INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

60 Cecil Street, ISCA House,
Singapore 049709
TEL +65 6749 8060
FAX +65 6749 8061
www.isca.org.sg

24 September 2021

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

Dear Board Members,

RESPONSE TO EXPOSURE DRAFT ("ED"), INITIAL APPLICATION OF IFRS 17 AND IFRS 9 – COMPARATIVE INFORMATION

ISCA sought views from its members on the above ED through a one-month public consultation and from the ISCA Insurance Committee which comprises practitioners and accounting professionals with significant experience in the field of insurance.

We support the Board's initiative in developing a narrow-scope amendment to the transition requirements in Appendix C of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time.

The intention of having the application of this proposed amendment as an option would likely be welcomed by the industry players. The optional classification overlay approach would enhance the usefulness of comparative information by:

- promoting application of the IFRS 9 classification and measurement model, which is an improvement over the requirements of IAS 39;
- enabling insurers to avoid significant accounting mismatches that do not reflect economic mismatches;
- improving the comparability between periods by providing information about the classification of financial assets that is expected to be consistent with that presented for periods from the initial application of IFRS 9; and
- allowing insurers to avoid applying IAS 39 accounting to financial assets derecognised during the comparative period for those that choose to restate comparative information for IFRS 9.

Given the tight implementation timeline that most of the insurers are facing, this option may reduce implementation costs because comparative information would not need to be restated for all IFRS 9 requirements for all financial assets and, for entities planning to restate comparative information under IFRS 9, this option may alleviate the burden associated with applying IAS 39 to financial assets derecognised during the comparative period.

However, there are 3 points that we would like the Board to address when finalising the amendment.

1. *Prohibition against application to financial assets unconnected with IFRS 17 contracts*

In Singapore, we do not foresee operational difficulties for the local insurers to identify those financial assets unconnected with contracts within the scope of IFRS 17 since financial assets are ring-fenced within insurance funds and non-insurance funds separately. The option for application of the overlay approach on an instrument-by-instrument basis is a pragmatic approach that would help insurers with the implementation challenges.

However, we do not support the proposed prohibition against applying the classification overlay to financial assets that are "held in respect of an activity that is unconnected with contracts within the scope of IFRS 17" set out in Appendix C, paragraph C28E of the ED.

We believe that this prohibition is an unnecessary complexity that reduces the benefits of the proposal and should be deleted. The prohibition would require continued application of IAS 39 to derecognised assets (paragraph 7.2.1 of IFRS 9) even in cases where the insurer elects to restate comparative information in accordance with IFRS 9, leading to unavoidable inconsistency and operational complexity.

For the reasons stated above, we believe that IFRS 9-based comparative information would generally be more useful than IAS 39 information for all financial assets and so application should be permitted for all financial assets.

2. *Applicable impairment requirements*

Paragraph C28C of the ED states that, applying the classification overlay, an entity would present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but the entity would not be required to apply the impairment requirements in Section 5.5 of IFRS 9.

The ED does not state the impairment requirements that should be applied if those in IFRS 9 are not applied.

We believe that the Board should clarify that the relevant impairment requirements of IAS 39 should be applied in these cases. The relevant IAS 39 requirements should be determined based on the expected IFRS 9 classification used as follows:

- For financial assets classified at amortised cost under the classification overlay, the amortised cost impairment requirements in IAS 39 would apply.
- For investments in equity instruments measured at fair value through other comprehensive income (FVOCI), no impairment would be required.
- For investments in debt instruments measured at FVOCI, the Board would need to clarify whether the amortised cost or available-for-sale impairment requirements of IAS 39 would apply.

The Board should also clarify whether an entity's election not to apply the impairment requirements of IFRS 9 is an accounting policy choice that should be applied consistently or an instrument-by-instrument choice.

3. Disclosure requirements

The ED does not include any disclosure requirements. Under the classification overlay approach, comparative information would be presented based wholly or partly on IFRS 9 measurement concepts. Paragraph 44Z of IFRS 7 states that the amendments made to IFRS 7 to align its disclosure requirements with IFRS 9 do not need to be applied to comparative information. The disclosure requirements of IFRS 7 prior to these amendments are aligned with the measurement concepts in IAS 39 but not with those of IFRS 9.

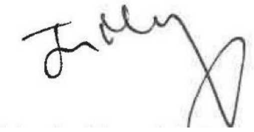
We welcome the clarification under paragraph BC12 of the ED that insurers are not required to perform full business model and cash flow characteristics assessments required by IFRS 9 when applying the proposed classification overlay. This exercise would help to save the effort required from insurers during this overlay period since they are expected to perform a full assessment across all the financial assets upon initial application of IFRS 9.

However, we express concern that the classification overlay based on "reasonable and supportable information available at transition date" may attract significant judgement in the application, especially if the judgments used at transition date are different from those used at initial adoption.

It would be helpful for the Board to clarify how it expects the disclosure requirements of IFRS 7 to be applied to comparative information when the classification overlay approach has been used to make the comparative information useful for the users if the criteria used at transition differs greatly from initial application of IFRS 9 – e.g., whether the old or new requirements of IFRS 7 apply, or whether disclosures are based on the IAS 39 or overlay classifications and measurements.

Should you require any further clarification, please feel free to contact myself, Mr Terence Lam, TECHNICAL: Audit & Assurance, or Ms Ng Shi Zhen, TECHNICAL: Ethics & Specialised Industries, from ISCA via email at jumay.lim@isca.org.sg, terence.lam@isca.org.sg or shizhen.ng@isca.org.sg.

Yours faithfully,



Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial Reporting;
Ethics & Specialised Industries;
Audit & Assurance;
Sustainability & Climate Change