

STAFF PAPER

January 2019

IASB[®] meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Cover note		
CONTACT(S)	Chalani Mohotti	cmhotti@ifrs.org	+44 (0)20 7246 6436
	Laura Kennedy	lkennedy@ifrs.org	+44 (0)20 7246 6437
	Roberta Ravelli	rravelli@ifrs.org	+44 (0)20 7246 6935
	Hagit Keren	hkeren@ifrs.org	+44 (0)20 7246 6919
	Anne McGeachin	amcgeachin@ifrs.org	+44 (0)20 7246 6486
	Andrea Pryde	apryde@ifrs.org	+44 (0)20 7246 6491

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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 table of concordance of the topics discussed at the October 2018 Board meeting; and
 - (d) an outline of the next steps.

Background

2. 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 process, the Board has identified some concerns and implementation challenges, including those related to the balance of costs and benefits from applying IFRS 17.
3. 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.
4. 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.
5. 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.
6. 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 at December 2018, the Board has tentatively decided to propose the following amendments:
- (a) a one-year deferral of the effective date of IFRS 17; and
 - (b) an amendment to 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.
7. Since IFRS 17 was issued, the staff and the Board have continued their extensive dialogue with stakeholders around the world, through discussions with preparers and users of financial statements, national standard-setters, market and prudential regulators and actuaries. 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. This has allowed the Board to continue to monitor progress toward implementation of IFRS 17 and to understand implementation challenges that entities applying IFRS 17 have identified. As part of that work, the staff and the Board have reviewed possible solutions developed by stakeholders in different forms and have held discussions 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) insurance acquisition cash flows—see Agenda Paper 2A *Insurance acquisition cash flows for renewals outside the contract boundary*;
 - (b) reinsurance contracts held—see Agenda Paper 2B *Reinsurance contracts held—onerous underlying insurance contracts*, Agenda Paper 2C *Appendix to reinsurance contracts held—onerous underlying insurance contracts* and Agenda Paper 2D *Reinsurance contracts held—underlying insurance contracts with direct participation features*; and
 - (c) recognition of the contractual service margin in profit or loss—see Agenda Paper 2E *Recognition of the contractual service margin in profit or loss in the general model*.
9. The following paragraphs summarise the staff recommendations in these papers.

Insurance acquisition cash flows for renewals outside the contract boundary (Agenda Paper 2A)

10. In Agenda Paper 2A the staff recommend the Board amend IFRS 17 to require an entity to:
- (a) allocate to any anticipated contract renewals part of the insurance acquisition cash flows directly attributable to newly issued contracts.
 - (b) recognise the insurance acquisition cash flows allocated to anticipated contract renewals as an asset applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.
 - (c) assess the recoverability of the asset recognised according to 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.
 - (d) recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised by applying paragraph 27 of IFRS 17.

- (e) 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.

Reinsurance contracts held (Agenda Papers 2B–2D)

11. In Agenda paper 2B the staff recommend the Board 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 premium allocation approach (PAA);
12. Agenda Paper 2C provides illustrative examples to support the analysis in Agenda Paper 2B. Agenda Paper 2C makes no recommendations.
13. In Agenda paper 2D the staff recommend the Board 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.
14. The staff note that Agenda Paper 2B and Agenda Paper 2D both include recommendations relating to reinsurance contracts held. The objective of both recommendations is to resolve some accounting mismatches in IFRS 17 without unduly disrupting implementation. The staff note that the two recommendations achieve the objective in different ways:
 - (a) the recommendation in Agenda Paper 2B expands the scope of an existing exception in IFRS 17 relating to the accounting for reinsurance contracts held; and

- (b) the recommendation in Agenda Paper 2D expands the scope of an existing exception in IFRS 17 relating to the accounting for insurance contracts issued.

Recognition of the contractual service margin in profit or loss in the general model (Agenda Paper 2E)

15. In Agenda paper 2E the staff recommend the Board:
- (a) amend IFRS 17 so that in the general model the contractual service margin is allocated on the basis of coverage units that are determined by considering both insurance coverage and any investment return service;
 - (b) amend IFRS 17 to establish that an investment return service exists only when an insurance contract includes an investment component;
 - (c) amend IFRS 17 to require an entity to use judgement applied consistently in deciding whether to include an investment return service when determining coverage units, and not provide an objective or criteria for that determination;
 - (d) 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, ie not including payments to future policyholders;
 - (e) amend IFRS 17 to require the 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;
 - (f) confirm that, applying IFRS 17, cash flows relating to fulfilling the investment return service are included in the measurement of the insurance contract;
 - (g) does not change the requirements of IFRS 17 relating to which changes in fulfilment cash flows adjust the contractual service margin in the general model; and

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

Table of concordance

16. The following table shows how the topics discussed in Agenda Paper 2D for the October 2018 Board meeting and the papers for this meeting correspond.

October 2018 Board meeting (Agenda Paper 2D)	Tentative decisions made	January 2019 Board meeting	Discussion planned at future meetings
1—Scope of IFRS 17 Loans and other forms of credit that transfer insurance risk			✓
2—Level of aggregation of insurance contracts			✓
3—Measurement Acquisition cash flows for renewals outside the contract boundary		Agenda Paper 2A	
4—Measurement Use of locked-in discount rates to adjust the contractual service margin	December 2018 meeting		
5—Measurement Subjectivity Discount rates and risk adjustment	December 2018 meeting		
6—Measurement Risk adjustment in a group of entities	December 2018 meeting		
7—Measurement Contractual service margin: coverage units in the general model		Agenda Paper 2E	
8—Measurement Contractual service margin: limited applicability of risk mitigation exception	December 2018 meeting (some aspects) ¹	Agenda Paper 2D	
9—Measurement Premium allocation approach: premiums received	December 2018 meeting		
10—Measurement Business combinations: classification of contracts	December 2018 meeting		
11—Measurement Business combinations: contracts acquired during the settlement period	December 2018 meeting		

¹ The Board will discuss the prohibition of retrospective application of the risk mitigation option at a future meeting. No decision was made at the December 2018 Board meeting.

October 2018 Board meeting (Agenda Paper 2D)	Tentative decisions made	January 2019 Board meeting	Discussion planned at future meetings
12—Measurement Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous		Agenda Papers 2B and 2C	
13—Measurement Reinsurance contracts held: ineligibility for the variable fee approach		Agenda Paper 2D	
14—Measurement Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued	December 2018 meeting		
15—Presentation in the statement of financial position Separate presentation of groups of assets and groups of liabilities	December 2018 meeting		
16—Presentation in the statement of financial position Premiums receivable	December 2018 meeting		
17—Presentation in the statement(s) of financial performance OCI option for insurance finance income or expenses	December 2018 meeting		
18—Defined terms Insurance contract with direct participation features	December 2018 meeting		
19—Interim financial statements Treatment of accounting estimates	December 2018 meeting		
20—Effective date Date of initial application of IFRS 17	November 2018 meeting		
21—Comparative information			✓
22—Effective date Temporary exemption from applying IFRS 9	November 2018 meeting		
23—Transition Optionality			✓
24—Transition Modified retrospective approach: further modifications			✓
25—Transition Fair value approach: OCI on related financial assets			✓

Next steps

17. The staff will bring papers on the remaining topics during the first quarter of 2019.

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) the benefits of the amendments outweigh the costs as a whole; and
 - (c) the package of amendments as a whole does 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.