IFRS

STAFF PAPER

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Project	Insurance Contracts
Paper topic	Implications of exploring amendments to IFRS 17 for effective dates

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Purpose of this paper

1. Since IFRS 17 *Insurance Contracts* was issued, the International Accounting Standards Board (Board) has been monitoring and supporting implementation. As a result, the Board has received feedback from stakeholders that has allowed it to better understand the concerns relating to the implementation of IFRS 17 and whether further steps, including possible standard-setting, is required. The Board remains committed to helping insurers implement the new Standard and has previously stated that it will respond to implementation challenges if required.

2. At its October 2018 meeting, the Board noted it would consider at a future meeting whether any concerns and implementation challenges indicate a need for standard-setting to amend the requirements of IFRS 17 beyond the annual improvements the Board has already tentatively decided to propose.[1]

3. This paper discusses the implications of that consideration for the effective date of IFRS 17 and the temporary exemption to IFRS 9 *Financial Instruments* in IFRS 4 *Insurance Contracts*.

4. This paper asks:

   (a) given the Board plans to consider whether to explore amendments to IFRS 17, and in the light of the criteria for assessing any such potential amendment,

[1] https://www.ifrs.org/news-and-events/updates/iasb-updates/june-2018/#6

whether the mandatory effective date of IFRS 17 should be deferred by one year, so that entities will be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022; and

(b) if the Board were to defer the mandatory effective date of IFRS 17 by one year, whether the fixed expiry date for the temporary exemption to IFRS 9 in IFRS 4 should be amended so that all entities must apply IFRS 9 for annual periods beginning on or after 1 January 2022.

Structure of this paper

5. This paper:

   (a) provides background (paragraph 6);

   (b) considers the implications of exploring amendments to IFRS 17 on the effective date of IFRS 17 (paragraphs 7–21);

   (c) considers the implications of amending the effective date of IFRS 17 on the fixed expiry date for the temporary exemption to IFRS 9 (paragraphs 22–32).

Background

6. At its October 2018 meeting, the Board tentatively decided that when proposing any amendment to IFRS 17, in addition to demonstrating a need for the amendment, the staff must show that any proposal meets the following criteria:

   (a) the amendments would not result in significant loss of useful information relative to that which would otherwise be provided by IFRS 17 for users of financial statements—any amendments would avoid:

      (i) reducing the relevance and faithful representation of information in the financial statements of entities applying IFRS 17;

      (ii) causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17; or

      (iii) increasing complexity for users of financial statements, thus reducing understandability.

(b) the amendments would not unduly disrupt implementation already under way or risk undue delays in the effective date of IFRS 17, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.

Effective date of IFRS 17

IFRS 17 requirements

7. An entity is required to apply IFRS 17 for annual periods beginning on or after 1 January 2021. An entity can choose to apply IFRS 17 before that date but only if it also applies IFRS 9 and IFRS 15 *Revenue from Contracts with Customers*.

Board's rationale

8. Paragraph 6.35 of *The IASB and IFRS Interpretations Committee Due Process Handbook* provides the following guidance on setting the mandatory effective date of a new Standard:

> The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

9. The Basis for Conclusions on IFRS 17 sets out the Board's rationale for the effective date of IFRS 17 as follows:

> BC402 The Board generally allows at least 12 to 18 months between the publication of a new Standard and its mandatory effective date. However, in the case of major Standards, such as IFRS 17, that have a pervasive effect on entities, the Board has allowed longer implementation periods to allow entities time to resolve the operational challenges in implementing those Standards. At the same time, the Board needs to balance the advantage of a longer implementation period for preparers against the disadvantages of allowing inferior accounting practices, arising from IFRS 4, to continue.
>
> BC403 The Board noted that IFRS 17 will be complex for entities to apply. Accordingly, the Board decided that IFRS 17 should be applied by all entities

for annual periods beginning on or after 1 January 2021, a period of approximately three and a half years from publication of the Standard. This allows entities a period of two and a half years to prepare, taking into accounting the need to restate comparative information.

BC404 While the Board noted that this long implementation period may assist entities in meeting any increased regulatory capital requirements that follow the reporting of the higher liabilities that are expected in some jurisdictions, regulatory capital requirements and IF Standards have different objectives. The Board decided that the possible effects of regulatory capital requirements should not delay the implementation of a Standard intended to provide transparency about an entity's financial position.

10. Accordingly, the Board allowed a period of three and a half years from the issuance of IFRS 17 to its mandatory effective date.

Concerns and implementation challenges

11. Some stakeholders state that there is insufficient time to implement IFRS 17 before its effective date. Some stakeholders suggested that the Board should postpone the effective date of IFRS 17, by one, two or three years, for the following reasons:

    (a) entities need more time to prepare than they originally expected.

    (b) a successful implementation of IFRS 17 requires dependence on internal or third party experts, particularly actuaries and IT systems providers. Some stakeholders are concerned that limitations in the availability of those resources will make it difficult for them to implement IFRS 17 on time.

    (c) there is insufficient lead time for some stakeholders to inform and prepare investors, analysts and other users of financial statements about the significant changes in reported information that will arise from the implementation of IFRS 17.

    (d) other elements, outside the control of entities, relating to resources, education, operational change management, regulatory capital and supervision, and taxation might not realistically be complete before 1 January 2021.

(e) potential delays to the European Union endorsement process might mean that entities around the world will not initially apply IFRS 17 at the same time.

12. On the other hand, other stakeholders have told us that they expect to be ready to apply the requirements by 1 January 2021. Some of those stakeholders have commented that while a short delay of one year could be helpful, a longer delay would be disruptive and could increase costs, without a corresponding benefit. For example, some entities might interrupt implementation processes that are already under way, or suffer from a de-prioritisation or removal of resources allocated to those implementation processes. Some stakeholders noted their experience of changing effective dates when implementing regulatory changes demonstrated that deferring effective dates can increase costs.

13. Irrespective of their views on the need to delay, many stakeholders have told us that it would be useful (such as for planning and budgeting purposes) to understand sooner rather than later if the Board were to amend the effective date of IFRS 17.

Staff analysis

14. The staff note that the Board amended IFRS 15 in April 2016, after its issuance but before its mandatory effective date. While considering those amendments, the Board, in September 2015, deferred the mandatory effective date of IFRS 15. At that time, the Board noted that deferral of the mandatory effective date of IFRS 15 before it was implemented was only justified due to the exceptional nature of the circumstances surrounding the implementation of IFRS 15. The Board concluded that the circumstances for IFRS 15 were exceptional for three reasons, only one of which — that any amendments would affect entities that would wish to apply those amendments at the same time as they apply IFRS 15—might be relevant to IFRS 17. The basis for the Board’s decision to defer the effective date of IFRS 15 is set out in the appendix to this paper.

15. As described in paragraph 9 of this paper, the staff also note that the Board set the mandatory effective date in the knowledge that IFRS 17 represented a fundamental change to the accounting for insurance contracts for most entities that issue insurance contracts, and would place significant demands on resources, both internal and

external to those entities. In setting the effective date, the Board already provided a considerable amount of time between issuing IFRS 17 and the effective date, anticipating that some entities would be required to gather data, change information technology systems and processes when applying the Standard.

16. For entities that are already implementing IFRS 17 and expect that they could be ready to apply the requirements by 1 January 2021, a deferral of the effective date could cause amendments to project plans already underway and could increase costs. Consequently, deferring the effective date may appear to penalise those that expect to be ready for 2021, and reward those that have been slower to implement. It may also encourage some entities, that have not already started to implement the Standard, to delay that implementation even further.

17. Accordingly, the staff do not think that the arguments that entities need more time justifies the deferral of the mandatory effective date of IFRS 17.

18. However, the staff note that the Board is expected to consider whether to explore amendments to IFRS 17 at its December 2018 meeting. At its October 2018 meeting, the Board tentatively decided that in addition to demonstrating a need for any amendment, the staff must show that any proposal meets specified criteria, including that any amendment would not unduly disrupt implementation already under way or risk undue delays in the effective date of IFRS 17, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.

19. The staff note that, if the Board were to propose any amendments to IFRS 17, any uncertainty about those amendments could disrupt the progress of preparers in implementing IFRS 17. That disruption could result even if any amendments served to ease implementation. In addition, some stakeholders have noted that waiting until close to the effective date before permitting a deferral adversely affects most those entities that are furthest advanced in implementation. Those stakeholders have requested the Board to indicate sooner rather than later if it will amend the effective date of IFRS 17, regardless of whether they wanted a deferral.

20. The staff think that any amendments that the Board might propose to IFRS 17 when it considers the concerns and implementation challenges identified by stakeholders are likely not to be finalised for at least a year. This is because of the need to develop an

Exposure Draft, allow an appropriate comment period, and redeliberate any proposals. In addition, the staff preliminary views in Agenda Paper 2D *Concerns and implementation challenges* for the October 2018 Board meeting indicate that any amendments could go beyond merely clarifying the requirements of IFRS 17, in contrast to the amendments to IFRS 15 that prompted the deferral of its effective date. While some might argue that there will be continued uncertainty about possible amendments to IFRS 17 until the Board decides to either finalise or not proceed with any proposed amendments, the Board's criteria for any amendments requires that there would be a high hurdle for any changes that risk undue delays in the effective date of IFRS 17, given that it is needed to address the many inadequacies in the existing wide range of insurance accounting practices.

21. The staff think that this uncertainty, together with the significant and pervasive change that IFRS 17 will cause for many entities that issue insurance contracts, represent exceptional circumstances surrounding the implementation of IFRS 17. If the Board agrees, it could indicate now that it will defer the effective date of IFRS 17. To meet the Board's criteria that any amendment should not unduly disrupt implementation already under way or risk undue delays in the effective of IFRS 17, the deferral could be limited to one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022. Limiting a deferral to one year would also minimise disruption to entities that are furthest advanced in implementation.

Question 1 for Board members
Do you think that, given the Board plans to consider whether to explore amendments to IFRS 17, and in the light of the criteria for assessing any such potential amendment, the mandatory effective date of IFRS 17 should be deferred by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022?

Temporary exemption to IFRS 9

IFRS 4 requirements

22. IFRS 4 as amended in September 2016 permits:

    (a) entities whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021; and

    (b) all issuers of insurance contracts to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before IFRS 17 (overlay approach).

Board's rationale

23. The Board observed that although the overlay approach addressed concerns about the additional accounting mismatches and volatility in profit or loss that may arise when IFRS 9 is applied in conjunction with IFRS 4, it would result in additional costs compared to applying IFRS 9 without the overlay approach or allowing insurers to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement*.

24. Accordingly, the Board introduced a temporary exemption from IFRS 9 for a limited period for insurers whose activities are predominantly connected with insurance. An insurer applying the temporary exemption continues to apply IAS 39 rather than applying IFRS 9. The Board concluded that, for such insurers in that limited period, the temporary exemption reduces costs in a way that would outweigh the following disadvantages:

    (a) users of financial statements would not have the significantly improved information about financial instruments provided by applying IFRS 9; and

    (b) cross-sector comparability would be reduced.

25. IFRS 17 replaces IFRS 4 and, therefore, the temporary exemption from IFRS 9 will no longer exist when the insurer first applies IFRS 17. However, the Board decided that, even if IFRS 17 is not effective by 1 January 2021, all insurers must apply

IFRS 9 for annual periods beginning on or after 1 January 2021. Paragraph BC276 of the Basis for Conclusions on IFRS 4 states:

> The Board considered the view that an insurer should be required to apply IFRS 9 only when it applies the forthcoming insurance contracts Standard. However, the Board disagreed with that view because IFRS 9 provides significant improvements to the accounting requirements for financial instruments. Hence, the Board decided that a temporary exemption from IFRS 9 would be acceptable only if it is in place for a short period of time. Therefore, insurers are required to apply IFRS 9 no later than 2021.

26. In contrast, the Board rejected a fixed expiry date for the overlay approach. Unlike insurers applying the temporary exemption from IFRS 9, insurers applying the overlay approach will provide the improved financial instrument information required by IFRS 9 and information about the effects on designated assets of moving from IAS 39 to IFRS 9. IFRS 17 replaces IFRS 4 and, therefore, the overlay approach in IFRS 4 will no longer exist when the insurer first applies IFRS 17.

Concerns and implementation challenges

27. Some stakeholders are concerned that if the Board were to defer the mandatory effective date of IFRS 17, preparers and users of financial statements will experience two sets of major accounting changes in a short period of time resulting in significant cost and effort for preparers and users of financial statements. Those stakeholders suggested that if the Board were to defer the mandatory effective date of IFRS 17, the Board should also revise the fixed expiry date of the temporary exemption from IFRS 9 in IFRS 4 to allow entities to continue applying the temporary exemption from IFRS 9 until the newly determined effective date of IFRS 17.

Staff analysis

28. The staff note that the effective date of IFRS 9 for entities whose predominant activities are connected with insurance does not affect the benefits arising from IFRS 17 requirements. However, it does affect the usefulness of information that is provided to users of financial statements about the financial instruments those entities

hold. This is particularly important given that entities that issue insurance contracts hold significant amounts of financial instruments.

29. The staff also note that entities applying the temporary exemption from applying IFRS 9 will be applying IFRS 9 up to three years after other entities. If the Board were to defer the effective date of IFRS 17 by one year and extend the temporary exemption from applying IFRS 9 at the same time, then some entities would be permitted not to apply IFRS 9 up to four years after other entities—ie potentially eight years after IFRS 9 was issued. A further delay might result in a loss of useful information because it would:

    (a) increase the risk of complexity and confusion for users of financial statements because of the continuing existence and use of different accounting standards for the same underlying instruments; and

    (b) extend the period over which:

        (i) the effect of market changes or disruptions would be reflected differently depending on which Standard is being applied; and

        (ii) poorer quality information about expected credit losses is provided by insurers who are significant holders of financial assets.

30. Thus, amending the fixed expiry date for the temporary exemption to IFRS 9 would result in significant loss of useful information compared to not making the amendment for the period until the temporary exemption has ended. Although the Board's criteria refer only to amendments to IFRS 17, the staff think the principle of the criteria should also be applied to amending IFRS 4.

31. The staff note that the reasons that the Board provided the temporary exemption to IFRS 9—ie additional accounting mismatches and volatility in profit or loss that may arise when IFRS 9 is applied in conjunction with IFRS 4 together with additional costs compared to applying IFRS 9 without the overlay approach or allowing insurers to continue to apply IAS 39—still exist. However, the staff also note that the reasons for setting a fixed expiry date of 1 January 2021—ie that IFRS 9 provides significant improvements to the accounting requirements for financial instruments and a temporary exemption would be acceptable only if it is in place for a short period of time—also still exists. Paragraph BC275 of the Basis of Conclusions to IFRS 4 states:

The forthcoming insurance contract Standard will replace IFRS 4 and therefore, the temporary exemption from IFRS 9 will no longer exist when the insurer first applies that forthcoming Standard. However, the Board decided that, even if the forthcoming insurance contract Standard is not effective by 1 January 2021, all insurers must apply IFRS 9 for annual periods beginning on or after 1 January 2021.

32. There has been no change in information since the Board finalised the amendments to IFRS 4. However, the staff think that in concluding that a fixed expiry date for the temporary exemption is needed, the Board was seeking to balance the need to ensure that the improved information that results from applying IFRS 9 would be provided without undue delay with the desire to provide cost relief compared to the overlay approach in IFRS 4. It could be argued that if the effective date of IFRS 17 were to be deferred by one year, the benefit of extending the period that cost relief is available could outweigh the disadvantage of an additional delay to the improved information that would result from insurers applying IFRS 9. If the Board agrees with that view, it could amend the fixed expiry date for the temporary exemption to IFRS 9 so that all entities must apply IFRS 9 for annual periods beginning on or after 1 January 2022.

Question 2 for Board members
Do you think that if the Board were to defer the mandatory effective date of IFRS 17 by one year, the Board should amend the fixed expiry date for the temporary exemption to IFRS 9 in IFRS 4 so that all entities must apply IFRS 9 for annual periods beginning on or after 1 January 2022?

Appendix: Extract from Basis for Conclusions on Effective Date of IFRS 15

Deferral of effective date (amendment issued in September 2015)

BC453A After issuing IFRS 15 and Topic 606, the IASB and the FASB formed a joint Transition Resource Group (TRG) for Revenue Recognition to support the implementation of the Standard. The TRG discussed submissions from stakeholders and its discussions on five topics indicated potential differences of views on how to implement the requirements in IFRS 15. Consequently, those topics were discussed by the boards and each board decided to propose targeted amendments to IFRS 15 and Topic 606. The IASB published an Exposure Draft Clarifications to IFRS 15 in July 2015. In the light of those proposed amendments, the IASB and the FASB each discussed whether to defer the effective date of the Standard.

BC453B The IASB observed that changing the effective date of a Standard shortly after its issuance creates uncertainty for stakeholders and has the potential to set a bad precedent. The effective date is set after consideration of information obtained in the exposure process about the time needed to implement the requirements. Accordingly, the IASB would consider changing the effective date only in exceptional circumstances. The IASB noted that it had already provided a considerable amount of time between issuing IFRS 15 and the effective date, anticipating that some entities would be required to change information technology systems and processes when applying the Standard. The IASB has also provided substantive relief on transition to IFRS 15 by giving entities a choice of transition methods, one of which does not involve the restatement of comparative financial information. In addition, the IASB observed that the proposed amendments noted in paragraph BC453A are expected to clarify, rather than change, the requirements of the Standard.

BC453C Nonetheless, the IASB decided to propose a deferral of the effective date of IFRS 15 by one year to 1 January 2018 because of the combination of the following factors that result in the circumstances surrounding the implementation of IFRS 15 being exceptional:

(a) The IASB acknowledged that, although intended to provide clarity, the proposed amendments to IFRS 15 noted in paragraph BC453A may affect some entities that would wish to apply any amendments at the same time as they first apply IFRS 15. Those entities are likely to wish to avoid reporting changes to revenue when first implementing the Standard and then, within a year or two, potentially reporting further changes to revenue as a result of applying any amendments to the Standard. For those entities, a deferral of the effective date by one year would provide additional time to implement any amendments to the Standard.

(b) IFRS 15 was issued later than had been anticipated when the IASB set the effective date of the Standard, which absorbed some of the implementation time that entities were expecting to have.

(c) IFRS 15 is a converged Standard with Topic 606—although this was not the only consideration, the IASB observed that there are benefits for a broad range of stakeholders of retaining an effective date that is aligned with the effective date of Topic 606.

BC453D Accordingly, the IASB published the Exposure Draft Effective Date of IFRS 15 in May 2015 proposing to defer the effective date of IFRS 15 by one year.

BC453E The IASB concluded that a one-year deferral would be sufficient in terms of providing additional time to implement IFRS 15. IASB members observed that the issuance of IFRS 15 in May 2014 had been later than anticipated by some months, not years. Accordingly, a deferral of the effective date of IFRS 15 for anything longer than one year would unnecessarily delay transition by many entities to a new Standard that the IASB views as a substantial improvement to financial reporting.

BC453F Almost all respondents to the Exposure Draft agreed with the proposal to defer the effective date of IFRS 15 for one or more of the reasons noted by the IASB, some noting the exceptional nature of the circumstances surrounding the implementation of IFRS 15. Most also agreed that a one-year deferral should be sufficient and would improve the quality of implementation.

BC453G In the light of the feedback received, the IASB confirmed its decision to defer the effective date of the Standard. The IASB did not change its previous decision to permit early application of IFRS 15.

BC453H For factors similar to those considered by the IASB, the FASB issued an Accounting Standards Update 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date in August 2015 also deferring the effective date of Topic 606 for all entities by one year. Consequently, a public entity would be required to apply Topic 606 to annual reporting periods beginning after 15 December 2017. The FASB decided to permit early application of Topic 606 by all entities, but not before the original effective date of Topic 606 for a public entity (ie annual reporting periods beginning after 15 December 2016).