IFRS

STAFF PAPER

May 2018

IASB Meeting

Project	**Insurance Contracts**		
Paper topic	Cover note		
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Introduction

1. The papers for this meeting update the Board on the work to support implementation of IFRS 17 *Insurance Contracts*. The previous report to the Board was at the February 2018 meeting. This cover note provides:
   (a) a reminder of the timeline for IFRS 17;
   (b) an update on the Transition Resource Group for IFRS 17 (TRG);
   (c) implementation challenges identified by TRG members; and
   (d) next steps.
2. There are three supporting papers for this meeting:
   (a) Agenda Paper 2A—Summary of the TRG meeting held on 2 May 2018;
   (b) Agenda Paper 2B—TRG submissions log (as at 18 April 2018); and
   (c) Agenda Paper 2C—Implementation challenges outreach report (as reported at the 2 May 2018 meeting of the TRG).
3. There are two appendices to this paper:
   (a) Appendix A—Implementation support materials and other publications; and
   (b) Appendix B—Update on investor activities on IFRS 17.

Timeline for IFRS 17

4. The following diagram shows the key dates for the implementation of IFRS 17:

	Entities disclose the expected impacts of IFRS 17							
2017	**2018**				**2019**		**2020**	**2021**
18 May	**6 February**	**2 May**	**26 September**	**4 December**	**First half**	**Second half**	**1 January**	**1 January**
Issuance of IFRS 17	TRG meeting	TRG meeting	TRG meeting	TRG meeting	Potential additional TRG meetings		Comparative period begins	Effective date of IFRS 17

Update on the TRG

5. The TRG is one of the ways we are supporting implementation of IFRS 17. The TRG provides a public forum for stakeholders to follow the discussion of implementation questions raised as entities ready themselves for the effective date of IFRS 17.[1]

6. The TRG considers implementation questions that meet the following criteria:

   (a) must be related to, or arise from, IFRS 17;

   (b) may result in possible diversity in practice; and

   (c) are expected to be pervasive, ie relevant to a wide group of stakeholders.

7. The TRG received 22 submissions for the meeting on 2 May 2018 and further information was received for four submissions that were submitted prior to the February 2018 meeting of the TRG. The staff have requested further information for one submission and it will be considered for a future meeting of the TRG (S31). Two submissions are related to mutual entities and will be considered at a future meeting of the TRG (S21 and S45). One submission is related to the scope of IFRS 17 and the staff are performing research to understand the nature of the contracts described in that submission (S33). All other topics were addressed in the agenda papers for the meeting. Of these, there were five topics on the agenda

[1] IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. Comparative information prepared applying IFRS 17 is required for annual reporting periods beginning on or after 1 January 2020.

for detailed discussion. The TRG also discussed a paper summarising submissions that:

(a) can be answered applying only the words in IFRS 17;

(b) do not meet the submission criteria; or

(c) are being considered through a process other than a TRG discussion (such as a proposed annual improvement).

8. The summary of the 2 May 2018 meeting of the TRG is reported to the Board in Agenda Paper 2A for the May 2018 Board meeting.

Implementation challenges identified by TRG members

9. At the February 2018 meeting of the TRG, TRG members noted submissions on the following three topics that relate to implementation challenges that may arise because the requirements in IFRS 17 represent a significant change from existing practices:

(a) presentation of groups of insurance contracts in the statement of financial position;

(b) premiums received applying the premium allocation approach (PAA); and

(c) subsequent treatment of insurance contracts acquired in their settlement period.

10. Agenda Paper 2C for the May 2018 Board meeting outlines the TRG members responses to the outreach performed by staff to obtain further details about those challenges. This same paper was reported to TRG members at the 2 May 2018 meeting as Agenda Paper 6. TRG members observed that:

(a) Agenda Paper 6 [for the May 2018 TRG meeting] accurately reflects the implementation challenges identified by TRG members about applying these requirements in IFRS 17.

(b) these challenges have been identified by TRG members as high priority in the implementation of IFRS 17 as they are significant in terms of complexity and cost. However, these challenges are not the only significant challenges in implementing IFRS 17.

11. Paragraphs 40–44 in Agenda Paper 2A for the May 2018 Board meeting provide further information on the TRG discussion of that paper. Paragraphs 12−17 in this paper provide context on the requirements in IFRS 17.

Level of aggregation

12. The topics in paragraph 9(a)–(b) of this paper relate to the level of aggregation in IFRS 17.

13. The unit of account applying IFRS 17 is a group of insurance contracts. Consistent with the *Conceptual Framework for Financial Reporting*[2] and the requirements in IAS 1 *Presentation of Financial Statements*,[3] IFRS 17 does not permit an entity to offset units of account that are assets and units of account that are liabilities. Although the unit of account in IFRS 17 is larger than in other IFRS Standards (where it is generally a single contract), prohibiting the offsetting of units of account that are assets and those that are liabilities is consistent with other IFRS Standards.

14. To apply the requirements in IFRS 17, entities must identify premiums received for a group of insurance contracts (when applying the general model and when applying the PAA). For the PAA, the liability for remaining coverage is measured based on the premiums received less those that have been recognised as revenue. At the February 2018 meeting of the TRG, TRG members observed that 'premiums, if any, received' in paragraph 55 of IFRS 17 on the PAA means premiums actually received at the reporting date. It does not include premiums due or premiums expected to be received.

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[2] The *Conceptual Framework* states that offsetting occurs when an entity recognises and measures both an asset and liability as separate units of account, but combines them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

[3] IAS 1 states that an entity reports separately both assets and liabilities, and income and expenses, unless required or permitted by an IFRS Standard. Offsetting in the statement(s) of profit or loss and other comprehensive income or financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows.

15. In addition to concerns about significant complexity and cost, TRG members have expressed concerns about the loss of information that they think is both useful and familiar to internal management and to users of financial statements.

Treatment of contracts acquired in their settlement period

16. The difference in accounting between contracts that were recognised by an entity when issued that are now in their settlement period, and contracts acquired during their settlement period reflects the different economic transactions that the entity undertook when the contracts were recognised. The source of profitability is different. From the perspective of the entity acquiring contracts during their settlement period, the event that gives rise to a valid claim from the policyholder has already occurred before the acquisition. However, the financial effect may still be uncertain. Therefore, from the acquirer's perspective, the insured event for those contracts is not the occurrence of the underlying event, but the determination of the ultimate cost of the claims.[4] The profit of the acquirer arises from providing the service of standing ready to pay those claims while the ultimate cost of those claims is still uncertain.
17. The concerns expressed by TRG members are relevant to business combinations or portfolio transfers, particularly for those performed by non-life insurers. The concerns are related to the complexity involved with implementing the relevant requirements in IFRS 17 and the loss of information TRG members think is useful to users of financial statements.

Next steps

18. The Board is not asked to make any decisions in this meeting. The staff will continue to update the Board on the discussions of the TRG. When the Board has had the opportunity to consider more complete information about the implementation of IFRS 17, the staff will ask the Board to consider whether any action is required to continue supporting implementation.

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[4] Paragraph B5 of IFRS 17 states that some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides against an adverse development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

19. In the coming months, the following activities are planned:

(a) the third meeting of the TRG will be held on 26 September 2018;

(b) some amendments will be considered through the annual improvements process;

(c) further webcasts and articles to support implementation will be published; and

(d) efforts to raise awareness amongst investors and analysts of the changes introduced by IFRS 17 will continue.

Appendix A—Implementation support materials and other publications

A1. Since the issuance of IFRS 17 in May 2017, we have published a number of implementation support materials and articles. These are listed below:

(a) articles from Board members:

(i) *What investors ask about IFRS 17* by Nick Anderson, which discusses the top five questions from investors on IFRS 17;

(ii) *IFRS 17—help is at hand* by Martin Edelmann, which summarises the tools to help with the implementation of IFRS 17; and

(iii) *Transition to the new IFRS Standard for insurance contracts* by Amaro Gomes, which outlines the materials and other support available to national standard-setters and regulators planning for implementation of IFRS 17.

(b) a two minute animation explaining the ways the Board is supporting implementation.

(c) an overview of the accounting model in IFRS 17 in one page. This is available as a webcast and an accompanying one-page summary.

(d) a series of webcasts explaining in more detail the requirements of IFRS 17:

(i) the scope of IFRS 17;

(ii) measurement essentials;

(iii) simplified accounting for contracts with short coverage periods;

(iv) reinsurance contracts held;

(v) recognition and derecognition;

(vi) transition to IFRS 17;

(vii) level of aggregation; and

(viii) recognising the contractual service margin in profit or loss.

Appendix B—Update on investor activities on IFRS 17

Investor educational meetings

B1. Board members, the project team and the investor engagement team continue the discussions with investors and analysts to illustrate the information that IFRS 17 will provide to users of financial statements.

B2. From mid-May 2017 to the end of April 2018, there were about 90 discussions with over 400 investors and analysts.

B3. The majority of those we spoke to are equity analysts, but we also met with analysts from the credit rating agencies. We met both sell-side and buy-side analysts—most focus on the insurance sector, while a few cover the markets more generally and a few are accounting analysts.

B4. The investors and analysts we spoke to are located in Europe (France, Germany, Italy, Switzerland and the United Kingdom), China, Japan, the United States, Canada, Hong Kong, Singapore and Australia.

B5. Comments received on IFRS 17 from investors and analysts remain consistent with those presented at the July 2017 and February 2018 Board meetings. In summary:

(a) most investors and analysts we spoke to welcomed:

(i) the improvements in financial reporting transparency and comparability introduced by IFRS 17. They believe that IFRS 17 will improve the transparency of financial reporting for insurance entities, particularly in explaining the source of profits for long-term insurance contracts.

(ii) the disclosures IFRS 17 requires. These will help investors and analysts understand the reasons for changes in the amounts reported in insurance entities' financial statements.

(b) some investors and analysts we spoke to expressed concerns that comparability between insurance entities could be limited by:

(i) the principle-based nature of IFRS 17; and

(ii) the accounting options for the presentation of the effects of changes in financial assumptions and the first application of IFRS 17.

(c) many investors and analysts also noted that disclosure requirements in IFRS 17 should help them in analysing the effect of significant judgements used by entities in applying IFRS 17, including the effect of the use of options on comparability.

(d) some investors and analysts we spoke to look forward to analysing some of the new IFRS 17 disclosures in their analysis of embedded value.

Investor materials

B6. In addition to the handouts to support investor educational meetings, since the issuance of IFRS 17 in May 2017, we have published the following materials for investors:

(a) *IFRS 17 for investors*—a webinar with more than 3,000 views during the last year;

(b) *The Essentials—Busting insurance jargon,* a publication that translates existing terminology and metrics into the language of IFRS 17; and

(c) *Investor Perspectives: Insurance Contracts—Accounting to reflect economics*, an article by Darrel Scott, which outlines what the unit of account is in IFRS 17 and why it matters to investors.