IFRS

# STAFF PAPER

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**IASB® meeting**

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| **Project** | **Insurance Contracts** |
| Paper topic | Criteria for evaluating possible amendments to IFRS 17 |

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## Introduction

1. Since IFRS 17 *Insurance Contracts* was issued on 18 May 2017, the staff and the Board have been monitoring implementation of the Standard and engaging in various activities that support implementation, including educational activities.

2. Through these activities, the staff and the Board have become aware of concerns and implementation challenges, including those related to the costs and benefits of IFRS 17, that arise because the requirements of IFRS 17 make fundamental changes to existing insurance accounting practices for entities that issue insurance contracts. The staff reported some of these concerns and implementation challenges to the Board at its May 2018 meeting.[1]

3. Agenda Paper 2D *Concerns and implementation challenges* provides an overview of the main concerns and implementation challenges, including those related to the costs and benefits of IFRS 17, that have been identified. This paper discusses criteria that the Board should consider in evaluating possible amendments to IFRS 17.

4. At this meeting, the Board is not asked **whether** the Standard should be amended. Depending on the Board's feedback at this meeting the staff will bring papers to future meetings to consider whether any amendments to IFRS 17 are justified. The staff also note that should the Board decide to amend the Standard, any such

[1] Refer to Agenda Paper 2C *TRG for IFRS 17 Insurance Contracts: Implementation challenges outreach report* for the May 2018 Board meeting.

amendment would be subject to the Board's due process for amendments to Standards, including developing an Exposure Draft.

## Staff recommendations

5. At a future meeting, the staff plan to ask the Board to consider whether any of the concerns and implementation challenges, including those relating to the costs and benefits of IFRS 17, indicate that there might be a need to amend the requirements of IFRS 17.

6. The staff recommend that the Board's assessment of whether there is a need to amend IFRS 17 should be balanced with the need to limit any such amendments to those that meet the following criteria:

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

      (i) reducing the relevance and faithful representation of information in the financial statements of entities that issue insurance contracts;

      (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 processes that are already under way or risk undue delays in the effective date of a Standard that is needed to address many inadequacies in the existing wide range of insurance accounting practices.

7. Even if the Board agrees that any potential amendment to IFRS 17 should meet the criteria in paragraph 6 of this paper, it does not mean that all amendments meeting these criteria are justified.

## Staff analysis

8. At a future meeting, the staff plan to ask the Board to consider whether any of the concerns and implementation challenges, including those relating to the costs and benefits of IFRS 17, indicate that there might be a need to amend the requirements of IFRS 17. This paper does not consider whether amendments are justified. Instead, this paper considers the following factors that the staff think the Board should consider as it assesses whether there is a need to amend IFRS 17:

   (a) the potential for significant loss of useful financial information relative to that which would be provided by IFRS 17 for users of financial statements; and

   (b) the potential for undue disruption to implementation processes that are already under way or risk of undue delays in the effective date of a Standard that is needed to address many inadequacies in the existing wide range of insurance accounting practices.

### *Significant loss of useful financial information for users of financial statements*

9. IFRS 17 will provide more useful financial information for users of financial statements than they have today. This is because IFRS 17 will address many inadequacies in existing insurance accounting practices, in particular by:

   (a) introducing current, transparent and consistent financial information about insurance contracts; and

   (b) removing the diversity in accounting for insurance contracts that exists when applying IFRS 4, the existing Standard for insurance contracts.

10. The staff think that, if the Board were to consider any amendments to IFRS 17, those amendments should not reduce the usefulness of financial information in the financial statements of entities that issue insurance contracts relative to that which would be provided by IFRS 17.[2] The usefulness of financial information would be reduced if

[2] The Qualitative Characteristics of Useful Financial Information identify the types of information that are likely to be most useful to users of financial statements. They are discussed in Chapter 2 of the *Conceptual Framework for Financial Reporting*.

any amendments were to detract from the qualitative characteristics of useful financial information, in particular if any amendments were to:

(a) reduce the relevance or faithful representation of the financial statements of entities that issue insurance contracts. A reduction in relevance and faithful representation of the financial statements might arise if the amendment were to result in less information about profit or loss, including the sources of profit or loss and changes in profit or loss over time.

(b) result in reduced comparability or introduce internal inconsistency in IFRS Standards, including within IFRS 17.

(c) increase complexity for users of financial statements, thus reducing understandability. An example of increased complexity contributing to reduced understandability would be adding further options in the Standard or increasing the extent of subjectivity.

### *Relevance and faithful representation*

11. The Board's view is that IFRS 17 will result in information about insurance contracts that is relevant and provides a faithful representation of the effect of insurance contracts on an entity's financial position and performance. IFRS 17 was developed after extensive engagement with stakeholders, including three public consultations, four rounds of field work and hundreds of meetings, round tables and other outreach activities. That engagement included extensive discussions with preparers and users of financial statements, actuaries, regulators, standard-setters and accounting firms worldwide. In addition, the Board received more than 600 comment letters responding to its Exposure Drafts.

12. Since IFRS 17 was issued, the staff and Board members have met with over 500 users of financial statements in over 100 meetings to explain how the Standard would affect financial statements. The meetings were based on informative materials (for example, the Effects Analysis on IFRS 17 and Project Summary of IFRS 17), as well as discussions to illustrate the information that IFRS 17 will provide to investors and analysts compared to today.

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

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

        (i) a comprehensive, consistent IFRS Standard for insurance contracts to be applied globally.

        (ii) 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. They also supported improved comparability with similar transactions by non-insurance entities, in particular the treatment of revenue and investment components.

        (iii) 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;

        (ii) the extent of entity-specific judgements; and

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

    (c) many investors and analysts also however 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.

14. The extensive due process undertaken during the development of the Standard and the positive feedback from users of financial statements for the outcomes of the Standard

suggest to the staff that the Board should set a high hurdle for changes to the Standard.

### *Reduced comparability and consistency in IFRS Standards*

15. As noted in the Effects Analysis accompanying IFRS 17, the Board expects IFRS 17 to improve significantly the comparability between entities issuing the same type of insurance contracts; similar insurance contract issued by the same group in different jurisdictions; and entities operating in the insurance industry and entities operating in other industries. Comparability is a qualitative characteristic of useful financial information that enables users of financial statements to identify and understand similarities in, and differences among, items.

16. Paragraph 2.26 of the *Conceptual Framework for Financial Reporting* notes that consistency helps to achieve comparability. The staff observe that there are many interdependencies within IFRS 17, which increases the risk that any amendment to the requirements in the Standard could create internal inconsistency.

17. The staff think that the Board should avoid any amendments that reduce comparability or introduce inconsistency in IFRS Standards, including within IFRS 17.

### *Increased complexity for users of financial statements*

18. Over the course of the project to develop IFRS 17, the Board has responded to stakeholder concerns by introducing revisions and refinements, and hence some complexity for users of financial statements in understanding the requirements of the Standard. For example, the introduction of the options relating to other comprehensive income following the 2010 Exposure Draft *Insurance Contracts*, and the introduction of the variable fee approach following the 2013 Exposure Draft *Insurance Contracts* introduced additional complexity for users of financial statements. As a result, many stakeholders already consider IFRS 17 to be a complex Standard. Accordingly, the staff believe that the introduction of additional complexity for users of financial statements could undermine the understandability, and hence usefulness, of the financial information that would arise when IFRS 17 is implemented.

### *Undue disruption to implementation processes that are already under way*

19. If the Board were to decide that any amendments to IFRS 17 are needed and that the amendments would not reduce significantly the usefulness of the financial information relative to that which would be provided by IFRS 17 for users of financial statements, a second consideration is the risk of disrupting implementation processes already under way.

20. Amendments to a Standard before its mandatory effective date could:

    (a) disrupt preparers' implementation processes already underway. Entities and others have already reached, or are in the process of reaching, their conclusions about how to account for their contracts under the new Standard. In some cases, those conclusions will have resulted in changes to systems. If the Board were to propose amendments to IFRS 17, there would be a period of uncertainty while those proposals are developed, consulted on and redeliberated. If the proposed amendments were to be confirmed, entities may need to revisit the work they have already done to implement the recently-issued Standard, causing undue costs. This could disadvantage most those who have sought to implement the Standard on a timely basis.

    (b) have implications that depend on the different ways in which IFRS 17 is incorporated into different jurisdictions. In particular, amendments to an issued Standard may create the need to translate the amendments and incorporate them into a Standard that may be partly through its incorporation process. This may create an unwarranted burden in some jurisdictions, particularly if the issue could have been resolved through other means.

    (c) risk delay to and increase uncertainty over the mandatory effective date of IFRS 17 if the extent of amendments were to necessitate the deferral of the effective date of IFRS 17. Such uncertainty over the effective date of IFRS 17 could add to the costs of implementing IFRS 17 for those entities that have begun implementation projects. Our outreach indicates that some stakeholders regard a one-year deferral as helpful for them to refine their implementation programmes, but that a longer deferral would be disruptive and could mean that significant additional implementation costs could be incurred. In determining what amendments if any to make to IFRS 17, the Board will need to balance the potential benefit of any amendments against the effect of an undue delay to a Standard that is needed to address many inadequacies in the existing wide range of insurance accounting practices.

## Conclusions

21. The Board has consistently stated its intention to monitor implementation of IFRS 17 and act if needed. The papers for this meeting summarise the main concerns and implementation challenges of stakeholders implementing IFRS 17. In the coming months the Board needs to assess these concerns and implementation challenges and determine whether standard-setting is needed to amend IFRS 17.

**Question for Board members**

Do you agree that the Board's assessment of whether there is a need to amend IFRS 17 should be balanced with the need to limit any such amendments to those that meet the following criteria:

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

  (i) reducing the relevance and faithful representation of information in the financial statements of entities that issue insurance contracts;

  (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 processes that are already under way or risk undue delays in the effective date of a Standard that is needed to address many inadequacies in the existing wide range of insurance accounting practices?