



## Disclosure of expected impacts of IFRS 17 and IFRS 9 prior to application

### What you need to know

- ▶ Prior to the application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*, insurers need to comply with the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in respect of the disclosure of the expected impacts of initial application on their financial statements. This disclosure needs to be considered for both interim and annual financial statements issued for periods before the initial application of a new IFRS.
- ▶ Insurers will need to apply judgement to determine whether to provide quantitative disclosure, qualitative disclosure, or both, depending on the information they know or they can reasonably estimate at the point of preparation.
- ▶ Useful information could be provided by tailoring the disclosures to focus on the aspects that are most relevant for the particular insurer. It is expected that the content of disclosures will increase in detail as the implementation date approaches.

## Overview

As insurers prepare for the effective date of 1 January 2023 for IFRS 17, most of them are also applying IFRS 9 then for the first time, and they are considering what to disclose in their upcoming financial statements. IFRS requires disclosure of the expected impacts that new standards issued but not yet effective will have on financial statements at initial application.

As we get closer to the date of initial application, there will be increasing focus from regulators and investors on understanding financial impacts. Entities will need to determine what disclosures to include in any financial statements issued prior to 2023, ensuring they meet the requirements set by IAS 8 in order to provide useful information to users.

## IAS 8 disclosure requirements on IFRSs issued but not yet effective

IAS 8.30 states “when an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose this fact and known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity’s financial statements in the period of initial application”. In order to comply with this requirement, IAS 8.31 provides guidance around what an entity should consider disclosing, including:

- a) The title of the new IFRS
- b) The nature of the impending change or changes in accounting policy
- c) The date by which application of the IFRS is required
- d) The date as at which it plans to apply the IFRS initially
- e) Either a discussion of the impact that initial application of the IFRS is expected to have on the entity’s financial statements; or if that impact is not known or reasonably estimable, a statement to that effect.

This determination should consider the information an entity has available based on its particular circumstances and this requires judgement in deciding whether to provide quantitative information, qualitative information or both depending on the level of readiness.

In order to comply with the requirements of IAS 8, entities should consider disclosing in all prior reports, before the IFRS 17 initial application date, the following information:

- ▶ Introduction to IFRS 17 and IFRS 9: what the standards are about, application dates, main accounting models relevant to the entity and a description of the key changes in requirements compared to current accounting.

- ▶ Changes in accounting policies: description of the main IFRS 17 and IFRS 9 accounting policies that the entities intend to apply which would have an impact on the opening balance sheet both at transition date and at application date.

In deciding whether quantitative information could be disclosed, some of the key criteria entities could evaluate include: whether figures have been reasonably estimated in accordance with the requirements of IFRSs; whether they have been subject to internal governance; and whether they are capable of audit by the external auditor. When quantitative information is available on this basis, entities would be expected to provide quantitative disclosures in their financial statements. Other information, in particular, the expected impact of the new standards on the financial statements, is likely to be based on the level of knowledge of the entity at the time that the financial statements are prepared and the level of detail would be expected to increase as the effective date approaches.

## IAS 8 disclosure considerations for 2021 annual financial statements

For insurers with a 31 December year end, the reporting period covered by the 2021 financial statements ends immediately before the IFRS 17 transition date. 2021 financial statements will generally be issued during the early part of 2022. In preparing disclosures for the 2021 annual financial statements, entities might consider the following:

- ▶ Providing some early directional expected impacts of the adoption of IFRS 17 and IFRS 9 on shareholder equity for the opening balance sheet date of the comparative period as at 1 January 2022
- ▶ A statement about whether they expect an increase or a decrease in shareholder equity upon adoption of IFRS 17 and IFRS 9 and an explanation of the main drivers behind the movement as quantitative figures might not be available at this stage
- ▶ Disclosing whether or not they intend to restate comparatives for IFRS 9 or to apply the classification overlay approach, as per the recent amendment to IFRS 17
- ▶ Where relevant, disclosing whether or not they intend to adopt the exemption under EU-IFRS from applying the annual cohort requirement to mutualised business (EU reporters only)

Overall, in terms of qualitative information, entities are expected to provide more detail than in their 2020 financial statements, for example, on the overall project status, key choices already made by the entity, and directional impact on the financial statements (e.g., equity, income).

## Disclosure considerations for 2022 Interim financial statements

Interim reporters publish interim financial statements either on a quarterly or half-yearly basis depending on their reporting cycle.

Interim financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* which defines the minimum content of an interim financial report. Based on the requirements of IAS 34, entities might provide less detail compared to their annual financial statements, but they need to include an explanation of developments that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

In preparing their interim disclosures during 2022, entities might wish to consider the following:

- ▶ For first quarterly reports, entities would generally have the same information available as at year-end 2021 given that they will report just few weeks after producing their annual accounts. Therefore, it is reasonable to expect no significant update compared to the disclosures provided at year-end 2021.
- ▶ For half-yearly reporting, some entities might have a better understanding of the impacts as at the transition date of 1 January 2022, potentially with numbers that have been subject to internal governance and possibly have been audited. Such entities would need to consider whether to provide further detail compared to the disclosures in the annual financial statements of 2021. This would include providing further quantitative information on the impacts of adopting IFRS 17 and IFRS 9 on shareholder equity at the transition date, possibly considering providing the expected impacts, or a numerical range for the expected impacts. This could also contain explanation of the main drivers and reasons behind the impact.
- ▶ For third quarter reports, entities might increase their level of information about the impacts of IFRS 17 and IFRS 9. In addition, some entities may also provide information to the market through other sources (e.g., investor packs, analyst presentations) during the third or fourth quarters of 2022 and would then consider consistency with their interim financial statements.

## IAS 8 disclosure considerations for 2022 annual financial statements

As entities will report on their 2022 annual financial statements after IFRS 17's effective date of 1 January 2023, it is reasonable to expect that there will be increased interest

from investors and regulators regarding the impacts of the application of the new standards on the entity's financial statements. As such, in preparing their disclosures entities might wish to consider the following:

- ▶ Providing quantitative information (or repeat and update if already provided earlier) regarding the impact of IFRS 17 and IFRS 9 on shareholder equity as at the opening balance sheet date of 1 January 2022. If these numbers are available and audited by the time of issue of the 2022 financial statements, then entities would be expected provide numerical disclosures. This information would be supported with an explanation of the main drivers of the differences from existing reporting
- ▶ Providing disclosure of the impact of the adoption of IFRS 17 and IFRS 9 on shareholder equity as at the IFRS 17 initial application date of 1 January 2023 and on the profit reported both at half year and year end 2022. This disclosure may be more challenging, particularly for IFRS 17, as entities would need to produce a full roll-forward of the IFRS 17 liabilities over 2022 (including profit and loss and other comprehensive income effects) in order to determine the amounts. Depending on the information that is available, it is reasonable to expect that entities would disclose either a quantitative estimate or would produce a qualitative statement on known impacts or the fact that these cannot be determined

In addition to the above, there may be an increased expectation to disclose quantitative figures for entities that prepare quarterly interim reporting on an IAS 34 basis as they would need to have the IFRS 17 Q1 results ready relatively soon after the publication of the 2022 financial statements.

## Beyond minimum compliance – additional considerations for good practice disclosure

Apart from the IAS 8 and IAS 34 disclosure requirements considered above, there are additional disclosures that entities may wish to consider providing in the run up to IFRS 17 and IFRS 9 initial application date in order to provide useful information to investors and regulators.

Some information could be suitable for the Management Discussion and Analysis (MD&A) part of the accounts such as, for example:

- ▶ IFRS 17 and IFRS 9 implementation programme: information about the structure and governance, work performed, management of risks and cost.
- ▶ Operational impacts: main impacts and changes to systems and processes that the entity performed in order to comply with the requirement of the new standards.

In addition to the above information, other items that may be considered include the following:

- ▶ 2022 interim reports: as numbers start to become available and entities have a better understanding of the impacts at the transition date of 1 January 2022, entities might also consider disclosing quantitative information about the size of the contractual service margin (CSM) at the transition date by providing a numerical range. This could apply, in particular, during the second part of the year for half-year and third quarter reports.
- ▶ 2022 annual reports: to the extent available, entities could consider disclosing additional information that might be useful to users, for example:
  - ▶ Quantitative information on the size of CSM as at 1 January 2023 by disclosing its numerical amount
  - ▶ Quantitative information about the expected impact of IFRS 17 on profits and how it compares with IFRS 4. As mentioned, at this stage, entities might not have a full profit and loss on IFRS 17 basis, but they could at least consider including a statement around their expectation of movement
  - ▶ Expected impact as at 1 January 2023, on capital and the value of new business
  - ▶ IFRS 9 expected credit loss amount on *financial instruments* as at 1 January 2023

When IFRS 9 became effective for banks in 2018, some publicly listed groups provided separate publications with detailed information about the impact of IFRS 9 to keep this separate from the information for the 2017 financial year. Insurers might consider doing something similar in 2023.

## How we see it

Entities need to provide disclosures in their financial statements, of the impacts of IFRS 17 and IFRS 9 before their initial application date. The basis for these disclosures is the information that is “known or reasonably estimable”. Determining what information should be disclosed will require judgement, particularly because information provided in financial statements is subject to external audit.

It is reasonable to expect that entities will increase their level of disclosure period by period in the run-up to 1 January 2023, as the available information on the expected impacts of IFRS 17 and IFRS 9 on their financial statements increases. In doing so, entities should also consider specific requirements issued by local regulators, which may vary depending on each jurisdiction. Insurers should monitor local developments in order to ensure they comply with these requirements.

It is also important to note that our considerations only deal with disclosures in IFRS financial statements. In preparing information for other communications (e.g., quantitative information communicated to the market as part of investor presentations), entities need to carefully consider the information they have available at that time and any requirements (e.g., regulatory) that apply to those communications as they are not determined by IFRS standards. Entities should ensure that information communicated inside and outside the financial statements is consistent.

As insurers start to disclose, for the first time, information on the impacts of these new standards, the level of interest from regulators and the market will increase significantly. IFRS 17 and IFRS 9 will have a pervasive impact on some insurers' financial statements. As such, it is important to communicate these impacts clearly and early.

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