

STAFF PAPER

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IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Annual improvements		
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Introduction

1. Since IFRS 17 *Insurance Contracts* was published in May 2017, the staff have engaged in activities to support implementation of the Standard. As a result of those activities, the staff have become aware of instances where the drafting of IFRS 17 may not achieve what the International Accounting Standards Board (Board) intended.
2. In June 2018, the Board tentatively decided to propose minor changes to IFRS 17 for some such instances. At the time, the staff planned to make the changes as part of the Board's next *Annual Improvements to IFRS Standards Cycle*. However, because the Board has now also tentatively decided to issue an Exposure Draft proposing other changes to IFRS 17, the staff plan to include the minor changes in that Exposure Draft.
3. Since June 2018, through the ongoing implementation activities on IFRS 17, the staff have become aware of a number of other minor changes that would fall within the scope of the annual improvements process but could also be addressed in the Exposure Draft of proposed amendments to IFRS 17. These minor changes are the subject of this paper.

4. Appendices to this paper set out:
 - (a) Appendix A—Drafting for the amendments recommended in this paper; and
 - (b) Appendix B—Drafting for the amendments the Board tentatively decided in June 2018.

Staff recommendations

5. The staff recommend the Board propose the minor amendments to IFRS 17 set out in paragraphs 8–15 of this paper.
6. Draft wording for the amendments is set out in Appendix A to this paper.

Staff analysis

7. The changes to IFRS 17 discussed in this paper are limited to changes that either clarify the wording in a Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards.
8. **Amendment to paragraph B96(c) of IFRS 17 to exclude changes relating to the time value of money and financial risk from the adjustment to the contractual service margin.** Paragraph B96(c) of IFRS 17 sets out requirements for the treatment of changes in an investment component in the general model. It does not require changes relating to the time value of money and financial risk to be recognised in profit or loss (or other comprehensive income), even though doing so is a clear principle of the general model. The recommended amendment corrects that inadvertent omission.
9. **Amendment to address disaggregation of changes in the risk adjustment for non-financial risk.** IFRS 17 allows, but does not require, an entity to disaggregate changes in the risk adjustment for non-financial risk into those caused by the time value of money and financial risk and those caused by changes in non-financial risk. Paragraph B96(d) of IFRS 17 does not address the treatment of changes caused by the time value of money and financial risk if they are disaggregated. The recommended amendment corrects that inadvertent omission.

10. **Amendment to clarify that an entity can discontinue the use of the risk mitigation option to a group of insurance contracts only if the eligibility criteria for the group cease to apply.** The staff think it is clear from Board's discussion of the need for a risk mitigation option in IFRS 17¹ that the application of the risk mitigation option was intended to be aligned with the hedge accounting requirements in IFRS 9 *Financial Instruments*. IFRS 9 does not allow an entity to discontinue hedge accounting unless the hedging relationship ceases to meet the qualifying criteria. The recommended amendment clarifies the Board's intention.
11. **Amendment to clarify the definition of an investment component.** IFRS 17 defines an investment component as the amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur. Paragraph BC34 of the Basis for Conclusions on IFRS 17 explains that an investment component is an amount that is paid to the policyholder *in all circumstances*. That explanation is not entirely captured by the wording of the definition. For example, a contract may require the entity to pay an amount to the policyholder if the policyholder surrenders a contract during the coverage period. However, no amount is payable to the policyholder if the contract continues to the end of the coverage period without a claim being made. If the policyholder surrenders the contract, a payment is made even if an insured event does not occur. It was not the Board's intention that such a contract should be regarded as including an investment component. The recommended amendment clarifies the definition to achieve the Board's intention.
12. **Amendment to ensure IFRS 17 applies to investment contracts with discretionary participation features.** Paragraph 11(b) of IFRS 17 requires an entity to separate from a host insurance contract an investment component in specified circumstances and account for the separated investment component applying IFRS 9. However, if the separated investment component would meet the definition of an investment contract with discretionary participation features, that component should be accounted for applying IFRS 17, as are other

¹ Agenda Paper 2E *Accounting consequences of mitigating risks related to insurance contracts* of the September 2015 Board meeting.

investment contract with discretionary participation features.² The recommended amendment achieves that accounting.

13. **Amendments to adjust the loss component for changes in the risk adjustment for non-financial risk.** Paragraphs 47–51 of IFRS 17 require the identification of a loss component that depicts the extent to which a group of insurance contracts is onerous. The determination of the loss component includes the effect of the risk adjustment for non-financial risk. However, paragraphs 48(a) and 50(b) of IFRS 17 refer to changes in estimates of future cash flows relating to future service, thereby excluding the risk adjustment for non-financial risk from the determination. The recommended amendments correct this inadvertent error.

14. **Amendment to clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items should, for the purposes of IFRS 17, be treated as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk.** Changes in value of the underlying items affect the measurement of:
 - (a) insurance contracts with direct participation features—the fulfilment cash flows include changes in the policyholders’ share of the fair value of the underlying items and the contractual service margin includes changes in the entity’s share of the fair value of the underlying items; and
 - (b) insurance contracts without direct participation features—the fulfilment cash flows include payments that vary depending on returns on underlying items.³

15. Often the effect of a change in underlying items will fall within the definition of insurance finance income or expenses set out in paragraph 87 of IFRS 17, being caused by the time value of money or the effect of financial risks. However, some changes in underlying items do not fall into that definition, for example if the underlying items include non-financial assets. The staff think that the Board intended that changes in the measurement of insurance contracts arising from

² Provided the entity also issues insurance contracts (paragraph 3(c) of IFRS 17).

³ Paragraphs B98–B100 of IFRS 17 set out how to distinguish between changes in fulfilment cash flows caused by changes in underlying items and changes in discretionary cash flows.

changes in underlying items should be treated as insurance finance income or expenses, because the underlying items are regarded as investments that determine the amount of some payments to policyholders. The recommended amendment clarifies the definition of insurance finance income or expenses to achieve the Board's intention.

16. **Follow up on an annual improvement tentatively agreed by the Board in June 2018.** In June 2018, the Board tentatively agreed to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group. Paragraph 28 of IFRS 17 sets out how to recognise a group when contracts in the group qualify for recognition over more than one reporting period. The paragraph refers to contracts issued by the end of the reporting period, when it should refer to contracts that meet the criteria for recognition set out in paragraph 25 of IFRS 17. The Board also tentatively agreed a consequential amendment to paragraph 24 of IFRS 17.
17. Since that tentative decision, the staff have received questions about whether paragraph 22 of IFRS 17 also needs a consequential amendment to change the reference from 'issued' to 'recognised'. Paragraph 22 of IFRS 17 sets out the requirement for annual cohorts and states:
- An entity shall not include contracts issued more than one year apart in the same group. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.
18. The staff do not think paragraph 22 of IFRS 17 should be amended to change 'issued' to 'recognised'. Usually, the date of issue of a contract and the date of recognition will not be far apart. But if an entity issues profitable contracts for coverage that does not start for several years and the premiums are not due until the coverage starts, the date of recognition will be several years after the date of issue. The Board intended annual cohorts to be determined based on the date of issue of the contract, not the date of recognition. As discussed in Agenda Paper 2A *Level of aggregation—Stakeholder concerns, implementation challenges and staff analysis* of the March 2019 Board meeting, the objective of having annual cohorts was to provide timely recognition of profits, losses and trends in profitability. The profitability of contracts is initially set when they are issued, and

hence determining annual cohorts based on the date of issue is necessary to provide useful information about trends in profitability.

19. The use of ‘issued’ in paragraph 22 of IFRS 17 has consequences for paragraph B73 of IFRS 17. Paragraph B73 of IFRS 17 provides practical relief on determining the discount rate at the date of initial recognition of a group.⁴ It states:

To determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)–B72(e), an entity may use weighted-average discount rates *over the period that contracts in the group are issued*, which applying paragraph 22 cannot exceed one year.
[Emphasis added]

20. The staff acknowledge that the relief available in paragraph B73 of IFRS 17 does not allow the weighted-average initial discount rate to include the effect of rates that apply when a contract is first included in a group more than a year after the initial recognition of the group (the contract belongs to the group because it was issued at the same time as other contracts that were recognised immediately when they were issued). This means that differences between changes in the fulfilment cash flows measured at a current rate and adjustments to the contractual service margin measured at the initial rate could be more common, and achieving a cumulative amount of zero in other comprehensive income over the life of the group will be more complex.
21. However, the staff observe that these effects are a consequence of the unit of account being the group of insurance contracts rather than the individual contract. An entity could choose to further divide the annual cohort and thereby avoid these effects.
22. The staff therefore do not propose any changes to paragraph 22 of IFRS 17.

⁴ The discount rates at the date of initial recognition determine:

- (a) the interest accretion on the contractual service margin;
- (b) adjustments to the contractual service margin;
- (c) adjustments to the liability for remaining coverage in the premium allocation approach, if there is a significant financing component; and
- (d) if the entity uses the other comprehensive income option, the amount recognised in profit or loss for some contracts.

Question for Board members

Do you agree with the staff recommendation to propose the above amendments in the forthcoming Exposure Draft of proposed amendments to IFRS 17?

Appendix A—Drafting for the amendments recommended in this paper

A—Amendment to paragraph B96(c) of IFRS 17 to exclude changes relating to the time value of money and financial risk from the adjustment to the contractual service margin

B96(c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, except those described in B97(a) [5] measured at the discount rates specified in paragraph B72(c); and....

B—Amendment to address disaggregation of changes in the risk adjustment for non-financial risk

B96 For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

.....

(d) changes in the risk adjustment for non-financial risk that relate to future service. An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between (i) a change related to non-financial risk and (ii) the effect of the time value of money and changes in the time value of money, and the effect of financial risk and changes in financial risk. If an entity makes such a disaggregation, it shall adjust the contractual service margin for the change related to non-financial risk, measured at the discount rates specified in paragraph B72(c).

B97 An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

(a) the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk (being (i) the effect, if any, on estimated future cash flows and, if the effect is disaggregated,

⁵ Paragraph B97(a) of IFRS 17 is reproduced in the amendments in section B of this appendix.

the risk adjustment for non-financial risk and (ii) the effect of a change in discount rate);

C—Amendment to clarify that an entity can discontinue the use of the risk mitigation option to a group of insurance contracts only if the eligibility criteria for the group cease to apply

B118 If and only if, any of the conditions in paragraph B116 ceases to be met, an entity shall:

(a) ~~cease to apply paragraph B115 from that date, and~~

(b) ~~An entity shall~~ not make any adjustment for changes previously recognised in profit or loss.

D—Amendment to clarify the definition of an investment component

Investment component The amounts that an insurance contract requires the entity to repay to a policyholder ~~even if an insured event does not occur~~ in all circumstances.

E—Amendment to ensure IFRS 17 applies to investment contracts with discretionary participation features

11 An entity shall:

....

(b) separate from a host insurance contract an investment component if, and only if, that investment component is not an investment contract with discretionary participation features and is distinct (see paragraphs B31–B32).

The entity shall apply IFRS 9 to account for the separated investment component.

F—Amendment to adjust the loss component for changes in the risk adjustment for non-financial risk

48 A group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if the following amounts exceed the carrying amount of the contractual service margin:

- (a) unfavourable changes in the fulfilment cash flows allocated to the group arising from changes relating to future service in estimates of future cash flows and the risk adjustment for non-financial risk relating to future service; and

50 After an entity has recognised a loss on an onerous group of insurance contracts, it shall allocate:

- (a)

- (b) any subsequent decrease in fulfilment cash flows allocated to the group arising from changes relating to future service in estimates of future cash flows ~~relating to future service~~ and the risk adjustment for non-financial risk, and any subsequent increases in the entity's share in the fair value of the underlying items, solely to the loss component until that component is reduced to zero. Applying paragraphs 44(c)(ii), 45(b)(iii) and 45(c)(iii), an entity shall adjust the contractual service margin only for the excess of the decrease over the amount allocated to the loss component.

G—Amendment to clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items should, for the purposes of IFRS 17, be treated as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk

B128 Paragraph 87 requires an entity to include in insurance finance income or expenses the effect of the time value of money and financial risk and changes therein ~~in assumptions that relate to financial risk~~. For the purposes of IFRS 17:

- (a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; ~~and~~

(b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk.; and

(c) changes in the measurement of a group of insurance contracts caused by changes in underlying items are changes arising from the effect of the time value of money and financial risk and changes therein.

Appendix B—Drafting for the amendments the Board tentatively decided in June 2018

A—To avoid any unintended consequences of using the term ‘issued’ in paragraph 27 of IFRS 17

- 27 An entity shall recognise an asset or liability for any *insurance acquisition cash flows* relating to a group of ~~issued~~ insurance contracts issued or expected to be issued that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).

B—To reflect the intended timing of recognition of contracts in paragraph 28 of IFRS 17

- 24 An entity shall apply the recognition and measurement requirements of IFRS 17 to the groups of contracts ~~issued~~ determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition, and shall not reassess the composition of the groups subsequently, except as set out in paragraph 28. To measure a group of contracts, an entity may estimate the *fulfilment cash flows* at a higher level of aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.
- 28 In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts that meet the criteria set out in paragraph 25(a)-(c) applied to each contract issued by the end of the reporting period and shall make estimates for the discount rates at the date of initial recognition (see paragraph B73) and the coverage units provided in the reporting period (see paragraph B119). An entity may ~~issue~~ include more contracts in the group after the end of a reporting period, subject to paragraphs 14–22. An entity shall add the contracts to the group in the reporting period in which the contracts meet the criteria set out in paragraph 25(a)-(c) applied to each contract ~~are issued~~. This may result in a change to the determination of the discount rates at the date of initial recognition applying paragraph B73. An entity shall apply the revised rates from the start of the reporting period in which the new contracts are added to the group.

C—To remove potential double-counting of risk-adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses

- 104 An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to insurance services, if applicable:
- (a) changes that relate to future service, applying paragraphs B96–B118, showing separately:
 - (i) changes in estimates that adjust the contractual service margin;
 - (ii) changes in estimates that do not adjust the contractual service margin, ie losses on groups of onerous contracts and reversals of such losses; and
 - (iii) the effects of contracts initially recognised in the period.
 - (b) changes that relate to current service, ie:
 - (i) the amount of the contractual service margin recognised in profit or loss to reflect the transfer of services;
 - (ii) the change in the risk adjustment for non-financial risk that does not relate to future service or past service; and

- (iii) *experience adjustments* (see paragraphs B97(c) and B113(a)), excluding amounts relating to the risk adjustment included in (ii).
- (c) changes that relate to past service, ie changes in fulfilment cash flows relating to incurred claims (see paragraphs B97(b) and B113(a)).

B121 Paragraph 83 requires the amount of insurance revenue recognised in a period to depict the transfer of promised services at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The total consideration for a group of contracts covers the following amounts:

- (a) amounts related to the provision of services, comprising:
 - (i) insurance service expenses, excluding any amounts relating to the risk adjustment included in (ii) and any amounts allocated to the loss component of the liability for remaining coverage;
 - (ii) the risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and
 - (iii) the contractual service margin.
- (b) amounts related to insurance acquisition cash flows.

B124 Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:

- (a) insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:
 - (i) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(a);
 - (ii) repayments of investment components;
 - (iii) amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i)); ~~and~~
 - (iv) insurance acquisition expenses (see paragraph B125); and
 - (v) the amount related to the risk adjustment (see (b)).
- (b) the change in the risk adjustment for non-financial risk, excluding:
 - (i) changes included in insurance finance income or expenses applying paragraph 87;
 - (ii) changes that adjust the contractual service margin because they relate to future service applying paragraphs 44(c) and 45(c); and
 - (iii) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(b).
- (c) the amount of the contractual service margin recognised in profit or loss in the period, applying paragraphs 44(e) and 45(e).

D—To correct the terminology in the sensitivity analysis disclosure requirements

128 An entity shall disclose information about sensitivities to changes in risk ~~exposures-variables~~ arising from contracts within the scope of IFRS 17. To comply with this requirement, an entity shall disclose:

- (a) a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in risk ~~exposures-variables~~ that were reasonably possible at the end of the reporting period:
 - (i) for insurance risk—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; and

- (ii) for each type of market risk—in a way that explains the relationship between the sensitivities to changes in risk ~~exposures~~ variables arising from insurance contracts and those arising from financial assets held by the entity.
 - (b) the methods and assumptions used in preparing the sensitivity analysis; and
 - (c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis, and the reasons for such changes.
- 129 If an entity prepares a sensitivity analysis that shows how amounts different from those specified in paragraph 128(a) are affected by changes in risk ~~exposures~~ variables and uses that sensitivity analysis to manage risks arising from contracts within the scope of IFRS 17, it may use that sensitivity analysis in place of the analysis specified in paragraph 128(a). The entity shall also disclose:
- (a) an explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the information provided; and
 - (b) an explanation of the objective of the method used and of any limitations that may result in the information provided.

E—To exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17

- 39 For insurance contracts acquired in a transfer of insurance contracts or a business combination within the scope of IFRS 3, an entity shall apply paragraph 38 in accordance with paragraphs B93–B95.

Initial recognition of transfers of insurance contracts and business combinations within the scope of IFRS 3 (paragraph 39)

- B93 When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.
- B94 An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination within the scope of IFRS 3, the consideration received or paid is the fair value of the contracts at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 (relating to demand features).
- B95 Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition. If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination within the scope of IFRS 3 or as a loss in profit or loss for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.

F—To clarify that the consequential amendments to IFRS 3 made by IFRS 17 on the classification of insurance contracts apply prospectively

*IFRS 3 Business Combinations*⁶

Effective date

...

64N IFRS 17, issued in May 2017, amended paragraphs 17, 20, 21, 35 and B63, and after paragraph 31 added a heading and paragraph 31A. An entity shall apply ~~those~~ the amendments to paragraph 17 to business combinations with an acquisition date after the date of initial application of IFRS 17. An entity shall apply the other amendments when it applies IFRS 17.

G—To prevent insurance contracts held being included in the scope of IFRS 7, IFRS 9 and IAS 32

IFRS 7 Financial Instruments: Disclosures

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

- (a)
- (d) insurance contracts as defined in ~~within the scope of~~ IFRS 17 *Insurance Contracts* and investment contracts with discretionary participation features within the scope of IFRS 17. However, this IFRS applies to:
 - (i) derivatives that are embedded in contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately; and
 - (ii) investment components that are separated from contracts within the scope of IFRS 17, if IFRS 17 requires such separation.

Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IFRS 9 in recognising and measuring the contracts, but shall apply IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of IFRS 17, to apply IFRS 17 in recognising and measuring them.

IFRS 9 Financial Instruments

2.1 This Standard shall be applied by all entities to all types of financial instruments except:

- (a)
- (e) **rights and obligations arising under (i) an insurance contract ~~a contract within the scope of as defined in~~ IFRS 17 *Insurance Contracts*, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract, or (ii) an investment contract with discretionary participation features within the scope of IFRS 17. However, this Standard applies to (i) a derivative that is embedded in a contract within the scope of IFRS 17, if the derivative is not itself a contract within the scope of IFRS 17; and (ii) an investment component that is separated from a contract within the scope of IFRS 17, if IFRS 17 requires such**

⁶ The same amendment needs to be made to IFRS 3 as amended by IFRS 16 *Leases*.

separation. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or IFRS 17 to such financial guarantee contracts (see paragraphs B2.5–B2.6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.

IAS 32 Financial Instruments: Presentation

4 This Standard shall be applied by all entities to all types of financial instruments except:

- (a)
- (d) insurance contracts as defined in within the scope of IFRS 17 Insurance Contracts and investment contracts with discretionary participation features within the scope of IFRS 17. However, this Standard applies to:
 - (i) derivatives that are embedded in contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately; and
 - (ii) investment components that are separated from contracts within the scope of IFRS 17, if IFRS 17 requires such separation.

Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies IFRS 9 in recognising and measuring the contracts, but shall apply IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of IFRS 17, to apply IFRS 17 in recognising and measuring them.

H—To explain that in Example 9 of the Illustrative Examples on IFRS 17 the time value of the guarantee changes over time

IE104 On initial recognition of the contracts, the entity:

- (a) expects that the fair value of the specified pool of assets will increase by 10 per cent a year;
- (b) determines the discount rate that reflects the characteristics of the nominal cash flows that do not vary based on returns on any underlying items is 6 per cent a year;
- (c) estimates the risk adjustment for non-financial risk to be CU25 and expects to recognise it in profit or loss in Years 1–3 as follows: CU12, CU8 and CU5;
- (d) estimates the time value of the guarantee inherent in providing a minimum death benefit;⁷ and
- (d) expects that one insured person will die at the end of each year and claims will be settled immediately.

IE105 During the coverage period, there are changes in the time value of the guarantee, and changes in the fair value returns on underlying items; as follows:

- (a) in Year 1, the fair value of the specified pool of assets increased by 10 per cent, as expected on initial recognition;
- (b) in Year 2, the increase in fair value was lower than expected on initial recognition and equals 8 per cent; and
- (c) in Year 3, the increase in fair value goes back to the initially expected 10 per cent.

⁷ There is no prescribed method for the calculation of the time value of a guarantee and a calculation of an amount separate from the rest of the fulfilment cash flows is not necessarily required.