Accounting & Reporting

Andreas Thiele

Andreas Thiele
Head of Group Accounting Policy Department

Attachment: Allianz Group's Comment Letter to the IASB on ED/2021/8

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Invitation to comment on the IASB's Exposure Draft ED/2021/8 *Initial Application of IFRS 17 and IFRS 9 – Comparative Information*

Dear Andreas,

We appreciate the opportunity to comment on the IASB's Exposure Draft ED/2021/8 *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* (herein referred to as 'ED'). This comment letter summarizes the Allianz Group's key positions on the proposals of the ED.

Overall, we highly welcome the proposed changes in IFRS 17 to introduce the classification overlay for the purpose of presenting comparative information about a financial asset if comparative information has not been restated for IFRS 9.

In our opinion, the proposed amendment significantly contributes to increasing the comparability of financial statements, eliminating accounting mismatches as well as alleviating operational challenges that arise in combining IAS 39 and IFRS 9 requirements upon transition.

However, we noted that the current ED foresees that the classification overlay is not available for a financial asset that is held in respect of an activity that is unconnected with contracts within the scope of IFRS 17, such as financial assets related to banking activities.

From our point of view, this limitation of scope of the classification overlay is conceptually not convincing and leaves substantive concerns with regards to the provision of comparative information upon initial application of IFRS 9 unresolved. For the reasons described in further detail in the appendix to this letter, we therefore propose to align the scope of the classification overlay with the scope of the temporary exemption from IFRS 9 according to IFRS 4.20A and to allow an entity whose activities are predominantly connected with insurance to apply the classification overlay to all of its financial assets. In our opinion, this would lead to a more consistent application of the classification overlay while improving the cost benefit relationship as well as the reliability and timeliness of the comparative information.

As indicated, the appendix to this letter sets out our view and detailed comments on the specific question posed in the Questionnaire, with a focus on the issues which are of particular relevance for us.

We hope that our feedback is helpful for your further deliberations. Please feel free to contact Job Schöningh (job.schoeningh@allianz.com) or us to discuss any matters raised in this letter.

Yours sincerely,

Dr. Roman Sauer
Head of Group Accounting & Reporting

Andreas Thiele
Head of Group Accounting Policy Department

Appendix: IASB ED/2021/8 – Consultation Questions

Question for respondents

Do you agree with the proposed amendment in this Exposure Draft? Why or why not?
If not, what alternative do you propose and why?

We highly appreciate the proposed changes in IFRS 17 to introduce the classification overlay for the purpose of presenting comparative information about a financial asset, if comparative information has not been restated for IFRS 9.

In our opinion, the proposed amendment significantly contributes to:

- Increasing comparability of financial statements upon transition to IFRS 9 and 17 and thus enhancing decision usefulness of the respective comparative information;
- Eliminating accounting mismatches that may arise from applying IAS 39 requirements in connection with IFRS 17 in the comparative period; and
- Alleviating the operational challenges that arise in combining IAS 39 and IFRS 9 requirements in financial reporting. In many cases, such combination would necessitate profound manual interventions in the prevailing accounting systems and structure. Hence, the proposals not only help to avoid undue operational burden but they also foster the accuracy of an entity's financial information.

We agree that an entity shall use reasonable and supportable information available at the transition date to determine how it expects the respective financial assets to be classified on initial application of IFRS 9 (paragraph C28B of the ED).

In this context, we noted that an entity is *not required* to apply the impairment requirements in Section 5.5 of IFRS 9 (paragraph C28C). From this we conclude that, conversely, an entity *may* apply the IFRS 9 impairment requirements if it chooses to. We fully support this optional approach.

Furthermore, we agree with the Board's proposal that the classification overlay shall be optional on an instrument-by-instrument basis (paragraph BC17).

We also strongly support the Board's view that disclosing the fact that an entity has used the classification overlay would be sufficient and that the cost of disclosing to which financial assets the classification overly has been applied would clearly outweigh the benefit of this information for the reasons mentioned in paragraph BC28.

Notwithstanding the above, we noted that the classification overlay is not available for a financial asset that is held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. As an example, paragraph BC19 of the ED explicitly mentions that financial assets held in respect of banking activities would not be eligible for the proposed classification overlay. In this context, paragraph BC19 points to paragraph C29(a) of IFRS 17 as a reference.

From our point of view, this approach to limit the scope of the classification overlay is conceptually not convincing. IFRS 17.C29(a) refers to "…an entity that *had applied* IFRS 9 to annual reporting periods before the initial application of IFRS 17". By contrast, the classification overlay is only applicable to a financial asset that has *not* yet been restated for IFRS 9. Hence, the scope of application of IFRS 17.C29(a) and the classification overlay are contradictory to each other.

In this context, it should be noted that the classification overlay can only be applied by entities that have qualified and opted for the temporary exemption from IFRS 9 according to IFRS 4.20A. Pursuant to IFRS 4.20B(b) an insurer may apply the temporary exemption only if its activities are *predominantly connected with insurance* in the meaning of IFRS 4.20D. IFRS 4.BC252 further elaborates that insurers "must assess their eligibility for the temporary exemption from IFRS 9 at the reporting entity level. That is, an *entity as a whole is assessed* by considering all its activities. As a result, an insurer applies either IAS 39 or IFRS 9 to *all* its financial assets and financial liabilities" and not only to those that are connected with insurance contracts. We believe that, for consistency reasons, the scope of the classification overlay should be aligned with the scope of the temporary exemption from IFRS 9 because those two concepts are clearly interrelated.

Additionally, we would like to point out that banking entities which file IFRS compliant separate financial statements have to apply IFRS 9 already since 1 January 2018 for this purpose. Based on this, it appears counterintuitive that banking entities which are part of an insurance group are excluded from the classification overlay and, consequently, have to apply IAS 39 for a longer period of time than the insurance entities within that group. In our opinion, the same rationale applies likewise to other activities of an insurance group, such as asset management, etc.

Based on the above, we propose to refrain from limiting the scope of the classification overlay to financial assets connected with contracts in the scope of IFRS 17 but rather include in the scope all financial assets of an entity whose activities are predominantly connected with insurance.

In our opinion this would result in a more consistent application of the classification overlay. It would also have a positive impact from a cost benefit perspective and on the reliability as well as timeliness of the information provided by the entity, for the following reasons:

- From an operational perspective, the enhanced scope of the classification overlay would eventually eliminate the need to distinguish financial assets for which IAS 39 has to be applied from those that are accounted for according to IFRS 9 in the comparative period. Given that the activities of the entities which qualify for the classification overlay are predominantly connected with insurance, the financial information based on IAS 39 for the remaining population of financial assets does not provide a meaningful contribution to the decision usefulness of the insurance group. As indicated above, due to its counterintuitive nature, it may even have a negative impact on the decision usefulness. For this reason, we conclude that the extensive operational costs and efforts to generate the required information and include it in the established IFRS 9 related financial reporting system are undue compared to their contribution to decision usefulness.
- Furthermore, refraining from the mentioned scope limitation of the classification overlay would enable insurance entities to use a self-contained IFRS 9 / 17 ledger for their consolidated financial statements without having to manually introduce additional IAS 39 information. In our view, this positively impacts the reliability of comparative information.
- Finally, an entity would not have to wait until the end of the comparative period in order to set-up the opening comparative financial statements, thus contributing to the timeliness of comparative information.