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27 September 2021

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Dr Barckow

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

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the Board') exposure draft *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* ('the ED').

We welcome the issuance of the ED and appreciate the Board's quick response in addressing the one-time classification differences that may arise in the comparative information presented on initial application of IFRS 17 and IFRS 9 and other practical difficulties identified by some insurers in the course of implementing IFRS 17 and IFRS 9 (when temporary exemption from applying IFRS 9 has been applied under IFRS 4 *Insurance Contracts*).

We understand that many insurers plan to restate the comparative information to reflect the application of IFRS 9. We believe that the classification overlay is an appropriate approach to achieve the goal of a more comparable restatement when applying IFRS 9 in the first set of financial statements compliant with both IFRS 17 and IFRS 9. Accordingly, we support the proposals in the ED and have provided recommendations in a number of areas.

<u>Scope of financial assets to which the classification overlay applies</u>

The proposed amendment is aimed at entities that previously qualified for the temporary exemption from IFRS 9 in IFRS 4, which required (among other things) that the entity's activities were predominantly connected with insurance. Based on this "predominantly connected" criteria, it would be expected that entities that applied the temporary exemption may hold some financial assets in respect of activities unconnected to their insurance activities. However, we note that paragraph C28E(a) of the ED would prohibit the application of the classification overlay to financial assets held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. Accordingly, an entity that qualified for the temporary exemption, and has continued to apply IAS 39 to all its financial assets, would treat financial assets differently on transition depending on whether these are held in connection with insurance

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activities or not. Whilst we acknowledge that the financial assets that would not be eligible for the classification overlay would be insignificant to the overall financial statements of the entity, we believe that the difference in the scope of the temporary exemption from IFRS 9 versus the scope of this ED will create unnecessary operational complexities. We suggest that the Board should allow an entity that applied the temporary exemption from IFRS 9 immediately before the adoption of IFRS 17 to be allowed to apply the classification overlay proposed in the ED to all its financial assets. This alignment would eliminate the need to identify which of these financial assets are related to "an activity that is unconnected with contracts within the scope of IFRS 17", the identification of which the ED currently does not provide further guidance on.

We support the proposal for the application of the classification overlay on an instrument-by-instrument basis as explained in the Basis for Conclusion and would recommend including this wording in the main text of IFRS 17.

Application of the expected credit loss impairment model

We support the proposal to allow (but not require) an entity to apply expected credit loss (ECL) impairment model of IFRS 9. However, we would recommend that the decision to apply, or not, the ECL requirements as set out in IFRS 9 should be an accounting policy choice applied consistently rather than a decision made on an instrument-by-instrument basis, as it may be inferred from the ED. Application of the option as an accounting policy choice would ensure that the use of the IFRS 9 ECL model is consistent for all financial instruments in the comparative period.

Disclosure of the impact of the classification overlay

We support the proposal to require an entity to disclose the fact that it has used the classification overlay. We acknowledge the Board's rationale as set out in paragraph BC28 of the ED for not requiring entities to disclose the financial assets to which the classification overlay has been applied. However, we believe that it would be useful if entities disclose the rationale for choosing to apply the classification overlay (e.g. reduce accounting mismatch) and how they have applied the requirements (e.g. whether they have been applied to some or all financial assets and whether ECL requirements as set out in IFRS 9 are applied) to give users of financial statements further information on how the financial information presented has been prepared.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884 or Francesco Nagari in Hong Kong at +852 2852 1977.

Yours sincerely

Veronica Poole
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