香港保險業聯會
The Hong Kong Federation of Insurers

Ref: Lv029/21

By Email only (commentletters@hkicpa.org.hk)

18 August 2021

Standard Setting Department
Hong Kong Institute of Certified Public Accountants

Dear Sir

Invitation to Comment on IASB Exposure Draft ED/2021/8 Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed amendment to IFRS 17)

Thank you for your letter dated 29 July 2021 inviting us to comment on the subject matter.

After consulting our member companies, we have received and consolidated the attached comments. We note that majority of the comments received are from our life insurance members. Whilst they are in general agreeable to the proposed amendments, our members have also provided alternative suggestions for your consideration.

We look forward to your reply on the subject. And if our comments are to be published for public review, please kindly inform us beforehand.

Yours faithfully

Selina Lau
Chief Executive

Cc. Mr Ellick Tsui
HKFI Representative, IRAP of HKICPA
Chairman, Task Force on IFRS17 under Life Insurance Council

Ms Joyce Lau
Chairman, Task Force on IFRS17 under General Insurance Council

Comment on IASB Exposure Draft ED/2021/8 Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed amendment to IFRS 17)

Reply Slip

Total no of respondents: 8
LIMs: 7
Composite: 1

Appendix C - Effective Date and transition

Effective Date

C2A ♦ ---

Transition

Comparative Information

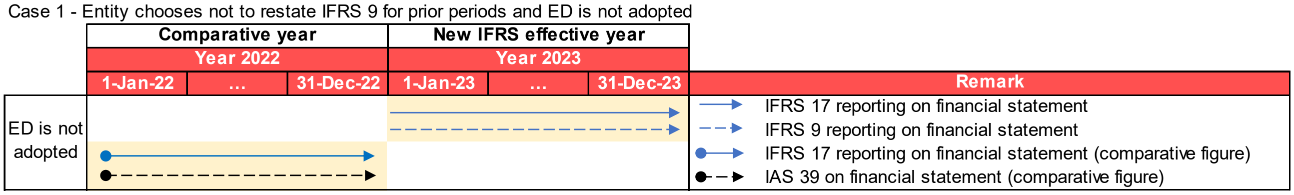
Entities that first apply IFRS 17 & IFRS 9 at the same time

C28A

LIMs

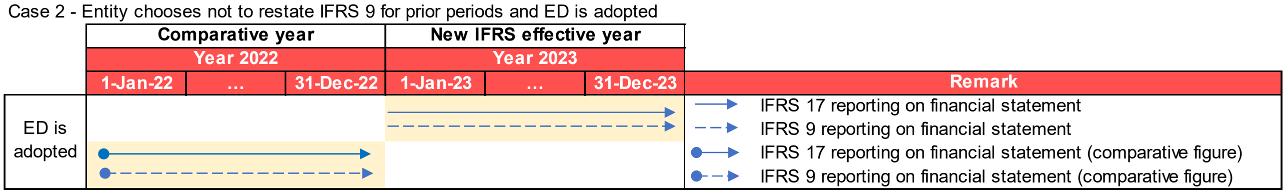
- We agree with the proposed amendment in this ED. We performed multiple analyses to study and understand the impact from adopting and not adopting the ED, and the analysis indicates that reader of financial statement will be presented with a clear & consistent financial statement after the adoption of this ED for both comparative year and effective year. The analyses are:
  - **Case 1**

Case 1 - Entity chooses not to restate IFRS 9 for prior periods and ED is not adopted



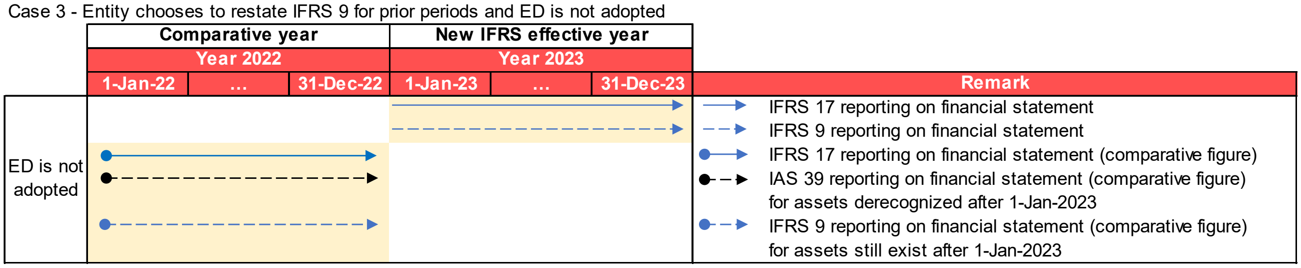
    - In case 1 above, it is assumed that entity chooses not to restate IFRS 9 for prior period and ED is not applied. After new IFRS is effective, it is noted that the comparative figure result is mis-aligned because IAS 39 is presented in comparative year but IFRS 9 is presented in effective year.
    - This is not ideal to the reader of financial statement.
  - **Case 2:**

Case 2 - Entity chooses not to restate IFRS 9 for prior periods and ED is adopted



    - In case 2 above, it is assumed that entity chooses not to restate IFRS 9 for prior period and ED is adopted. After new IFRS is effective, it is noted that the comparative figure result is aligned because IFRS 9 is presented in both comparative & effective year.
    - This will be easier for financial statement reader to understand the financial result. Thus, adopting ED will result in a better financial presentation.
  - **Case 3**

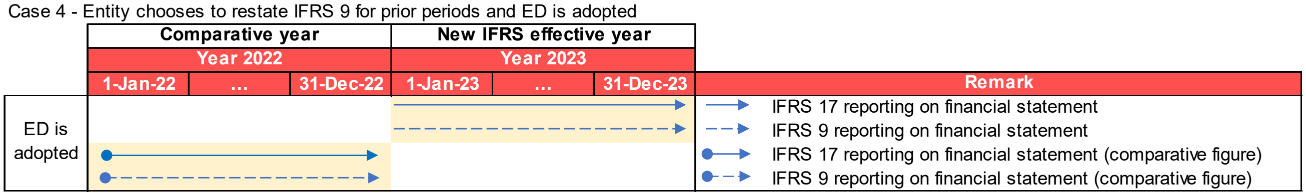
Case 3 - Entity chooses to restate IFRS 9 for prior periods and ED is not adopted



- In case 3 above, it is assumed that entity chooses to restate IFRS 9 for prior period and ED is not adopted. After new IFRS is effective, it is noted that the comparative figure result is mis-aligned because IFRS 9 & IAS 39 is presented in comparative year but only IFRS 9 is presented in effective year.
- This is not ideal to the reader of financial statement.

■ **Case 4**

Case 4 - Entity chooses to restate IFRS 9 for prior periods and ED is adopted



- In case 4 above, it is assumed that entity chooses to restate IFRS 9 for prior period and ED is adopted. After new IFRS is effective, it is noted that the comparative figure result is aligned because IFRS 9 is presented in both comparative year & effective year.
- This will be easier for financial statement reader to understand the financial result. Thus, adopting ED will result in a better financial presentation.

■ **(Comment #1)** The above analyses have indicated that reader of financial statement will be presented with a clear & consistent financial statement after the adoption of this ED for both comparative year and effective year. As such, we agree with this ED paragraph.

■ **(Comment #2)** However, C28A is only applicable to entity that first applies IFRS 17 and IFRS 9 at the same time. It is suggested to extend the ED as an option to entity that already applied IFRS 9, to prevent misalignment between comparative year and effective year. Misalignment could exist because the entity might be showing old IFRS 9 classification in comparative year but a new IFRS 9 reclassification in effective year for the same asset.

♦ It is suggested to extend to entities that has adopted IFRS 9 already as well. For entities that has adopted IFRS 9 prior to IFRS 17, when IFRS 17 is effective, the overlay adjustment on unrealized gain/loss for eligible financial assets that supporting the insurance contracts (applied under IFRS 4) would be removed. And the company would probably reclassify the financial assets in order to match the IFRS 17 insurance contracts liabilities. So similar logic should be applied to allow classification overlay to these entities as well.

C28B	♦	---

	LIMs ♦ **(Comment #3)** We noted that paragraph C28C and BC15 have indicated that impairment test is optional for company to select in the comparative period. We see this option might lead to potential misalignment between comparative period and effective year; and therefore, suggest to require a disclosure note, helping reader of financial statement understand whether the company has selected this option. And if the option is selected and that not all assets have performed the impairment test, further disclose such fact with a total amount of asset that have not performed the test. ♦ It is mentioned that “However, in applying the classification overlay, an entity is not required to apply the impairment requirements in Section 5.5 of IFRS 9”. We suggest to change the wording to “However, in applying the classification overlay, an entity **is permitted, but** not required to apply the impairment requirements in Section 5.5 of IFRS 9”. This would further improve the usefulness of the comparative information provided on initial application of IFRS 17 and IFRS 9 for entities which have been ready to apply the impairment requirements in IFRS 9.	
C28C	**Composite** ♦ Please see BC15.	
C28D	♦ ---	
C28E	a)	**Composite** ♦ Practicality and operational issue: an entity would need to demonstrate linkage to IFRS17 in order to prove an accounting mismatch, thereby being eligible to elect this classification overlay approach to keep the classification for these de-recognized asset.
	b)	♦ ---

Basis for Conclusions on Exposure Draft Initial Application of IFRS 17 and IFRS 9—Comparative Information		
Background		
BC1	♦ ---	
BC2	♦ ---	
BC3	♦ ---	
Comparative information presented on initial application of IFRS 17 and IFRS 9		
BC4	**LIMs** ♦ We would like to clarify if there’s any prerequisite to demonstrate there’s a considerable accounting mismatch between insurance contract liabilities and financial assets arising in the comparative information presented on initial application of IFRS17 and IFRS9 due to the differing transition requirements before we can apply a classification overlay for certain financial assets.	
BC5	♦ ---	
BC6	**Composite** ♦ Operational challenge and does not allow to use hindsight – best estimate?	
Proposed amendment to IFRS 17		
BC7	**LIMs** ♦ Please refer to **Comment #1 & #2** under **(C28A)**.	
BC8	**LIMs** ♦ Support & welcome. Please refer to **Comment #1 & #2** under **(C28A)**.	
BC9	♦ ---	
	a)	**LIMs** ♦ Optional relief
	b)	♦ ---

The proposed classification overlay			
BC10	**LIMs** ♦ Please refer to **Comment #1 & #2** under **(C28A)**.		
	a)	♦ ---	
	b)	♦ ---	
	c)	**LIMs** ♦ **(Comment #4)** It is suggested to align treatment of this paragraph with the treatment in “IFRS 4 exemption for IFRS 9” that the overlay approach should be applied to all financial assets/liabilities instead of only applying to insurance related instruments. It is because this paragraph implicitly requires separation of insurance and non-insurance related instruments, and that would create: ■ Operational difficulty for insurance company, and ■ Challenges for reader of financial statement to understand the financial impact.	
	d)	**LIMs** ♦ Please refer to **Comment #4 (BC10c)** above.	
	e)	♦ ---	
Financial assets for which the comparative information has not been restated for IFRS 9			
BC11	**LIMs** ♦ Support & welcome. Please refer to **Comment #1** & **#2** under **(C28A)**.		
	a)	♦ ---	
	b)	**Composite** ♦ Please see C28E.	
IFRS 9 expected classification			
BC12	**Composite** ♦ Please see BC15		
BC13	♦ ---		
	a)	♦ ---	
		i.	♦ ---
		ii.	♦ ---
		iii.	♦ ---
	b)	i.	♦ ---
		ii.	♦ ---
BC14	**LIMs** ♦ It is suggested to also mention the treatment for an entity presents a financial asset previously measured at fair value through other comprehensive income as instead measured at amortized cost.		
BC15	**LIMs** ♦ Please refer to our **Comment #3** under **(C28C)**.		
	Composite ♦ The propose overlay does not provide an operationally sound solution with regards to the credit loss calculation if it is decided to restate the comparative period balance. This classification overlay approach would still require the entity to reverse all the previous entries related to credit loss recorded under IFRS 9 and revert back to the credit loss amount under IAS 39, if already assessed. ♦ Not required to apply impairment requirement of IFRS 9 for those financial assets applying overlay would cause inconsistency before and after the initial application.		
BC16	♦ ---		
Optional on an instrument-by-instrument basis			
BC17	**LIMs**		

	♦ Please refer to **Comment #4** under **(BC10c)**.
BC18	**LIMs** ♦ **(Comment #5)** Suggest to include a disclosure note for entity that only adopts classification overlay for partial of asset. For example, disclosure total amount of asset that have not applied overlay. With such disclosure note, reader of financial statement might have a better sense whether the entity is applying the ED to achieve an opportunistic outcome.
Not applicable to financial assets unconnected with contracts within the scope of IFRS 17	
BC19	**LIMs** ♦ Please refer to **Comment #4** under **(BC10c)**.
	♦ **---**
Not applicable to comparative periods before the IFRS 17 transition date	
BC20	♦ ---
BC21	♦ ---
Benefits of the proposed classification overlay	
BC22	♦ ---
BC23	♦ ---
BC24	**LIMs** ♦ Please refer to **Comment #4** under **(BC10c)**.
BC25	♦ ---
BC26	**Composite** ♦ Please see BC6.
BC27	♦ ---
BC28	**LIMs** ♦ Please refer to **Comment #5** under **(BC18)**.

Other comments on the Exposure Draft (ED)

LIMs

- Suggest to also highlight the implication for restatement / comparative information on overlay adjustment for applying IFRS 9 with IFRS 4 (overlay adjustment no longer exist when IFRS 17 is effective).

- The narrow-scope amendment on IFRS17 provides more optional alternative for asset valuation in the comparative period, which helps to improve the usefulness of comparative information. In overall, we agree with the proposed amendment. It is also noted the application of classification overlay requires the use of reasonable and supportable information available at the transition date, without the use of hindsight.

- **[*Our Company*]** IFRS 9 has changed the basis of how an entity classifies financial assets and this might lead to different classification and measurement when transiting from IAS 39 to IFRS 9; it might reduce the usefulness of the comparative information if an insurer's assets and liabilities are presented on a different basis in the same financial statement, and therefore our Company is supportive of the proposed amendment to give insurers an option to apply a classification overlay to reduce any one-off accounting mismatch that might occur in the comparative period for their first financial statements upon adoption of IFRS 17 and 9; since the proposed amendment does not otherwise change the transition requirements in IFRS 17 and 9, it is therefore believed that risk of unintended consequence and disruption to the implementation of IFRS 17 and 9 can be reduced. Also, the option does not impose extensive additional disclosure that could have otherwise disincentivized the use of the option.

- **[*Our Company*]** The proposed amendment may also ease the implementation of IFRS 9 as an insurer then does not have to wait until the end of 2022 to decide which financial assets will be accounted for under IAS 39 and IFRS 9 respectively if it opts for restating comparative figures using IFRS 9.

Additional questions

LIMs

Whether you agree with the proposed amendment in this ED? Why or why not? If not what, what alternative would you propose and why?

- Agree with the proposed amendment to address the accounting mismatches identified in comparative period due to existing limitation on restatement under IFRS9.

- We welcome to the proposed amendment in this ED because it will provides an option which allows an insurer to choose to apply a 'classification overlay' for financial assets in the comparative period presented in initial application of IFRS17 and IFRS9. The approach is consistent with our current understanding about how IFRS9 will be applied in future reporting period and will not disrupt our current implementation process for both IFRS17 and IFRS9.

Whether you have any other comments or concerns about the ED?

- The ED has not addressed the entities that has adopted IFRS9 before effective date of IFRS17 (e.g. for some insurers which the shareholder is bank or non-insurance companies) and implication for those applied overlay adjustment for applying IFRS 9 with IFRS 4. So it is suggested to extend the scope of the ED to cover these points.

Please note that agreement should be sought with **[*Our Company*]** before publishing any information in this document publicly.

18 August 2021