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Mr Andreas Barckow
International Accounting Standards Board
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Our ref RD/288

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Dear Mr Barckow

Exposure Draft ED/2021/8 *Initial Application of IFRS 17 and IFRS 9 – Comparative Information*

We appreciate the opportunity to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2021/8 *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* (the ED). We have consulted with, and this letter represents the views of, the KPMG network.

We express our appreciation of the Board's consideration of accounting mismatches and implementation challenges resulting from differences between the transition requirements of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*. The proposals would enable insurers to improve the understandability and usefulness of the comparative information presented on the initial application of these two standards and provide relief from implementation complexity. Hence, we support timely finalisation of the project. Timely finalisation will also allow endorsement processes to take place in jurisdictions where this is required before application.

We agree with the proposals to provide insurers with the option to present comparative information on a basis that is consistent with how IFRS 9 is expected to be applied going forward. In the appendix to this letter, we have provided answers to the questions raised in the ED and elaborated on three matters that we would like the IASB to address when finalising amendments. Overall, we believe the ED is fit for purpose and our responses and recommendations should be read as further enhancements, aiming to improve the quality of information provided to users and reduce operational complexity.

Please contact Reinhard Dotzlaw at rdotzlaw@kpmg.ca or Joachim Kölschbach at jkolschbach_extcolab@kpmg.es if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

KPMG's Responses to Specific Questions raised by the Board

Question – 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 support the proposed amendment to IFRS 17, which would provide insurers an option to use a classification overlay approach to present comparative information about financial assets on a basis that is more consistent with how IFRS 9 will be applied in future reporting periods. We believe users and insurers would benefit from this proposal because:

- The optional classification overlay approach would enhance the usefulness of comparative information by:
  - enabling insurers to avoid significant accounting mismatches that do not reflect economic mismatches;
  - promoting application of the IFRS 9 classification and measurement model, which is an improvement over the requirements of IAS 39;
  - improving the comparability between periods by providing information about the classification of financial assets that is expected to be consistent with that presented for periods from the initial application of IFRS 9; and
  - avoiding the need for insurers that choose to restate comparative information under IFRS 9 to apply IAS 39 accounting to financial assets derecognised during the comparative period.
- The approach would not disrupt insurers' transition programmes because it is optional.
- It may reduce implementation costs because comparative information would not need to be restated for all IFRS 9 requirements for all financial assets and, for entities planning to restate comparative information under IFRS 9, may alleviate the burden associated with applying IAS 39 to financial assets derecognised during the comparative period.

However, there are three matters that we would like the IASB to address when finalising the amendments.

1. Prohibition against application to financial assets that are unconnected with IFRS 17 contracts

Under paragraph C28E of the ED, the proposed classification overlay approach would not be available for any financial asset held in respect of an activity that is unconnected with contracts within the scope of IFRS 17.

We believe that this prohibition is unnecessary and reduces the benefits of the proposals and therefore should be deleted. For the reasons stated above, we believe that IFRS 9-based comparative information would generally be more useful than IAS 39 information for all financial assets and so application should be permitted for all financial assets to which IFRS 9 has not been applied. Deleting the prohibition would additionally ease application in cases where it may not be clear whether a financial asset is or is not unconnected with IFRS 17 contracts. The prohibition would also require continued application of IAS 39 to derecognised financial assets under IFRS 9.7.2.1 even in cases where the insurer elects to restate comparative information in accordance with IFRS 9, leading to unavoidable inconsistency and operational complexity if the prohibition is not removed.

2. Applicable impairment requirements

The proposed amendments state that, under the classification overlay approach, an entity would present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but an entity would not be required to apply the impairment requirements in Section 5.5 of IFRS 9 (IFRS 17.C28C of the ED). However, the ED does not state what, if any, impairment requirements should be applied instead if those in IFRS 9.5.5 are not applied.

We recommend that the Board amend the proposals to clarify that the relevant impairment requirements of IAS 39 should be applied in cases where an entity does not apply the expected credit losses impairment model in IFRS 9. We believe that in this case the relevant IAS 39 impairment requirements should be determined based on the expected IFRS 9 classification used. This means that for financial assets classified at amortised cost under the classification overlay approach, the amortised cost impairment requirements in IAS 39 would apply. For investments in equity instruments measured at fair value through other comprehensive income under the classification overlay approach, no impairment would be required according to IFRS 9.5.5.1. For investments in debt instruments measured at fair value through other comprehensive income under the classification overlay approach, we recommend that the Board clarifies whether the amortised cost or available-for-sale impairment requirements of IAS 39 would apply, since there is a difference in impairment measurement between financial assets classified at amortised cost and those classified at available-for-sale under IAS 39.

The ED does not specify whether an entity’s election not to apply the impairment requirements of IFRS 9 under the classification overlay approach is an accounting policy choice that should be applied consistently or an instrument-by-instrument choice. We recommend that the Board provide clarification in this regard.

3. *Disclosure requirements*

We agree with the proposal to require an entity to disclose the fact that it applies the classification overlay approach. However, there are no other disclosure requirements in the ED or any explanations in the Basis for Conclusions to the ED as to how comparative information would be included in accordance with IFRS 7 *Financial Instruments: Disclosures*. This may create some questions, on which guidance might be helpful.

IFRS 7.44Z states that the amendments made to IFRS 7 to align its disclosure requirements with IFRS 9 do not need to be applied to comparative information. The disclosure requirements of IFRS 7 prior to those amendments are aligned with the measurement concepts in IAS 39, but not with those of IFRS 9. This contrasts with the application of the classification overlay approach to the comparative information which would be presented based wholly or partly on IFRS 9 measurement concepts.

Furthermore, the IFRS 7 disclosures for the previous year included in the previous year's financial statements would reflect the amounts and classifications included in those financial statements in accordance with IAS 39, which would differ from the amounts and classifications for the same period under the classification overlay approach included as comparative information in the financial statements of the year in which IFRS 9 and IFRS 17 are initially applied. IFRS 9.7.2.15 states that the entity is not required to restate prior periods. However, in the period of initial application, the entity is required to provide the disclosures set out in IFRS 7.42L-O which include reconciliations between IAS 39 and IFRS 9 amounts and classifications at the date of initial application.

We note that paragraph BC28 of the ED states that entities are not required to disclose which financial assets the classification overlay approach has been applied to, because this would require an entity to track individual financial assets during the comparative period and the costs of doing so would likely outweigh the benefit. However, except for the case where an entity elects to restate comparative information in accordance with IFRS 9 and applies the classification overlay approach only to financial assets that are derecognised during the comparative period, we believe that this explanation is not consistent with the fact that an entity would need to track the financial assets to which the classification overlay approach is applied in order to make the overlay adjustments. Also, the impact of the classification overlay approach on the comparative financial information would presumably have to be disclosed in accordance with paragraph 28 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

We believe that it would not provide the most useful and meaningful information to users of financial statements if the comparative IFRS 7 disclosures were based on the classifications and measurements applying IAS 39 without providing any information about the impact of applying the classification overlay approach on the amounts so disclosed. The latter might be done by providing a reconciliation between the classifications and carrying amounts of the financial assets applying the ED and the classifications and carrying amounts applying IAS 39 in the previous year.

We recommend the Board clarifies how it expects the disclosure requirements of IFRS 7 to be applied to comparative information when the classification overlay approach has been used – e.g. whether the old or new requirements of IFRS 7 apply, whether disclosures are based on the IAS 39 or overlay classifications and measurements. If the Board concludes that an entity may present IFRS 7 disclosures about the comparative period based on the IAS 39 classifications and amounts as included in the previous year's financial statements, we further recommend that the Board includes a requirement in the amendments for an entity to provide qualitative and quantitative information about its application of the classification overlay approach that enables users to understand the significant effects of the classification overlay on the comparative information presented.