Mr
Jean-Paul Gauzès
President of the EFRAG Board
European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Belgien

Date
10.09.2021

Initial Application of IFRS 17 and IFRS 9
– Comparative Information, Proposed amendment to IFRS 17
- EFRAG's draft comment letter on IASB's Exposure Draft (July 2021)

Dear Mr Gauzès

On behalf of the German Insurance Association (GDV) we appreciate the opportunity to provide our comments on EFRAG's draft comment letter in response to the IASB's Exposure Draft "Initial Application of IFRS 17 and IFRS 9 – Comparative Information, Proposed amendment to IFRS 17" (July 2021), published by EFRAG on 5 August 2021 for the public consultation.

As a matter of fact, we are fully supportive of the tentative positive assessment provided in EFRAG's draft comment letter regarding the IASB's proposed amendment to IFRS 17 in the ED. We agree with the EFRAG's view that the narrow-scope amendment addresses an **urgent issue** for the insurance industry related to severe accounting mismatches between insurance contracts liabilities and financial assets arising on initial application of IFRS 17 and IFRS 9 and regarding the comparative information.

The proposed amendment is also suitable to address the related operational challenges for insurance entities who are going to restate the comparative information under IFRS 9 and for insurance entities who also want to provide useful and consistent comparative information while preparing them on basis of IAS 39. In this regard we fully support the IASB's proposed classification overlay approach as equally eligible for and addressing properly both cases. In this regard we particularly support the specific wording in the ED that an insurance entity applying the classification overlay approach is not required to apply the impairment requirements in Section 5.5 of IFRS 9 (paragraphs 18 and 19 of the EFRAG's draft comment letter). It means that insurance entities would be *allowed* do so if practical and cost-effective, and applicable without the use of hindsight.

Gesamtverband der Deutschen Versicherungswirtschaft e. V.

German Insurance Association

Wilhelmstraße 43 / 43 G, D-10117 Berlin
Phone: +49 30 2020-5000
Fax: +49 30 2020-6000

Rue du Champ de Mars 23
B - 1050 Brussels
Phone: +32 2 28247-30
Fax: +49 30 2020-6140
ID-Nummer 6437280268-55

E-Mail: rechnungslegung@gdv.de

Furthermore, and aligned with EFRAG's tentative view, we also respectfully **recommend the IASB to revisit the scope of the proposed amendment**. Like EFRAG, we would prefer the IASB to create for this purpose a direct reference to the scope of the existing temporary exemption from IFRS 9 ("IFRS 9 deferral") in paragraph 20B of IFRS 4 and hence to fully align the scope of the classification overlay approach with the scope of the IFRS 9 deferral (paragraph 24 of the EFRAG's draft comment letter). This suggested alignment would increase conceptual consistency and comparability of information provided for users of financial statements (paragraph 25 of the EFRAG's draft comment letter). As a matter of fact, it would better fit with the rationale behind the proposed amendment which is to provide a pragmatic one-time relief for insurance entities applying the IFRS 9 deferral.

Overall, we suggest EFRAG to support the IASB's proposal in the ED as expressed in the draft comment letter, while recommending a pragmatic refinement to the scope of the classification overlay approach. And we suggest supporting the IASB's proposal in the ED <u>not</u> to introduce any extensive disclosure requirements for insurance entities when using the optional classification overlay approach. Any overly burdensome disclosure requirements would be contradictive to the very pragmatic nature of this important and **very much needed one-time relief** for the insurance industry.

Finally, we believe that the intended 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.

If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

Annex

The detailed comments of the German insurers on the IASB's Exposure Draft "Initial application of IFRS 17 and IFRS 9 – Comparative Information, Proposed amendment to IFRS 17", issued on 28 July 2021, and the respective rationale are provided in the GDV's comment letter as submitted to the IASB (attached hereafter).

Mr
Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus / Canary Wharf
London E14 4HD
Großbritannien

Date
10.09.2021

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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Fax: +49 30 2020-6140
ID-Nummer 6437280268-55

E-Mail: rechnungslegung@gdv.de

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)

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.

<u>For example</u>, 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 <u>not</u> 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.