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) about IFRS 17 *Insurance Contracts* at its recent meetings and the ongoing extensive dialogue with stakeholders;

   (b) an overview of the papers for this meeting, including a summary of staff recommendations; and

   (c) 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 February 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 processes already under way or risk undue delays in the effective date of the 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) level of aggregation—see Agenda Paper 2A *Level of aggregation—Stakeholder concerns, implementation challenges and staff analysis,* Agenda Paper 2B *Level of aggregation—IFRS 17 requirements and Board's rationale* and Agenda Paper 2C *Level of aggregation—History of the Board's decisions and stakeholder feedback*;

(b) scope of IFRS 17—see Agenda Paper 2D C*redit cards that provide insurance coverage*;

(c) transition—see Agenda Paper 2E *Transition requirements—Risk mitigation option* and Agenda Paper 2F *Transition requirements—Loans that transfer significant insurance risk*;

(d) disclosures—see Agenda Paper 2G *Amendments to disclosure requirements resulting from the Board's tentative decisions to* date; and

(e) implications for disclosures and transition—see Agenda Paper 2H *Implications for disclosure and transition requirements*.

9. The following paragraphs summarise the staff recommendations in the papers for this meeting.

Level of aggregation (Agenda Papers 2A–2C)

10. In Agenda Paper 2A the staff recommend the Board retain the IFRS 17 requirements on the level of aggregation unchanged.

Credit cards that provide insurance coverage (Agenda Paper 2D)

11. In Agenda paper 2D the staff recommend the Board amend IFRS 17 to exclude from the scope of the Standard credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Transition—Risk mitigation option (Agenda Paper 2E)

12. In Agenda paper 2E the staff recommend the Board amend the requirements of IFRS 17 to:

    (a) permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date; and

    (b) permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participating features to use the fair value transition approach for the group, if they:

        (i) choose to apply the risk mitigation option to the group prospectively from the transition date; and

        (ii) have used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date.

Transition requirements—Loans that transfer significant insurance risk (Agenda Paper 2F)

13. In Agenda Paper 2F, the staff recommend the Board maintain:

    (a) the transition requirements in IFRS 17 for loans that transfer significant insurance risk, if an entity elects to apply the requirements in IFRS 17 to a portfolio of such loans; and

    (b) the transition requirements in IFRS 9 *Financial Instruments* for loans that transfer significant insurance risk, if an entity:

        (i) elects to apply the requirements in IFRS 9 to a portfolio of such loans; and

        (ii) initially applies IFRS 17 and IFRS 9 at the same time.

14. The staff recommend the Board amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk, if an entity:

    (a) elects to apply the requirements in IFRS 9 to a portfolio of such loans; and

    (b) has applied IFRS 9 before it initially applies IFRS 17.

15. If the Board agrees with the staff recommendation in paragraph 14 of this paper, the staff recommend the Board amend the transition requirements in IFRS 9:

    (a) to require an entity to apply the transition requirements in IFRS 9 that are necessary for applying the proposed amendments.

    (b) to permit an entity to newly designate, and to require an entity to revoke its previous designations of, a financial liability under the fair value option at the date the entity first applies the proposed amendments, to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists as a result of applying the proposed amendments.

    (c) not to require an entity to restate prior periods to reflect the application of the proposed amendments but to permit an entity to restate prior periods under particular conditions.

(d) to exempt an entity from presenting the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(e) to require an entity to disclose specific information in addition to the disclosures that any other IFRS Standard would require.

The staff note that these recommendations are similar to the Board's past decisions for specifying transition requirements for (a) previous amendments to IFRS 9 and (b) the redesignation of financial assets when an entity applies IFRS 17 for the first time.

Amendments to disclosure requirements resulting from the Board's tentative decisions to date (Agenda Paper 2G)

16. In Agenda paper 2G the staff recommend the Board amend the disclosure requirements in IFRS 17 to reflect the proposed amendments related to:

(a) the contractual service margin recognised in profit or loss on the basis of coverage units determined by considering both insurance coverage and investment-related services or investment return services, if any, by requiring:

(i) quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period, ie removing the option of providing qualitative information allowed by paragraph 109 of IFRS 17 of providing qualitative information.

(ii) specific disclosure of the approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment return services, as part of the disclosure requirements in paragraph 117 of IFRS 17 related to significant judgements and changes in judgements made in applying IFRS 17.

(b) insurance acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts, by requiring:

(i) reconciliation of the asset created by these cash flows at the beginning and the end of the reporting period and its changes, specifically recognition of any impairment loss or reversals. The aggregation of the information provided in this reconciliation should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts.

(ii) quantitative disclosure, in appropriate time bands, of the expected inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts. The acquisition cash flows will be included in the measurement of the related group of insurance contracts when those contracts are recognised.

Implications for disclosure and transition requirements (Agenda Paper 2H)

17. In Agenda paper 2H the staff recommend the Board amend IFRS 17 as discussed in Agenda Papers 2E, 2F and 2G and retain all other disclosure and transition requirements in IFRS 17.

Next steps

18. After its March 2019 meeting, the Board will have considered all the individual 25 topics discussed in Agenda Paper 2D *Concerns and implementation challenges* for the October 2018 meeting.

19. At its April 2019 meeting, the Board plans to consider the package of amendments tentatively decided by the Board as a whole. At that meeting the Board will consider whether:

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

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

20. At the same meeting, the staff expect to request Board's permission to start the balloting process for the proposed amendments to IFRS 17.

21. 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 February 2019. Paragraphs A1–A13 of this appendix summarise amendments that the Board has tentatively decided to propose. Paragraphs A14–A26 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

Scope of IFRS 17 (February 2019)

A1. The Board tentatively decided to amend the scope of IFRS 17 and IFRS 9 for insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract. These amendments would enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9. The choice would be made portfolio by portfolio, using the IFRS 17 definition of a portfolio.

Initial recognition (June 2018)

A2. The Board tentatively decided 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 (June 2018 and January 2019)

A3. The Board tentatively decided to:

(a) 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) amend IFRS 17 to require an entity to allocate to any expected contract renewals their related part of the insurance acquisition cash flows directly attributable to newly issued contracts.

(c) amend IFRS 17 to require an entity to 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) amend IFRS 17 to require an entity to 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) amend IFRS 17 to require an entity to recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised by applying paragraph 27 of IFRS 17.

(f) amend IFRS 17 to require an entity to 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 (June 2018)

A4. The Board tentatively decided to remove requirements in IFRS 17 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 (June 2018 and January 2019)

A5. The Board tentatively decided to:

(a) clarify the definition of the coverage period for insurance contracts with direct participation features in IFRS 17. The proposed amendment would clarify that the coverage period for such contracts includes periods in which the entity provides investment-related services.

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

(d) 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 January 2019 Agenda Paper 2E *Recognition of Contractual Service Margin in Profit or Loss in the General Model*, to indicate what such judgements might involve.

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

(h) 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 (January 2019)

A6. 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.

A7. 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 (December 2018)

A8. 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 (June 2018)

A9. The Board tentatively decided to correct the terminology in the sensitivity analysis disclosures in IFRS 17.

Effective dates (November 2018)

A10. 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.

Transition (February 2019)

A11. The Board tentatively decided to amend the transition requirements in IFRS 17 for liabilities that relate to the settlement of claims incurred before an insurance contract was acquired as follows:

(a) to add a specified modification to the modified retrospective approach so that an entity classifies 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.

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

Business combinations (June 2018)

A12. The Board tentatively decided to:

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

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

Other proposed amendments (June 2018)

A13. The Board tentatively decided to:

(a) amend IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 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; and

(b) 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 (December 2018)

A14. The Board tentatively decided to retain 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 (December 2018)

A15. The Board tentatively decided to retain the requirements in IFRS 17 for the principle-based approach to determining the discount rates and the risk adjustment used to measure insurance contracts.

Risk adjustment in a group of entities (December 2018)

A16. The Board tentatively decided to retain the requirements in IFRS 17 for the risk adjustment for non-financial risk in consolidated financial statements.

Contractual service margin (December 2018)

A17. The Board tentatively decided to retain the requirements in IFRS 17 for the non-transitional requirements relating to risk mitigation activities.

A18. The Board tentatively decided to retain the requirements of IFRS 17 relating to changes in fulfilment cash flows that adjust the contractual service margin in the general model.

Business combinations (December 2018)

A19. The Board tentatively decided to retain the requirements in IFRS 17 for the classification, applying IFRS 17 and IFRS 3, of contracts acquired in a business combination as insurance contracts.

A20. The Board tentatively decided to retain the requirements in IFRS 17 for the determination of the insured event for insurance contracts acquired in a business combination.

Reinsurance contracts held (December 2018)

A21. The Board tentatively decided to retain the requirements in IFRS 17 for the future cash flows in the measurement of reinsurance contracts held.

Presentation of insurance contracts (December 2018)

A22. The Board tentatively decided to retain the requirements in IFRS 17 for the presentation and measurement of premiums receivable and claims payable.

A23. The Board tentatively decided to retain 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.

Transition (February 2019)

A24. The Board tentatively decided to:

(a) retain the IFRS 17 transition requirements without making amendments that would reduce the optionality included in those requirements.

(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.

(c) retain the transition requirement in IFRS 17 that prohibits retrospective application of the risk mitigation option. The Board asked the staff to continue to explore alternative proposals that would address stakeholders' concerns about the results of not applying the option retrospectively.

(d) retain the transition requirements in IFRS 17 relating to the cumulative amounts included in other comprehensive income.

(e) retain the transition requirements in the modified retrospective approach set out in IFRS 17 that:

  (i) prohibit an entity from using a specified modification to the extent that the entity has reasonable and supportable information to apply the related IFRS 17 requirement retrospectively; and

  (ii) permit an entity to use a specified modification only when the entity has reasonable and supportable information to apply that modification.

(f) retain the transition requirements in IFRS 17 for the modified retrospective approach, without an amendment that would permit an entity to develop its own modifications that it regards as consistent with the objective of the modified retrospective approach. However, the Board noted the importance of the clarification in the February 2019 Agenda Paper 2D *Transition—Modified Retrospective Approach* that the existence of specified modifications does not preclude the normal use of estimation techniques.

(g) retain without amendment the specified modification in the modified retrospective approach relating to the use of cash flows that are known to have occurred, instead of estimating retrospectively cash flows that were expected to occur.

(h) retain the modified retrospective approach for insurance contracts with direct participation features, without an amendment that would permit an entity to apply to such contracts the specified modifications permitted for insurance contracts without direct participation features.

Defined terms (December 2018)

A25. The Board tentatively decided to retain the requirements in IFRS 17 for the definition of an insurance contract with direct participation features.

Interim financial statements (December 2018)

A26. The Board tentatively decided to retain the requirements in IFRS 17 for the treatment of accounting estimates in interim financial statements.