AcSB Accounting Standards Board

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International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear IASB members:

Re: Initial Application of IFRS 17 and IFRS 9—Comparative Information (ED/2021/8)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Initial Application of IFRS 17 and IFRS 9—Comparative Information (Proposed amendment to IFRS 17)", issued in July 2021.

Our process

As part of our due process for this proposal, we consulted with our Insurance Transition Resource Group and considered the input from this discussion when developing this letter.

Our views

We commend the IASB for being responsive to stakeholder concerns and improving the usefulness of the comparative information presented on initial application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*. This proposed amendment will assist with implementation and help insurers better explain their results given IFRS 17 requires restating comparative information, but IFRS 9 does not and prohibits retrospective application to derecognized financial assets. Stakeholders have noted that the differences in transition requirements make the comparative information less useful because an entity's asset liability management strategy will change as it adopts IFRS 17, resulting in potential accounting mismatches between financial assets and insurance contract liabilities. Therefore, we support the classification overlay as it addresses the concerns raised by stakeholders regarding the comparative information presented.

The Exposure Draft proposes that the classification overlay would not apply to financial assets that are unconnected with contracts within the scope of IFRS 17. However, due to the change in an entity's asset liability management strategy upon adopting IFRS 17, we suggest that the IASB broaden the scope of the classification overlay to cover all financial assets. Users will benefit from better comparative information that is more reflective of IFRS 9 classification for more than a subset of financial assets. It is also important for the scope of this amendment to capture surplus assets because of their significance to an insurance business for regulatory capital purposes.

From an implementation perspective, it will be operationally simpler to apply the amendment because entities eligible to use the classification overlay are those that currently apply the temporary exemption from IFRS 9 in IFRS 4 *Insurance Contracts*, which covers all financial assets because their activities are predominantly connected with insurance. Therefore, we suggest that the IASB broaden the scope of the proposal to cover all financial assets by aligning it with the scope of the temporary exemption from IFRS 9 in IFRS 4 to further enhance the usefulness of the comparative information and reduce the cost to preparers.

Given the classification overlay is optional and can be applied on an instrument-by-instrument basis, we also suggest that the IASB consider additional disclosure requirements to help users better understand and compare financial results amongst insurers. We suggest that the IASB require disclosing information that enables users to understand the population of financial assets subject to the classification overlay and the impairment model applied to those assets.

Overall, we support the IASB's intention to finalize the amendment by the end of the year because for entities that choose to apply this classification overlay, they would need to collect information starting from the transition date of IFRS 17.

Our response to your question

The Appendix to this letter responds to the questions posed in the Exposure Draft and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Katharine Christopoulos, Associate Director, Accounting Standards (+1 416-204-3270 or kchristopoulos@acsbcanada.ca) or Davina Tam, Principal, Accounting Standards (+1 416-204-3514 or dtam@acsbcanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

APPENDIX

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?

1. We agree with the proposed amendment as applying the classification overlay will improve the usefulness of the comparative information presented by insurers on the initial application of IFRS 17 and IFRS 9. We support the IASB's approach to this amendment as we think it is a pragmatic and targeted way to alleviate the concerns raised by users while not changing the transition requirements in IFRS 17 or IFRS 9.

2. We encourage the IASB to broaden the scope of the classification overlay to apply to all financial assets of the entity, and not only to those connected to contracts within the scope of IFRS 17. Entities that are eligible to apply the classification overlay are those that currently apply the temporary exemption from IFRS 9 in IFRS 4 to use IAS 39 *Financial Instruments: Recognition and Measurement* for its financial instruments. From a conceptual perspective, it seems intuitive to keep the two scopes aligned to enable entities with activities that are predominantly connected with insurance to transition from IAS 39 to the classification overlay in the comparative period, and then to full IFRS 9 on the date of initial application. We think this approach will increase the benefits to both users and preparers.

3. If the scope is broadened and entities apply the classification overlay, users will have better information on the financial assets in the comparative period regarding the expected IFRS 9 classification going forward, instead of for only a subset of financial assets. The comparative information will be more relevant to users as it enables them to understand the changes in the entity's asset liability management strategy more holistically from adopting the new insurance contract standard and assist with trend analysis.

4. Furthermore, we understand that some financial assets, irrespective of whether they are connected to contracts within the scope of IFRS 17, may be managed together for business purposes that could have the same classification upon initial application of IFRS 9. Separating the financial assets to account for some under IAS 39 and some under IFRS 9 in the comparative period is operationally challenging, increases the cost to preparers and does not provide relevant information to users. Therefore, we suggest that the IASB revisit the scope of the proposed amendment by permitting entities who currently use the temporary exemption from IFRS 9 in IFRS 4 to use the classification overlay for all its financial assets.

5. In addition, paragraph BC19 of the Basis for Conclusions on the Exposure Draft notes that the IASB observed entities will be familiar with applying the concept of financial assets that are unconnected to contracts within the scope of IFRS 17 because this concept exists in paragraph C29(a) of

IFRS 17. However, entities would apply paragraph C29(a) of IFRS 17 only if they have already adopted IFRS 9 before IFRS 17, which is not the same population of entities that will be applying the classification overlay. Furthermore, based on our outreach, there is discussion regarding whether certain financial assets are unconnected with contracts within the scope of IFRS 17. Specifically, in practice, there are financial assets that back capital/surplus of the insurance business for regulatory purposes, commonly referred to as surplus assets. We think it is important that the amendment considers surplus assets as connected to contracts within the scope of IFRS 17 given its significance to the insurance business. Therefore, we suggest that the IASB clarify this point to assist entities in applying this concept, irrespective of whether they have already adopted IFRS 9.

6. We support the IASB's reasoning in paragraphs BC17-BC18 of the Basis for Conclusions on the Exposure Draft for allowing the classification overlay to be optional and applied on an instrument-by-instrument basis. We think this optional nature enables entities to assess whether, for a particular financial asset, the benefits of applying the proposed amendment outweigh the costs given the stage of IFRS 17 implementation. We also appreciate that the proposal does not prohibit applying the classification overlay at a higher level than a particular asset because we understand there could be financial assets associated with a group of insurance contracts. Applying the classification overlay at a higher level could ease implementation in practice.

7. However, since the classification overlay is optional and can be applied on an instrument-by-instrument basis, we think users will benefit from understanding the population of financial assets subject to the classification overlay. Therefore, we suggest that the IASB consider requiring an entity to disclose the amount and category of financial assets classified and measured using the classification overlay, including an explanation of how they have been reclassified. Knowing this information will help users understand the comparative information and also understand that changes might occur in the following year for those financial assets accounted for under IAS 39.

8. Another disclosure that we think would be helpful in implementing this proposed amendment relates to the application of the impairment requirements in IFRS 9. Paragraph C28C of the Exposure Draft indicates that an entity is not required to apply the impairment requirements in Section 5.5 of IFRS 9 when applying the classification overlay. We interpret "not required" to mean that an entity can apply the impairment requirements in IFRS 9. Accordingly, the impairment of financial assets subject to this classification overlay can be based on either the incurred loss model of IAS 39 or the expected credit loss model of IFRS 9. We suggest requiring an entity to disclose the impairment model used for financial assets subject to the classification overlay to help users better understand the amounts recognized in the comparative period.