CFOFORUM

insurance europe

Mr. Jean-Paul Gauzès
EFRAG Board President
EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

15 September 2021

Dear Mr. Gauzès,

EFRAG draft comment letter on Exposure Draft ED/2021/8 Initial Application of IFRS 17 and IFRS 9 – Comparative Information, Proposed Amendments to IFRS 17 ("Exposure Draft")

This letter has been drafted by the European Insurance CFO Forum ("CFO Forum"), a body representing the views of 23 of Europe's largest insurance companies, and Insurance Europe, representing 95% of the premium income of the European insurance market. Accordingly, it represents the consensus view of the European insurance industry.

We would like to thank EFRAG for its extensive work on IFRS 9 and IFRS 17; we believe that these efforts have significantly contributed to improving both standards. We welcome and support EFRAG's draft comment letter on the Exposure Draft and share the view that the amendments to IFRS 17 proposed in the Exposure Draft address most of the industry's concerns regarding the presentation of meaningful comparative information on initial application of IFRS 17 and IFRS 9.

We agree that the differences in scope between the classification overlay in the Exposure Draft and the temporary exemption from applying IFRS 9, as defined in IFRS 4, may cause unnecessary operational complexity and result in inconsistent application of the classification overlay by insurers. Changing the proposed scope to the existing IFRS 9 deferral scope would not only be easier to implement but it would avoid any confusion as to what potential financial assets could be included in the scope of the classification overlay. As such, we strongly support EFRAG's recommendation that the IASB should align the scope of the classification overlay with the temporary exemption from applying IFRS 9.

Overall, we strongly support EFRAG's draft comment letter, but we propose that EFRAG consider the following enhancements to its comment letter to the IASB:

1. The draft EFRAG comment letter refers to concerns expressed by "some insurance entities" regarding the scope of the classification overlay and challenges in applying the existing IFRS 9 transition requirements. Our members share these concerns. As the CFO Forum and Insurance Europe represent the majority of insurance companies in the EU, we believe "some insurance entities" should be replaced with "most insurance entities" to emphasize that this is not an issue faced by a small number of insurers.

2. Paragraph 20 states that even with the classification overlay, some insurance entities may be unable to finalise their 1 January 2022 balance sheets until 31 December 2022 while paragraph 21 acknowledges that the IFRS 9 expected credit loss requirements would help to address this concern. We agree with

your assessment that utilising IFRS 9 expected credit loss requirements would address this issue; as such, we would believe that these two paragraphs could be omitted in your final comment letter to the IASB.

Our comment letter to the IASB on the Exposure Draft is enclosed. If you would like any further information on any of these matters or wish to discuss them further with us, we would be pleased to assist.

Yours sincerely

Delfin Rueda
Delfin Rueda (Sep 15, 2021 17:00 GMT+2)

Delfin Rueda
Chair
European Insurance CFO Forum

Olav Jones
Deputy Director General
Director Economics and Finance, Insurance Europe

Enclosure

International Accounting Standards Board
Attn. Mr. A. Barckow
7 Westferry Circus
London, E14 4HD
United Kingdom

15 September 2021

Dear Mr. Barckow,

Exposure Draft ED/2021/8 Initial Application of IFRS 17 and IFRS 9 – Comparative Information, Proposed Amendments to IFRS 17 ("Exposure Draft")

This letter has been drafted by the European Insurance CFO Forum ("CFO Forum"), a body representing the views of 23 of Europe's largest insurance companies, and Insurance Europe, representing 95% of the premium income of the European insurance market. Accordingly, it represents the consensus view of the European insurance industry.

We welcome and appreciate the efforts made by the IASB to address the concerns raised by the European insurance industry regarding the presentation of meaningful comparative information on initial application of IFRS 17 and IFRS 9.

Concerns addressed by the Exposure Draft

In our letters to the IASB, dated 6 May 2021 and 21 May 2021, we expressed our concern that the current requirements of IFRS 9 would result in non-comparable accounting treatments between the current and comparative periods when an entity chooses to restate comparatives on adoption of IFRS 9, as the only financial instruments that can be restated in the comparative period are those still held at the date of initial application. The Exposure Draft addresses our main concerns in this area by permitting an entity to apply a classification overlay in the comparative period and to achieve a consistent accounting treatment to all financial assets that are held in respect of an activity that is not unconnected with contracts within the scope of IFRS 17.

Entities choosing to restate comparative information under IFRS 9 will be able to classify those financial instruments in the same way in the comparative period as intended following adoption of IFRS 9 and IFRS 17. In addition, the option in paragraph C28C of the Exposure Draft to elect to apply the impairment requirements of IFRS 9 allows an entity to restate impairment for all financial assets in the comparative period, including those that are derecognised during this comparative period, thereby improving consistency of measurement of financial assets between the two reporting periods. Therefore, when comparatives are restated, these two proposed amendments will significantly improve the quality of reporting to the users of the financial statements. Even if comparative information is not provided under IFRS 9, the proposals in the Exposure Draft prevent accounting mismatches between insurance liabilities and related financial assets by allowing the classification overlay to be applied to IAS 39 information in the comparative period.

The proposed classification overlay will also reduce the significant operational impact that would result from the derecognition of financial assets during 2022, as it will no longer be necessary to adjust the restated 2022 opening position several times after each interim reporting date in 2022 as assets are derecognised throughout the year. This will enhance the trust markets can place on transition information disclosed by insurers during 2022, as all financial assets related to insurance liabilities will be classified consistently in such transition information and will be aligned with the valuation of insurance liabilities under IFRS 17.

Remaining concerns that are not addressed by the Exposure Draft

While we fully support the amendments to IFRS 17 proposed by the IASB in the Exposure Draft, we believe the amendments could be further enhanced to address concerns related to the proposed scope of financial assets eligible for the classification overlay and the impact of the overlay on disclosure requirements.

Scope of the classification overlay

The scope of the classification overlay is set to cover financial assets that are held in respect of an activity that is 'not unconnected' with contracts within the scope of IFRS 17. This means that the scope of the classification overlay is different to that of the temporary exemption from applying IFRS 9 as currently included in paragraphs 20A and 20B of IFRS 4. Consequently, entities that have financial assets in scope of the temporary exception from applying IFRS 9, but where the assets are 'unconnected' with insurance activities, would still face the issue that the proposed amendment is trying to solve. Furthermore, it is not clear if surplus assets (required for an insurer to remain in operation) are in scope or not. As another example, if an insurer uses a single portfolio of financial assets to generate cash flows for portfolios of IFRS 17 insurance contracts and IFRS 9 investment contracts, it is unclear as to whether a proportion of the portfolio of financial assets would be considered "held in respect of an activity that is unconnected with contracts within the scope of IFRS 17." In this context, we note the following:

1. These existing IFRS 9 deferral criteria in IFRS 4 are clearly defined, widely accepted and understood by both preparers, auditors and users of the financial statements. As such, having the same, consistent group of assets for both the IFRS 9 deferral and the classification overlay would address the questions raised in the above examples and avoid potential confusion for users of the financial statements. Furthermore, it would be only available to entities whose activities are predominately connected with insurance and who have not applied IFRS 9 previously.
2. The Exposure Draft's classification overlay and the existing deferral in IFRS 4 have the same objective, which is to accurately represent the interrelated nature of IFRS 9 and IFRS 17. The new eligibility criteria for the overlay approach set out in the Exposure Draft could be finetuned further to better serve this objective.
3. The criteria in paragraphs C28E(a) and BC19 of the Exposure Draft create an additional operational burden, as the existing IFRS 9 transition requirements would be applied to assets that meet the IFRS 9 deferral criteria but not the classification overlay criteria. This counteracts the intended operational benefits of the classification overlay noted in paragraph BC8 of the Exposure Draft.

We therefore propose that the scope of the classification overlay be aligned with the scope of the temporary exemption from applying IFRS 9 included in paragraphs 20A and 20B of IFRS 4.

Disclosure requirements

The Exposure Draft does not comment on disclosure implications arising from the classification overlay. It is not clear if IFRS 9 transition disclosures would be required at both the effective date of 1 January 2023 as well as at the transition date which under the classification overlay approach would be 1 January 2022. Requiring disclosures at both dates may confuse the users of the financial statements as to why IFRS 9 transitional disclosures are provided for two different years. Furthermore, two sets of transitional disclosures would create an operational burden for no added benefit. The amendment to IFRS 17 should clarify that IFRS 9 transitional disclosures are only required as at either 1 January 2023 or 2022 for those entities choosing to restate comparative information according to IFRS 9, but not at both dates.

If you would like any further information on any of these matters or wish to discuss them further with us, we would be pleased to assist.

Yours sincerely

Delfin Rueda
Delfin Rueda (Sep 15, 2021 15:53 GMT+2)

Delfin Rueda
Chair
European Insurance CFO Forum

Olav Jones
Deputy Director General