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PDC n° 43

Prof Dr Andreas Barckow
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Exposure Draft ED|2021|8—Initial Application of IFRS 17 and IFRS 9—Comparative information

Dear Andreas,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned Exposure Draft (ED).

Paragraph 7.2.1 of IFRS 9 *Financial Instruments* requires an entity to apply IFRS 9 retrospectively subject to some specific exceptions and reliefs. However, this paragraph prohibits the retrospective application of IFRS 9 to items that have already been derecognised at the date of initial application of IFRS 9—in other words the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* applies to such items until their derecognition. Paragraph 7.2.15 of IFRS 9 permits but does not require an entity to restate prior periods if, and only if, it is possible without the use of hindsight. Paragraph C3 of IFRS 17 *Insurance Contracts* also requires an entity to apply IFRS 17 retrospectively subject to some specific exceptions and reliefs. Paragraphs C3 and C25–C28 however require an entity to restate at minimum the annual reporting period immediately preceding the date of initial application of IFRS 17. The misalignment of the transition requirements in IFRS 9 and IFRS 17 and the potential accounting mismatches that could arise therefrom may lead French insurers to decide (subject to the hindsight constraint) to restate the annual reporting period immediately preceding the date of initial application of IFRS 17 and IFRS 9—ie 2022 for insurers that have so far applied the temporary exemption from applying IFRS 9 set out in IFRS 4 *Insurance Contracts*. Such a joint restatement is going to provide useful information given the strong interaction that exists between IFRS 9 and IFRS 17 with regard to the management of insurance contracts.

That being said, the aforementioned prohibition in paragraph 7.2.1 of IFRS 9 creates unnecessary and costly practical difficulties for those willing, and being able to, restate comparative information for 2022. It also results in less meaningful information, with a reduction of comparability between 2023 and the comparative period. This matter has not come into light recently. ANC signalled those difficulties and first asked the IASB (Board) to contemplate standard-setting in this respect in [April 2019](#). At a more recent date, EFRAG acknowledged the existence of those difficulties in paragraphs 178–182 of [Appendix III](#) to its Final Endorsement Advice on IFRS 17.

The Board proposes to amend the transition requirements in IFRS 17 for entities that apply IFRS 17 and IFRS 9 at the same time. In particular, applying the Board's proposals, an entity that elects to restate comparative periods for IFRS 9 would be allowed to apply a 'classification overlay' to the above-mentioned derecognised items. This overlay would result in an entity presenting comparative information about such items as *if* the classification and measurement requirements in IFRS 9 had been applied to them.

We welcome, and are supportive of, the proposed amendment to IFRS 17. We thank the Board for having responded to the stakeholders' request in this respect. This amendment is expected to address many of the practical difficulties that the above-mentioned prohibition entails.

Notwithstanding our overall support, we have a reservation about the proposed scope criterion for the overlay as set out in paragraph C28E of the ED.

The Board is proposing that the classification overlay would not apply to financial assets that are unconnected to contracts within the scope of IFRS 17. In paragraph BC19 of the ED, the Board observed that entities would be familiar with this concept because it is also required by paragraph C29(a) of IFRS 17.

We observe that the provisions in paragraph C29(a), and more broadly those in paragraphs C29–C33 of IFRS 17, are available to entities that have previously applied IFRS 9 *before* first applying IFRS 17—those provisions permit those entities to revisit their IFRS 9 financial asset classifications, elections and designations when they first apply IFRS 17. In contrast, the proposed overlay would only be available to entities that will first apply IFRS 17 and IFRS 9 *at the same time*—it will be primarily available to entities that have applied the temporary exemption from applying IFRS 9 set out in IFRS 4. In other words, the proposed overlay is designed to address circumstances that are not those to which paragraphs C29–C33 of IFRS 17 apply. Accordingly, entities that will apply the overlay are unlikely to be familiar with the concept in paragraph C29(a) of IFRS 17. Thus, we see little, if any, relevance in referring to that concept.

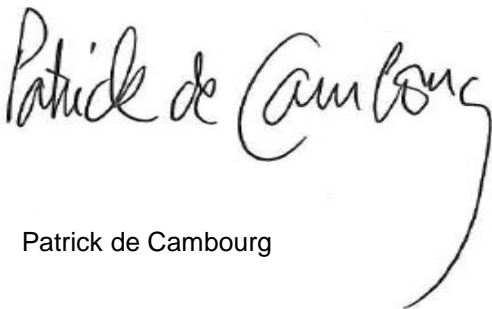
We rather support aligning the scope of the proposed overlay on the scope of the temporary exemption from IFRS 9 that was introduced in 2016 by the *Amendments to IFRS 4 Applying IFRS 9 with IFRS 4*. This is notably because:

- the temporary exemption applies to insurers whose activities are predominantly connected with insurance, as described in paragraph 20D of IFRS 4—ie the exemption applies at a reporting entity's level. Specifying that the overlay applies at a lower level, ie only to financial assets that are connected to contracts within the scope of IFRS 17, would create unnecessary complexity to the joint first time application of IFRS 9 and IFRS 17 (for example, assessing which contracts are unconnected to insurance contracts may be challenging in some circumstances).
- entities that would apply the classification overlay would necessarily be familiar with the scope of the temporary exemption from IFRS 9.

Accordingly, we recommend the Board reconsider this scope criterion or, otherwise, better articulate its decision to proceed with the scope as proposed in the ED.

Should you need any further information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive, flowing style. The first name "Patrick" is written in a larger, more prominent script, followed by "de Cambourg" in a similar but slightly smaller script. The signature is positioned above the printed name.

Patrick de Cambourg