



# A new transition option for IFRS 17

Global IFRS Institute

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**“We welcome the outcome of the Board’s redeliberations, which widens the scope of the overlay approach to all financial assets, and to insurers that have already adopted IFRS 9.”**

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## Reducing accounting mismatches in comparatives on first application of IFRS 9 and IFRS 17

### Highlights

- Classification overlay approach would apply for all financial assets
- Insurers that have already adopted IFRS 9 are eligible for the new transition option
- Impairment and disclosure requirements discussed
- Next steps

When insurers apply IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* for the first time, they could face operational complexities and one-time classification differences in the comparative information they need to present.

To alleviate these issues, the July 2021 **exposure draft** (ED) *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* proposed a classification overlay approach, providing insurers with an option 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.

Following feedback on these proposals, the International Accounting Standards Board (the Board) has now completed its redeliberations.

### Classification overlay approach would apply for all financial assets

The Board has decided to remove the restriction proposed in the ED that would have allowed the classification overlay to be applied only to a financial asset held for an activity connected with contracts in the scope of IFRS 17. Instead, the classification overlay would apply to *all* financial assets regardless of whether they are, or were, held in respect of insurance activities. This means that an insurer can choose to apply this approach to all financial assets on an instrument-by-instrument basis.

### Insurers that have already adopted IFRS 9 are eligible for the new transition option

The Board has also decided to expand eligibility for the classification overlay approach to those insurers that have adopted IFRS 9 before adopting IFRS 17. This would allow them to reduce any accounting mismatches relating to financial assets that are derecognised in the comparative period.

## Impairment and disclosure requirements discussed

The proposed classification overlay approach would be optional on an instrument-by-instrument basis. Also, an insurer would not be required to apply the new impairment requirements in IFRS 9 when applying the overlay approach. The Board decided that, if an insurer decides not to apply the IFRS 9 impairment requirements under the overlay approach, then it would not be required to restate the impairment of financial assets as previously reported under IAS 39 *Financial Instruments: Recognition and Measurement* simply to present comparative information.

The ED proposed that if an insurer were to apply the classification overlay approach, then it would need to disclose that fact. The Board decided to extend this disclosure to cover those impairment requirements that an insurer has applied to those financial assets, but decided not to add any other new disclosure requirements. However, the Board confirmed that when an insurer applies the classification overlay approach, it would still be required to provide disclosures under IFRS 7 *Financial Instruments: Disclosures* about the transition from IAS 39 to IFRS 9 as at the date of its initial application.

## Next steps

The Board plans to finalise these proposed amendments to IFRS 17 before the end of 2021.

To benefit from applying the proposed classification overlay approach, insurers would need to work out what data is required and begin collecting relevant information from their date of transition to IFRS 17 (i.e. 1 January 2022 for many insurers).

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