KPMG

New IFRS 17 transition option

10 December 2021

Global IFRS Institute | Insurance

Joachim Kölschbach
Partner
KPMG AG
Wirtschaftsprüfungsgesellschaft

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

Highlights

- What is the classification overlay available for?
- How should the classification overlay be applied?
- Effective date
- Next steps

The International Accounting Standards Board (the Board) has published an **amendment** to *IFRS 17 Insurance Contracts*: *Initial Application of IFRS 17 and IFRS 9 – Comparative Information*.

The amendment adds a new transition option to IFRS 17 (the 'classification overlay') to alleviate operational complexities and one-time accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of IFRS 17. It allows presentation of comparative information about financial assets to be presented in a manner that is more consistent with IFRS 9 *Financial Instruments*.

What is the classification overlay available for?

The classification overlay is available for financial assets of insurers as summarised below. It is optional and is generally available regardless of whether the financial assets were or are held in respect of insurance activities.

Who can apply the classification overlay?	What are the eligible financial assets that the classification overlay could be applied to?
Insurers that restate comparative information for IFRS 9 when they first apply IFRS 17 and IFRS 9 at the same time.	Financial assets derecognised in the comparative period (i.e. financial assets to which IFRS 9 is not applied under IFRS 9's transition requirements).
Insurers that do not restate comparative information for IFRS 9 when they first apply IFRS 17 and IFRS 9 at the same time.	Any financial asset.

"This development is good news for anyone faced with applying IFRS 17 for the first time. We can expect to see more useful comparative information and reduced operational complexity as a result."

Joachim Kölschbach
KPMG Global IFRS Insurance Leader

Who can apply the classification overlay?	What are the eligible financial assets that the classification overlay could be applied to?
Insurers that have adopted IFRS 9 before adopting IFRS 17.	Financial assets derecognised in the comparative period that would have been expected to be reclassified under paragraph C29 of IFRS 17.

How should the classification overlay be applied?

The key requirements of the classification overlay for an insurer that is initially applying IFRS 9 at the same time as IFRS 17 are summarised in the following table.

Optional approach	What does this mean?
Allows an insurer to classify and measure eligible financial assets in the comparative period in a way that aligns with how the insurer expects such assets to be classified on initial application of IFRS 9	An insurer does not need to complete the assessment of the business model or contractual cash flow characteristics of these financial assets before the date of initial application of IFRS 9. An insurer will use reasonable and supportable information available at the date of transition to IFRS 17 to determine their expected classification under IFRS 9. Although the measurement requirements of IFRS 9 will generally apply based on the expected classification, the insurer is not required to apply the IFRS 9 expected credit losses impairment model to these financial assets in the comparative information. An insurer may decide not to apply the IFRS 9 impairment requirements under the classification overlay approach. In that case, it continues to present the impairment of financial assets as previously reported under IAS 39 *Financial Instruments: Recognition and Measurement* – unless the expected classification is: – at fair value through profit or loss; or – an equity investment at fair value through other comprehensive income. For these two exceptions, no impairment amount is recognised under IFRS 9. An insurer is still required to apply the transition requirements in IFRS 9 to all financial assets that continue to be recognised at the date of initial application of IFRS 9. Therefore, if an insurer's expected classification under the classification overlay of a financial asset that is still held at the date of initial application of IFRS 9 is not consistent with the requirements of IFRS 9 at that date, then the insurer will need to update the classification on that date and apply the updated classification retrospectively.

Optional approach	What does this mean?
Applies for comparative periods that have been restated for IFRS 17 – i.e. from the date of transition to the date of initial application of IFRS 17	The approach is also available for an insurer that chooses to restate more than one comparative period on initial application of IFRS 17.
Applies on an instrument-by-instrument basis	The approach is optional on an instrument-by-instrument basis; however, insurers may apply the approach at a higher level of aggregation, similar to the level at which the business model would be assessed under IFRS 9.
Requires additional disclosure	An insurer is required to disclose qualitative information about the extent to which it has applied the classification overlay and about whether and to what extent it has applied IFRS 9's impairment requirements. An insurer also needs to consider the disclosure requirements of IAS 1 *Presentation of Financial Statements* to assess whether providing additional information about the impact of the classification overlay is required and to ensure that the notes to the financial statements support the information presented in the primary financial statements.

Effective date

The amendment is applicable when an insurer initially applies IFRS 17.

Next steps

To benefit from the classification overlay, an insurer will need to:

- assess whether significant accounting mismatches are expected in the comparatives;
- decide on its use of the new options provided; and
- work out what data is required and begin collecting relevant information from its date of transition to IFRS 17 (i.e. 1 January 2022 for many insurers).

Publication name: *New IFRS 17 transition option*

Publication date: December 2021

home.kpmg/ifrs