IFRS

STAFF PAPER

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IASB® meeting

Project	**Amendments to IFRS 17 *Insurance Contracts***
Paper topic	Cover note

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Introduction

1. This cover note provides:
   (a) background information about the tentative decisions made by the International Accounting Standards Board (Board) at its recent meetings about IFRS 17 *Insurance Contracts* and the ongoing extensive dialogue with stakeholders;
   (b) an overview of the papers for this meeting, including a summary of staff recommendations;
   (c) a status of the Board's discussions about the topics initially considered at the October 2018 Board meeting; and
   (d) an outline of the next steps.

2. The appendix to this cover note provides a list of all tentative decisions made by the Board as at January 2019.

Background

3. When IFRS 17 was issued, the Board initiated a comprehensive programme of stakeholder engagement. One objective of this engagement was to understand the practical challenges of implementing IFRS 17 and identify possible ways the Board could ease the burden of transition. Through this engagement process, the Board has identified some concerns and implementation challenges, including those related to the balance of costs and benefits from applying IFRS 17. In addition, the Board has established a Transition Resource Group for IFRS 17, which provides a public forum for stakeholders to follow the discussion of questions raised on implementation and inform the Board in order to help the Board determine what, if any, action will be needed to address those questions.

4. Throughout the development of IFRS 17, the Board was aware that applying IFRS 17 for the first time will result in significant costs for some entities, but overall considered that the benefits of IFRS 17 would outweigh the costs (for discussion of the costs and benefits of IFRS 17 refer to the *Effects Analysis on IFRS 17*). Nonetheless, the Board indicated that it would consider whether additional action was needed to address matters identified as entities began their implementation efforts.

5. In October 2018, the Board considered the concerns and implementation challenges identified by stakeholders during their implementation processes, and commenced a process of evaluating the need for making possible amendments to the Standard. The Board is aware that making amendments to a recently issued Standard carries a risk of disruption to implementation processes that are already underway. The Board is also aware of the need to ensure that any amendments do not unduly delay the effective date of the Standard.

6. Accordingly, 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 this Standard, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.

7. The Board is now evaluating whether any of the concerns and implementation challenges identified justify amendments to the Standard that would meet these criteria. As part of that work, the staff and the Board have reviewed possible approaches developed by stakeholders in different forms and have held extensive dialogue with stakeholders to further understand the proposals and their implications in more detail. The feedback from this dialogue has been reflected in the staff's development of the papers for the Board.

Papers for this meeting and summary of staff recommendations

8. The papers for this meeting provide an analysis of the following topics:

(a) loans that transfer significant insurance risk—see Agenda Paper 2A *Loans that transfer significant insurance risk*; and

(b) transition—see Agenda Paper 2B *Transition—Optionality and comparative information,* Agenda Paper 2C *Transition—Risk mitigation*

option and amounts accumulated in other comprehensive income on transition and Agenda Paper 2D *Transition—Modified retrospective approach.*

9. The following paragraphs summarise the staff recommendations in these papers.

Loans that transfer significant insurance risk (Agenda Paper 2A)

10. In Agenda Paper 2A the staff recommend the Board amend the scope of IFRS 17 and IFRS 9 *Financial Instruments* for insurance contracts for which the only insurance in the contract is for the settlement of some or all of the obligation created by the contract. The amendment would enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9. Such an amendment to the scope of IFRS 9 would require consequential amendments to IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation*.

Transition—Optionality and comparative information (Agenda Paper 2B)

11. In Agenda paper 2B the staff recommend the Board:
    (a) retain the IFRS 17 transition requirements, without amendments that would reduce optionality included in those requirements; and
    (b) retain the IFRS 17 requirement to present restated comparative information for the annual reporting period immediately preceding the date of initial application of IFRS 17.

Transition—Risk mitigation option and amounts accumulated in other comprehensive income (Agenda Paper 2C)

12. In Agenda paper 2C the staff recommend the Board:

    (a) retain the requirements in IFRS 17 relating to the prohibition of retrospective application of the risk mitigation option on transition to IFRS 17; and

    (b) retain the requirements in IFRS 17 with respect to the cumulative amounts included in other comprehensive income on transition to IFRS 17.

Transition—Modified retrospective approach (Agenda Paper 2D)

13. In Agenda paper 2D the staff recommend the Board:

    (a) retains the requirements in IFRS 17 that an entity:

        (i) cannot use a specified modification in the modified retrospective approach to the extent that the entity has reasonable and supportable information to apply the related IFRS 17 requirement retrospectively; and

        (ii) can only use a specified modification in the modified retrospective approach when the entity has reasonable and supportable information to apply that modification.

    (b) does not amend IFRS 17 to permit an entity to develop its own modifications that it regards as consistent with the objective of the modified retrospective approach.

    (c) amend the transition requirements in IFRS 17 for a liability that relates to the settlement of claims before an insurance contract was acquired as follows:

        (i) to add a specified modification to the modified retrospective approach to require an entity to classify such liabilities as a liability for incurred claims. Consistent with the other specified modifications, an entity would be permitted to use this specified modification only to the extent that it does not have reasonable and supportable information to apply a retrospective approach.

(ii) to permit an entity applying the fair value approach to choose to classify such liabilities as a liability for incurred claims.

(d) does not amend the specified modification in the modified retrospective approach related to the use of cash flows that are known to have occurred instead of estimating retrospectively cash flows that were expected to occur.

(e) does not amend IFRS 17 to permit an entity to apply the specified modifications related to groups of insurance contracts without direct participation features to determine the contractual service margin for groups of contracts with direct participating features

Status of the Board's discussion

14. At its October 2018 the Board initially considered 25 topics discussed in Agenda Paper 2D *Concerns and implementation challenges*.

15. The Board considered staff analysis and recommendations for most topics at its November 2018, December 2018 and January 2019 meetings. Appendix A to this paper provides a list of all the tentative decisions made by the Board as at January 2019, including minor amendments the Board tentatively decided at its June 2018 meeting.

16. The papers for this meeting provide staff analysis and recommendation for the remaining topics, except for the level of aggregation of insurance contracts and a question about a risk mitigation option for general model contracts, related to the December 2018 Board discussion on risk mitigation, which will be discussed at a future meeting.

Next steps

17. The staff expect to bring papers on the remaining topics and on possible sweep issues at the March 2019 Board meeting.

18. After the Board has considered all the individual topics, the Board plans to consider the package of amendments at a future meeting. At that meeting the Board will consider whether:

    (a) any amendments to the disclosure requirements are required as a result of the amendments tentatively decided by the Board;

    (b) on the whole, the benefits of the amendments outweigh the costs; and

    (c) on the whole, the amendments do not unduly disrupt implementation.

19. The staff expect to publish an Exposure Draft of the amendments to IFRS 17 around the end of the first half of 2019. The staff observe that the Board generally allows at least 12 to 18 months between the publication of new requirements and their mandatory effective date. The staff expect that this timetable would allow any proposed amendments to IFRS 17 to be finalised on a timely basis to allow for this period before 1 January 2022.

Appendix A—Board's tentative decisions about possible amendments to IFRS 17

This appendix summarises the Board's tentative decisions about possible amendments to IFRS 17 as at January 2019. Paragraphs A1–A12 of this appendix summarise amendments that the Board has tentatively decided to propose. Paragraphs A13–A24 of this appendix summarise the requirements of IFRS 17 that the Board has tentatively decided to retain. They are presented in the order in which they appear in IFRS 17.

1—Proposed amendments to IFRS 17

Initial recognition

A1. The Board tentatively decided to amend IFRS 17 to require an entity to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group.

Insurance acquisition cash flows

A2. The Board tentatively decided to amend IFRS 17 to require an entity to:

(a) to amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued.

(b) allocate to any expected contract renewals their related part of the insurance acquisition cash flows directly attributable to newly issued contracts.

(c) recognise the insurance acquisition cash flows allocated to expected contract renewals as assets applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.

(d) assess the recoverability of any asset recognised applying paragraph 27 of IFRS 17 each period before the related contracts are recognised. The recoverability assessment would be based on the expected fulfilment cash flows of the related group of contracts.

(e) recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised by applying paragraph 27 of IFRS 17.

(f) recognise in profit or loss the reversal of some or all of any such loss previously recognised when the impairment conditions no longer exist or have improved.

Risk adjustment for non-financial risk

A3. The Board tentatively decided to remove requirements that could result in double-counting of the risk adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses.

Contractual service margin

A4. The Board tentatively decided:

(a) 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) to amend IFRS 17 so that in the general model the contractual service margin is recognised in profit or loss on the basis of coverage units that are determined by considering both insurance coverage and investment return service, if any.

(c) to amend IFRS 17 to establish that an investment return service exists only when an insurance contract includes an investment component.

(d) to amend IFRS 17 to require an entity to use judgement applied consistently in deciding whether an investment return service exists when determining coverage units, and not provide an objective or criteria for that determination. However, the Board instructed the staff to consider including in the Basis for Conclusions some of the analysis in the Board paper, to indicate what such judgements might involve.

(e) to amend IFRS 17 to establish that the period of investment return services should be regarded as ending when the entity has made all investment component payments to the policyholder of the contract and should not include any period of payments to future policyholders.

(f) to amend IFRS 17 to require assessments of the relative weighting of the benefits provided by insurance coverage and investment return services and their pattern of delivery to be made on a systematic and rational basis.

(g) to confirm that, applying IFRS 17, cash flows relating to fulfilling the investment return service are included in the measurement of the insurance contract.

(h) to amend IFRS 17 to establish that the one-year eligibility criterion for the premium allocation approach (PAA) should be assessed by considering insurance coverage and an investment return service, if any.

Reinsurance contracts held

A5. The Board tentatively decided to amend IFRS 17 to:

(a) expand the scope of the exception in paragraph 66(c)(ii) of IFRS 17 to require an entity to recognise a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that a reinsurance contract held covers the losses of each contract on a proportionate basis; and

(b) require an entity to apply the expanded exception when the entity measures contracts applying the PAA.

A6. The Board also tentatively decided to amend IFRS 17 to expand the scope of the risk mitigation exception for insurance contracts with direct participation features in paragraph B115 of IFRS 17 so that the exception applies when an entity uses a derivative or a reinsurance contract held to mitigate financial risk, to the extent that the entity meets the conditions in paragraph B116 of IFRS 17.

Presentation of insurance contracts on the statement of financial position

A7. The Board tentatively decided to amend the requirements in IFRS 17 so that the presentation of insurance contract assets and liabilities in the statement of financial position is determined using portfolios of insurance contracts rather than groups of insurance contracts.

Disclosures

A8. The Board tentatively decided to correct the terminology in the sensitivity analysis disclosures.

Effective dates

A9. The Board tentatively decided that:

(a) 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.

(b) consequently, the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 should be amended, so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.

Business combinations

A10. The Board tentatively decided:

(a) to exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17.

(b) to amend IFRS 3 *Business Combinations* so that the amendment made by IFRS 17 on the classification of insurance contracts applies prospectively.

Other proposed amendments

A11. The Board tentatively decided:

(a) to amend IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments* and IAS 32 *Financial Instruments: Presentation* to achieve the intended scopes of these financial instruments Standards and the scope of IFRS 17, particularly with respect to insurance contracts held.

(b) to add an explanation that, in Example 9 of the Illustrative Examples on IFRS 17, the time value of the guarantee changes over time.

2—Tentative decisions to retain IFRS 17 requirements without amendments

Use of locked-in discount rates to adjust the contractual service margin

A12. The Board tentatively decided not to amend the requirements in IFRS 17 for the discount rates used to determine the adjustments to the contractual service margin.

Discount rates and risk adjustment for non-financial risk

A13. The Board tentatively decided not to amend the requirements in IFRS 17 for the principle-based approach to determining the discount rates used to measure insurance contracts, or to limit the number of risk adjustment techniques an entity can use.

Risk adjustment in a group of entities

A14. The Board tentatively decided not to amend the requirements in IFRS 17 for the risk adjustment for non-financial risk in consolidated financial statements.

Contractual service margin

A15. The Board tentatively decided not to amend the requirements in IFRS 17 for the non-transitional requirements relating to risk mitigation activities.

A16. The Board tentatively decided not to change the requirements of IFRS 17 relating to changes in fulfilment cash flows that adjust the contractual service margin in the general model.

Business combinations

A17. The Board tentatively decided not to amend the requirements in IFRS 17 for the classification, applying IFRS 17 and IFRS 3, of contracts acquired in a business combination as insurance contracts.

A18. The Board tentatively decided not to amend the requirements in IFRS 17 for the determination of the insured event for insurance contracts acquired in a business combination.

Reinsurance contracts held

A19. The Board tentatively decided not to amend the requirements in IFRS 17 for the future cash flows in the measurement of reinsurance contracts held.

Presentation of insurance contracts on the statement of financial position

A20. The Board tentatively decided not to amend the requirements in IFRS 17 for the presentation and measurement of premiums receivable and claims payable.

A21. The Board tentatively decided not to amend the requirements in IFRS 17 for the option to present specified amounts of insurance finance income or expenses in profit or loss or other comprehensive income.

Defined terms

A22. The Board tentatively decided not to amend the requirements in IFRS 17 for the definition of an insurance contract with direct participation features.

Interim financial statements

A23. The Board tentatively decided not to amend the requirements in IFRS 17 for the treatment of accounting estimates in interim financial statements.