Mr
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Initial Application of IFRS 17 and IFRS 9
– Comparative Information, Proposed amendment to IFRS 17
Exposure Draft (July 2021)

Dear Mr Barckow

On behalf of the German Insurance Association (GDV) we greatly appreciate the opportunity to provide our comments on the IASB's Exposure Draft "Initial Application of IFRS 17 and IFRS 9 – Comparative Information, Proposed amendment to IFRS 17", issued by the IASB on 28 July 2021 for the public consultation. We would like to respectfully emphasise that the ED demonstrates the IASB's great level of pragmatic and timely **responsiveness to an urgent issue** which relevance has been verified in the ongoing insurers' IFRS 17 / IFRS 9-implementation projects more and more. While promptly addressing the severe conceptual issue and the related operational challenges for all reporting entities concerned, the IASB will contribute significantly to a successful completion and a satisfying outcome of these very much advanced implementation projects of the insurance industry.

As a matter of fact, the proposed amendment is a critically important one and we are strongly supportive of a swift finalisation of the standard-setting activity in this regard by the IASB. In general, this amendment is suitable to properly address the **conceptual <u>and</u> operational concerns** of insurers regarding the comparative information provided when applying IFRS 17 and IFRS 9 for the first time. Overall, the proposal will enhance the usefulness of the information provided and the comparability between periods as well. And the timely finalisation of the amendment at the IASB level will provide a good basis to approach and complete the endorsement process at EU level in due time to provide legal certainty to insurers affected.

We are very much supportive of the ED's proposal that the optional classification overlay approach should also be eligible to those insurers who do not intend or are not in a position to directly restate IFRS 9 numbers for the

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preceding period when applying IFRS 17 for the first time but who are still keen to achieve a consistent accounting treatment in the comparative numbers to the extent possible between the current value measurement approach for insurance liabilities under IFRS 17 and financial instruments being accounted for under IAS 39 *Financial Instruments: Recognition and Measurement*.

Nevertheless, there is one essential aspect which should be approached by the Board when finalising the amendment. From the operational and conceptual perspective, it would be a reasonable and a more cost-effective approach to **align the scope of the classification overlay approach in the ED with the scope of the existing temporary exemption from IFRS 9 ('IFRS 9 deferral')**. Such alignment would avoid the unfortune situation in which some financial assets would still have to be identified, separated out and accounted for under IAS 39 while providing effectively little or no added value for users of those financial statements. Hence, we would highly appreciate if the Board would consider following our recommendation regarding the proposed scope of the classification overlay approach.

Finally, we welcome very much the IASB's proposal in the ED <u>not</u> to introduce any extensive disclosures requirements for reporting entities when using the optional classification overlay approach. Introducing overly burdensome disclosures would indeed be rather contradictive to the very pragmatic nature of this important and very much needed one-time relief.

Our response with some more detailed rationale is provided in the annex of this letter. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

GDV
DIE DEUTSCHEN VERSICHERER

Annex

Question for respondents
Do you agree with the proposed amendment in this Exposure Draft? Why or why not? If not, what alternative do you propose and why?

Yes, the German insurers greatly appreciate the optional classification overlay approach proposed in the ED and recommend its swift and timely finalisation. We agree that the proposal will enhance the comparability between periods (paragraph BC22) while providing an operational relief for insurers (paragraph BC6, BC24). Overall, we are fully supportive of the classification overlay approach as suggested in the ED as it is an inclusive one.

Nevertheless, we respectfully recommend reconsidering one important element of the design of the classification overlay approach. It would be a reasonable and a more cost-effective way to align the scope of the classification overlay approach in the ED with the scope of the existing temporary exemption from IFRS 9 ('IFRS 9 deferral'). Aligning both scope definitions would avoid unnecessary double efforts for preparers, auditors, and enforcers. It would be also beneficial for users of financial statement to have one consistent basis on which the financial instruments would be accounted for.

Our comments in some more detail

To avoid unnecessary duplications, we like to note that we agree with the description of the status quo in paragraph BC3 of the ED regarding different transition requirements in IFRS 17 and IFRS 9 and regarding its implications as portrayed in paragraphs BC4 to BC6 of the ED.

Overall, we believe that the narrow-scoped amendment to the transition requirements in Appendix C of IFRS 17, as proposed and outlined in the IASB's ED is very much suitable to achieve its intended objectives as laid down in paragraph BC8 of the ED. We strongly believe that the optional classification overlay approach – eligible for financial assets for which comparative information has not been restated for IFRS 9 – will increase the usefulness of the comparative information provided when applying IFRS 17 and IFRS 9 for the first time and at the same time. In addition, also the operational complexities caused by the different rules established in IFRS 17 and IFRS 9 for providing comparative information will be effectively addressed.

Below we provide specific comments which highlights some important aspects of the proposed amendment to IFRS 17 in the ED which should be kept in mind when finalising the IASB's proposal.

["ECL issue"] The proposed wording of paragraph C28C [*proposed*] is essential for the generally positive assessment above and should be maintained in the final amendment to IFRS 17; it explicitly clarifies that the impairment requirements in Section 5.5 of IFRS 9 (i.e., the expected credit loss (ECL) model) is not required to be applied when applying the classification overlay (e.g., for financial assets derecognised in the preceding period). It is our firm understanding however that the ECL model is also <u>not</u> prohibited to be applied when useful and practical from the operational perspective of a reporting entity, and applicable without the use of hindsight. This interpretation is aligned with the Board's rationale as provided in paragraph BC15 of the ED and which we support.

In a case, in which the ECL model would not be allowed to be applied to financial assets under the proposed classification overlay approach, it would cause exactly the sever operational complexities the IASB is going to overcome with the proposed amendment. Specifically, the need to distinguish financial assets to which the ECL model is applied and to which not, would be operationally very problematic, burdensome, and costly to handle. It would again make it unfeasible from operational perspective to prepare the comparatives numbers over the preceding year, specifically because of the need of manual interventions to automatically running accounting systems any time a financial asset is derecognised.

["Scope issue" #1] We are very much supportive of the ED's proposal that the optional classification overlay approach should be eligible also to those insurers who do not intend or are not in a position to directly restate IFRS 9 numbers for the preceding period when applying IFRS 17 for the first time but who are still keen to achieve a consistent accounting treatment in the comparative numbers to the extent possible between the current value measurement approach for insurance liabilities under IFRS 17 and financial instruments being accounted for under IAS 39.

Hence, we back the Board's objective provided in paragraph BC11 (b) of the ED. In addition, we support that the impairment requirements in Section 5.5 of IFRS 9 (i.e., the expected credit loss (ECL) model) is not required to be applied when applying the classification overlay approach (paragraph C28C [*proposed*]). This flexibility will allow reporting entities to increase the usefulness of the information provided even without applying the ECL model.

[“Scope issue” #2] We fully acknowledge the IASB’s rationale for the proposal that an entity shall not apply the classification overlay approach to financial assets that are held in respect of an activity that is unconnected with contracts within the scope of IFRS 17 (paragraph C28E (a) [*proposed*]).

Nevertheless, we respectfully recommend revisiting this approach as there is an alternative available which would be more desirable as being more robust and more cost-effective. We kindly suggest an alignment of the scope of the classification overlay approach with the scope of the IFRS 9 deferral as defined in IFRS 4, paragraph 20B. As the intention of the Board is to provide a relief to insurance entities currently using the IFRS 9 deferral, it would be indeed reasonable and logical to directly link the scope definition of the classification overlay approach to this scope definition of IFRS 9 deferral in IFRS 4. Otherwise, the upcoming scope difference will lead inevitably to inconsistencies and hence to operational complexities and costs for insurance entities creating avoidable double efforts also for auditors and enforcers.

For example, the financial instruments in banking and/or asset management subsidiaries can be assessed to be insignificant from the perspective of a group reporting level if the IFRS 9 deferral is applied to the whole group, in line with the respective predominance criterion in paragraph 20D (b) in IFRS 4 which has been applied, audited, and enforced in practice for some years already. And the predominance criterion proofed to be robust enough to provide useful information for users of financial statements. In addition, from the perspective of a group which is predominantly active in insurance business, it might be even argued that even these financial instruments in banking or asset management are *ultimately connected* to contracts within the scope of IFRS 17. Hence, a credible robust way to prevent any potential interpretative and legal uncertainties in this regard would be to create a direct reference to the scope of the IFRS 9 deferral when finalising the amendment to IFRS 17.

[“The issue of disclosures”] While it is important to ensure that information reported to users of financial statements remain useful, it is also essential that the disclosure requirements are not contradicting the positive effect of the one-time relief for preparers as intended by the Board.

That’s why the German insurers welcome very much the IASB’s proposal in the ED not to introduce any extensive disclosures requirements for reporting entities when using the classification overlay approach (paragraph BC28 of the ED). Introducing potentially overly burdensome detailed disclosures would be indeed rather contradictive to the very pragmatic nature of this important and very much needed one-time relief. Hence, we support the proposed requirement in the last sentence of paragraph C28A that an entity applying the classification overlay shall disclose that fact. And we recommend that no further disclosures are introduced. Specifically, any disclosures which would force reporting entities again to distinguish between financial assts to which the classification overlay approach was applied and to which it was not, would be fully counterproductive as it would create the operational issues which are currently assessed as overcome when the proposed amendment to IFRS 17 is finalized as is.