



The Japanese Institute of
Certified Public Accountants
4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264 JAPAN
Phone: +81-3-3515-1128 Fax: +81-3-5226-3355
e-mail: kigyokaikei@jicpa.or.jp
<http://www.hp.jicpa.or.jp/english/>

September 16, 2021

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

Comments on the Exposure Draft *Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed amendment to IFRS 17)*

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants (“we” and “our”) appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed amendment to IFRS 17)* (“ED”).

Please find our comments to the questions raised in the ED, in the following pages.

Question
Do you agree with the proposed amendment in this Exposure Draft? Why or why not? If not, what alternative do you propose and why?

Comment:

We understand the ED will contribute to the reduction of accounting mismatches arising from IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* having different transition requirements. In order to improve the usefulness of the proposal, we suggest the following:

(1) Optional application on an instrument-by-instrument basis

Paragraph C28B of the ED provides a requirement for ‘an entity that applies the classification overlay to a financial asset’ when classifying ‘that financial asset.’ On the other hand, paragraph BC10(c) states the application of classification overlay is optional on an instrument-by-instrument basis. Accordingly, we assume entities are expected to follow the requirement in paragraph C28B only after certain financial instruments subject to the classification overlay are selected based on paragraph BC10(c). Provided that the optional application on an instrument-by-instrument basis is an essential factor in determining the scope to which paragraph C28B becomes applicable, we suggest the optional application clause should be included in the Standard, not in the Basis for Conclusion.

Further, as discussed in paragraph BC18, we recognize the risk that an entity could apply the proposed classification overlay selectively on an instrument-by-instrument basis to achieve an opportunistic outcome. Although the Board is arguing in the same paragraph that this risk is mitigated because entities that apply the proposed classification overlay want to reduce accounting mismatches, some entities might not apply the classification overlay if they think it outweighs the benefit of reducing accounting mismatches. As a result, the risk remains where significant accounting mismatches are left out without being solved due to entities using their discretion and selectively applying the classification overlay.

Accordingly, we recommend the proposed amendment be either applied to all financial instruments subject to accounting mismatches or applied selectively by portfolio of insurance contracts if financial assets are clearly linked to each portfolio of insurance contracts, instead of applying selectively on an instrument-by-instrument basis.

(2) Disclosure

Paragraph C28A stipulates that ‘if an entity applies the classification overlay, it shall disclose that fact.’

However, simply disclosing the fact of application is not enough for stakeholders to understand what kind of impact has been caused due to the classification overlay. Given that the application of the ED is optional, we suggest comparability should be appropriately maintained through disclosures between entities that applied the proposed amendment and those that did not. Moreover, we believe thorough disclosures can act as a deterrent to prevent entities from using their discretion to go for optional application as discussed in our comment (1) above.

Accordingly, in addition to stating the fact of applying the classification overlay, we further recommend the following disclosures be required: the scope of the application; the amount of financial assets to which the classification overlay is applied; profit or loss impact due to applying the classification overlay to financial assets; and the balance of insurance contracts connected with financial assets to which the classification overlay is applied and the associated profit or loss impact.

Yours faithfully,

Takako Fujimoto

Executive Board Member — Business Accounting Standards and Practice/Corporate Disclosure

The Japanese Institute of Certified Public Accountants