IFRS

STAFF PAPER

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Project	**Transition Resource Group for IFRS 17 *Insurance Contracts***
Paper topic	Reporting on other questions submitted

CONTACT(S)	Laura Kennedy	lkennedy@ifrs.org	+44 (0) 20 7246 6437
	Hagit Keren	hkeren@ifrs.org	+44 (0) 20 7246 6919

Introduction

1. This paper summarises other questions submitted to the Transition Resource Group for IFRS 17 *Insurance Contracts* (TRG). These submissions have been categorised as questions 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).

2. Submissions *not* summarised in this paper are those:

   (a) that are discussed in a separate agenda paper;

   (b) for which the staff have requested further information from the submitter; or

   (c) that will be considered for discussion at a future TRG meeting.

(a) Questions that can be answered applying only the words in IFRS 17 *Insurance Contracts*

The staff will consider publishing educational materials on these topics in the future to further support implementation.

Log #	Topic	Question	Response
S33	Scope of IFRS 17—loan to buy a non-financial asset	The submission describes a specific fact pattern of a loan contract to buy a non-financial asset and asks whether it is in the scope of IFRS 17. The loan is repaid to the entity via low instalments over the period of the loan and a final higher ‘balloon’ payment at maturity. At the maturity of the loan, the customer can choose to return the non-financial asset to the entity instead of making the final ‘balloon’ payment. The submission states that the contract does not meet the definition of a lease in IFRS 16 *Leases* and that the entity granting the loan is not a manufacturer, dealer or retailer of the non-financial asset. Therefore, the scope exclusions for residual value guarantees in paragraph 7(d) of IFRS 17 do not apply.	A contract should be assessed against the definition of an insurance contract and the scope requirements of IFRS 17. When assessing whether the contract meets the definition of an insurance contract, an assessment is made as to whether the contract transfers significant insurance risk. The definition of an insurance contract in IFRS 17 is the same as the definition of an insurance contract in IFRS 4 *Insurance Contracts*, with clarifications to the related guidance in Appendix B of IFRS 4.[1] Example 1.15 within paragraph IG2 of the Guidance on Implementing IFRS 4 includes factors to consider when assessing whether a contract with a residual value guarantee meets the definition of an insurance contract or, alternatively, meets the definition of a derivative in the scope of IFRS 9 *Financial Instruments*.

[1] The clarifications in IFRS 17 require that: (i) an entity should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant; and (ii) a contract does not transfer significant insurance risk if there is no scenario with commercial substance in which the entity can suffer a loss on a present value basis.

Log #	Topic	Question	Response
S33	Scope of IFRS 17—loans that may waive some or all of the payments due under the contract on death	The submission describes the features of three loan contracts and asks whether IFRS 17 would apply to those contracts. Although the three loan contracts have different features, all contracts combine a loan with an agreement from the entity to compensate the borrower—by waiving some or all the payments due under the contract (ie repayment of the loan balance and payment of interest)—if a specified uncertain future event adversely affects the borrower, ie death.	A contract should be assessed against the definition of an insurance contract and the scope requirements of IFRS 17. When assessing whether the contract meets the definition of an insurance contract, an assessment is made as to whether the contract transfers significant insurance risk. The definition of an insurance contract in IFRS 17 is the same as the definition of an insurance contract in IFRS 4, with clarifications to the related guidance in Appendix B of IFRS 4.[1] Example 1.24 within paragraph IG2 of the Guidance on Implementing IFRS 4 notes that a loan contract that waives repayment of the entire loan balance if the borrower dies contains an insurance component equivalent to a cash death benefit.

Log #	Topic	Question	Response
S33	Scope of IFRS 17—credit cards providing its holder coverage for a supplier failure	The submission describes a specific credit card contract and asks whether IFRS 17 would apply to that contract. The submission notes that local regulation requires the entity to provide coverage for some purchases made by the customer using the credit card. Under this coverage, the entity: (a) must refund the customer for some claims against a supplier in respect of a misrepresentation or breach of the purchase agreement (for example, if the goods are defective or if the supplier fails to deliver the goods); and (b) is entitled to be indemnified by the supplier for any loss the entity suffers in satisfying its liability with its customer. The submission also notes that the entity and the supplier are jointly and severally liable to the customer—ie the customer can choose whether to claim from the entity or from the supplier.	A contract should be assessed against the definition of an insurance contract and the scope requirements of IFRS 17. When assessing whether the contract meets the definition of an insurance contract, an assessment is made as to whether the contract transfers significant insurance risk. The definition of an insurance contract in IFRS 17 is the same as the definition of an insurance contract in IFRS 4, with clarifications to the related guidance in Appendix B of IFRS 4.[1] Paragraph B26 of IFRS 17 provides examples of contracts that are insurance contracts if the transfer of insurance risk is significant. Those examples include contracts that compensate the holder if another party fails to perform a contractual obligation (paragraph B26(f) of IFRS 17).

Log #	Topic	Question	Response
S33	Scope of IFRS 17—EBITDA guarantee	The submission describes a specific fact pattern of an entity that provides hotel management services. The service fee that the entity charges is determined as a percentage of gross hotel revenue. The entity also guarantees the hotel owner a specified level of EBITDA. To the extent that the actual hotel EBITDA is below the specified level, the entity is obligated to make payments to the hotel owner. The amount payable under the guarantee may exceed the amount of the service fee receivable. The submission asks whether the guarantee provided by the entity is within the scope of IFRS 17.	A contract should be assessed against the definition of an insurance contract and the scope requirements of IFRS 17. The definition of an insurance contract in IFRS 17 is the same as the definition of an insurance contract in IFRS 4, with clarifications to the related guidance in Appendix B of IFRS 4.[1] When assessing whether the contract meets the definition of an insurance contract, an assessment is made as to whether the contract transfers significant insurance risk. When assessing whether an insurance contract is within the scope of IFRS 17, an assessment is made as to whether any of the scope exclusions of IFRS 17 are applicable. IFRS 17 includes a scope exclusion for warranties provided by a manufacturer, dealer or retailer in connection with the sale of its services to a customer and also excludes contractual obligations contingent on the future use of a non-financial item (for example, contingent payments), as stated in paragraph 7 of IFRS 17.
S33	Separating components from an insurance contract	The submission notes that, although the definition of an insurance contract in IFRS 17 is the same as the definition in IFRS 4 *Insurance Contracts*, the requirements in IFRS 17 for the separation of non-insurance components differ from the requirements in IFRS 4. The submission provides several views on whether non-insurance components embedded in an insurance contract could be accounted for separately applying IFRS 17.	Paragraphs 10–12 of IFRS 17 require an entity to account separately for non-insurance components only if specified criteria are met. If those specified criteria are not met IFRS 17 requires that the contract is accounted for as an insurance contract in its entirety. Therefore, when applying IFRS 17 an entity might be required to account for loans and other forms of credit that include a relatively small insurance component entirely as insurance contracts. The staff plan to bring this to the attention of the International Accounting Standards Board (Board).

Log #	**Topic**	**Question**	**Response**
S56 & S67	Reporting frequency	S56 asks for the requirements in paragraph B137 of IFRS 17 to be extended to apply to monthly reporting that is prepared for internal management reporting and external regulatory reporting. The submission notes the operational issues and the complexity involved in developing systems considering the disparity in procedures between monthly closing and quarterly interim reporting. S67 asks, when the reporting frequency of an entity differs from the reporting frequency of its subsidiary, whether the measurement of contracts issued by the subsidiary should be the same in the entity's consolidated financial statements and the subsidiary's financial statements.	The requirements in paragraph B137 of IFRS 17 are an exception to the requirements in IAS 34 *Interim Financial Reporting*. The exception applies only to interim reports prepared applying IAS 34. If a subsidiary prepares annual IFRS financial statements but does not prepare interim reports applying IAS 34, paragraph B137 of IFRS 17 is not applicable to that subsidiary. Therefore, applying the requirements of IFRS 17, subject to materiality considerations, may result in different measurement of insurance contracts issued by the subsidiary in the subsidiary's financial statements and in the group's consolidated financial statements.
S57	Accounting for crediting rate changes	The submission considers whether a difference between the expected and the actual crediting rate applied to a policyholder's account balance is included in insurance finance income or expense or adjusts the contractual service margin applying paragraph B96(c) of IFRS 17. The submission is focused on insurance contracts without direct participation features for which the account balance is expected to become payable in the future and ignores the effect of any discretion.	Paragraph B96(c) of IFRS 17 is applicable for differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period. In the fact pattern provided, the account balance is not expected to become payable in the period and does not become payable in the period, therefore paragraph B96(c) of IFRS 17 is not applicable.

Log #	Topic	Question	Response
S60	Presentation of separate accounts	The submission asks, for insurance contracts that transfer most of the risks and benefits linked to asset-management to policyholders, whether the entity can disaggregate line items in the statement of financial position to present separately: (a) a single asset line item for all financial instruments that the premiums received from the policyholders have been invested in (for example, cash, loans and other securities); and (b) a separate liability line item for the portion of the insurance contract liability that is equal to the value of the single asset line item.	Paragraph 54 of IAS 1 *Presentation of financial statements* states which line items are required to be presented in the statement of financial position. This includes requirements for presenting insurance contracts and financial instruments. For example, IAS 1 requires cash to be presented separately from other financial instruments. For insurance contracts, the following line items are required to be presented in accordance with paragraph 78 of IFRS 17: (a) groups of insurance contracts that are assets; and (b) groups of insurance contracts that are liabilities. As well as presenting those required line items, applying IAS 1 an entity shall present additional line items (including by disaggregating the required line items), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.

Log #	Topic	Question	Response
S62	Coverage that an entity can cancel at any time	The submission considers a specific type of entity in which parties become members by purchasing an insurance contract. Members of the entity are also provided with free additional insurance coverage. The entity can cancel the free additional insurance coverage at any time. The submission asks whether cash flows related to the free additional coverage are within the boundary of the insurance contracts purchased by policyholders.	An entity applies paragraph 2 of IFRS 17 to determine the rights and obligations arising from an insurance contract. The right of an entity to cancel coverage at any time means that the entity does not have a substantive obligation to provide future services related to the free additional insurance coverage. The expected cash flows related to future free additional insurance coverage are therefore not included in the boundary of the insurance contract and are not included in the liability for remaining coverage. If the entity has a substantive obligation for the free additional insurance coverage that has already been provided, such as unpaid claims, the cash flows related to that coverage are within the boundary of the contract and are included in the liability for incurred claims.
S64	Discounting cash flows	The submission notes that applying paragraph 59(b) of IFRS 17 for the premium allocation approach (PAA), an entity is not required to adjust future cash flows in the liability for incurred claims for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred. The submission asks why this option is limited to groups of contracts applying the PAA and notes that different interpretations may be applicable for discounting liabilities for incurred claims related to groups of contracts applying the general model.	The practical expedient in paragraph 59(b) of IFRS 17, as explained in paragraph BC294 of the Basis for Conclusions on IFRS 17, is a simplification that applies only to groups of insurance contracts accounted for applying the premium allocation approach which is a simplified approach. Applying the requirements of IFRS 17 to contracts applying the general model, subject to materiality considerations, an entity is required to adjust the estimates of future cash flows to reflect the time value of money and the effect of financial risk.

Log #	Topic	Question	Response
S75	Boundary of a reinsurance contract issued	The submission asks which cash flows are within the boundary of an annual reinsurance contract issued if the reinsurer has the right to compel the cedant to pay contractually agreed premiums for 12 months and has the option to reprice the contract at 90 days' notice. If the reinsurer exercises its right to reprice the contract, the cedant can accept the new terms or terminate the contract. The submission notes that a similar example was discussed in the May 2018 TRG meeting from the perspective of the cedant and asks whether there is an expectation of a symmetrical treatment of the contract boundary between the reinsurer and the cedant.	This example is similar to the example in Agenda Paper 4 *Boundary of reinsurance contracts held with repricing mechanisms* of the May 2018 TRG meeting. In that paper, the example was from the perspective of the cedant and in this example it is from the perspective of the reinsurer. The contract boundary is the same from each perspective because: (a) when the cedant has a right to receive services, the reinsurer has an obligation to provide services; and (b) when the cedant has an obligation to pay premiums, the reinsurer has a right to compel premiums.

Log #	Topic	Question	Response
S79	Contract boundary and investment component	The submission considers insurance contracts with direct participation features and asks whether cash flows that relate to periods when insurance coverage is no longer provided and the policyholder bears all the risks related to the investment related services are within the boundary of the contract. The submission also asks, if the cash flows are within the boundary of the contract, whether this extends the coverage period of the contract to include the period in which the investment component exists but no insurance coverage is provided.	The coverage period is defined in IFRS 17.[2] An entity is required to apply paragraph 34 of IFRS 17 to determine cash flows within the boundary of a contract. Cash flows within the boundary of a contract may relate to periods in which coverage is no longer provided, such as when claims are expected to be settled in the future that relate to premium within the boundary of a contract. Also, periods of coverage may be outside the boundary of a contract, for example, if an entity can fully reprice premiums.

[2] At the June 2018 Board meeting, the Board tentatively decided to propose to clarify the definition of the coverage period for insurance contracts with direct participation features. The proposed amendment would clarify that the coverage period for such contracts includes periods in which the entity provides investment-related services.

(b) Questions that do not meet the submission criteria

The criteria established for the TRG state that implementation questions should 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.

Any question submitted should include a detailed description of the possible ways in which IFRS 17 could be applied.

Log #	Topic	Question	Response
S51	Significant possibility of becoming onerous	The submission notes that the use of the term ‘no significant possibility’ in paragraph 16(b) of IFRS 17 is grammatically incorrect and may have meant to say ‘no significant probability’ instead.	The term ‘no significant possibility’ in paragraph 16(b) of IFRS 17 should be interpreted in the context of the objective of the requirement. The objective is identifying contracts with no significant possibility of becoming onerous at initial recognition to group such contracts separately from contracts that are onerous at initial recognition and any remaining contracts in the portfolio that are not onerous at initial recognition.
S69	Risk mitigation and reinsurance contracts held	The submission asks why reinsurance contracts held are not considered a valid risk mitigation strategy within the context of paragraphs B115–B116 of IFRS 17 for contracts with direct participation features and recommends amending paragraph B116 of IFRS 17 accordingly.	The requirements in paragraphs B115–B116 of IFRS 17 are limited to derivatives that an entity uses to mitigate the financial risk arising from insurance contracts. These requirements are consistent with the Board’s decision described in paragraphs BC250–BC256 of the Basis for Conclusions on IFRS 17.

Log #	Topic	Question	Response
S81	Determining the risk adjustment for non-financial risk in a group of entities	The submission is a follow up on the discussion of this topic at the May 2018 TRG meeting. The submission considers how entities should conceptually and practically apply the risk adjustment for non-financial risk requirements to a consolidated group of entities. The submission notes that in the event that the Board is requested to review the acceptability of the two views expressed at the May 2018 TRG meeting, it is critical to have both views fully explained.	The summary of the May 2018 TRG meeting was reported to the Board at the June 2018 Board meeting. The summary notes that some TRG members agreed with the staff analysis that only the issuing entity that is party to the contract determines the compensation the entity would require for bearing non-financial risk related to insurance contracts that the entity issues. Therefore, for a group of insurance contracts issued by an entity that is party to the contract there is one risk adjustment for non-financial risk. Some TRG members commented that they could read the requirements in IFRS 17 differently. Those TRG members read the requirements as requiring different measurement of the risk adjustment for non-financial risk for groups of insurance contracts at different reporting levels if the issuing entity would require different compensation for bearing non-financial risk than the consolidated group would require.

(c) Questions that are being considered through a process other than a TRG discussion

Log #	Topic	Question	Response
S21 and S45	Accounting for insurance contracts issued by mutual entities	S21 asks how paragraph BC265 of Basis for Conclusions on IFRS 17 should be applied when the residual interest of the mutual entity is due to policyholders through a vehicle other than the insurance contract they hold. S45 asks whether a contractual service margin should be recognised for participating insurance contracts and non-participating insurance contracts issued by a mutual entity	Educational materials on how IFRS 17 applies to insurance contracts issued by a mutual entity have been developed by staff to support the implementation of IFRS 17. The educational materials consider both: (a) insurance contracts that provide the policyholder with a residual interest in the mutual entity; and (b) conventional insurance contracts issued by a mutual entity.
S73	Coverage units for contracts with cash flows that vary based on returns on underlying items	The submission asks for further clarification on coverage units, discussed in Agenda Paper 5 of the May 2018 TRG meeting, specifically on determining the quantity of benefits for contracts with cash flows that vary based on the returns on underlying items that may be in the general model or the variable fee approach. The submission includes two examples: (a) a universal life contract that pays the higher of a guaranteed sum or an account balance; and (b) a deferred annuity.	Determining the quantity of benefits for identifying coverage units was discussed both at the February 2018 TRG meeting and the May 2018 TRG meeting. The examples described in the submission illustrate similar considerations to the examples included in Appendix B to Agenda Paper 5 of the May 2018 TRG meeting, in particular examples 13 and 16. At the June 2018 Board meeting, the Board tentatively decided to propose to clarify the definition of the coverage period for insurance contracts with direct participation features. The proposed amendment would clarify that the coverage period for such contracts includes periods in which the entity provides investment-related services.