STAFF PAPER

March 2019

IASB® meeting

Project	**Amendments to IFRS 17 *Insurance Contracts***
Paper topic	Amendments to disclosure requirements resulting from the Board's tentative decisions to date

CONTACT(S)	Izabela Ruta	iruta@ifrs.org	+44 (0)20 7246 6957
	Anne McGeachin	amcgeachin@ifrs.org	+44 (0)20 7246 6486

Purpose

1. This paper discusses whether the tentative decisions of the International Accounting Standards Board (Board) for proposed amendments to IFRS 17 *Insurance Contracts* to date result in the need to amend the disclosure requirements in IFRS 17.

2. This paper should be read in conjunction with Agenda Paper 2H *Implications for disclosure and transition requirements*, which provides an overview of the implications for disclosure and transition requirements of the tentative decisions of the Board to amend IFRS 17 up to the February 2019 Board meeting.

Summary of staff recommendations

3. 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.

Structure of the paper

4. This paper includes background information and staff analysis for the disclosure implications of the following topics:

   (a) the contractual service margin recognised in profit or loss determined by considering insurance coverage and investment-related services or investment return services (paragraphs 5–14 of this paper); and

   (b) insurance acquisition cash flows for renewals outside of the contract boundary (paragraphs 15–28 of this paper).

The contractual service margin recognised in profit or loss determined by considering insurance coverage and investment-related services or investment return services

Background

Tentative decisions

5. In June 2018 the Board tentatively decided to amend IFRS 17 to clarify that the definition of the coverage period for insurance contracts with direct participation features includes periods in which the entity provides investment-related services.

6. In January 2019 the Board tentatively decided to amend IFRS 17:

   (a) 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;

   (b) 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 on IFRS 17 some of the analysis in the Board paper, to indicate what such judgements might involve;

(c) 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.

IFRS 17 disclosure requirements

7. Paragraph 93 of IFRS 17 states that the objective of the disclosure requirements is for the entity to disclose information in the notes to the financial statement that gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on entity's financial position, financial performance and cash flows. Furthermore, to achieve that objective, an entity is required to disclose qualitative and quantitative information about:

(a) the amounts recognised in its financial statements for insurance contracts;

(b) the significant judgements, and changes in those judgements, made when applying IFRS 17; and

(c) the nature and extent of the risks from insurance contracts.

8. Paragraph 104 of IFRS 17 requires an entity to provide information about the contractual service margin as part of the reconciliation from the opening to the closing balance of the insurance contract as follows:

(a) changes that relate to future service, showing separately:

(i) the effects of contracts initially recognised in the period which includes amounts of the contractual service margin initially recognised for those contracts; and

(ii) changes in estimates that adjust the contractual service margin.

(b) changes that relate to current service, ie the amount of the contractual service margin recognised in profit or loss to reflect the transfer of services.

9. Paragraph 109 of IFRS 17 requires an entity to disclose an explanation of when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss, either quantitatively, in appropriate time bands, or by providing qualitative information.

10. Paragraph 117 of IFRS 17 requires an entity to disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

    (a) the methods used to measure insurance contracts within the scope of IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.

    (b) any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected.

11. Paragraph 117(c) of IFRS 17 further specifies that the entity is required to disclose the approach to:

    (a) distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features;

    (b) determine the risk adjustment for non-financial risk;

    (c) determine discount rates; and

    (d) determine investment components.

Staff analysis

12. The Board has tentatively decided to propose amendments to IFRS 17 to consider investment-related services (for variable fee contracts) or investment return services (for general model contracts) as well as insurance coverage in determining the amount of the contractual service margin to recognise in profit or loss. Including these services in that determination makes it more subjective and complex. As a result, the pattern of recognition of profit for different products and between different entities can vary significantly. Consequently, specific disclosures about the amounts recognised in the financial statement and judgements used are important to ensure

users of the financial statement are able to understand the determination, and make informed comparisons between types of contracts and across entities.

13. The staff think that the quantitative disclosure required in paragraph 101 of IFRS 17 provides useful information about the changes in the contractual service margin as a result of the services provided in the period and adjustments related to the future services. The staff think it would be also helpful if an entity provided quantitative information about the expected recognition of the contractual service margin in profit or loss in the future periods. However, paragraph 109 of IFRS 17 currently allows an entity to provide qualitative information instead. Consequently, the staff recommend the Board amend IFRS 17 to *require* an entity to disclose quantitative information about the expected recognition in profit or loss in future periods without the option of providing qualitative information. The staff do not think that providing quantitative information will be burdensome for preparers because such information should be available to them. This is because in deciding the amount of the services provided in the period, an entity needs to consider the what coverage units are expected to be provided in the future.

14. Paragraph 117 of IFRS 17 requires an entity to disclose the significant judgements in measuring insurance contracts. In the staff's view, these judgements already include an assessment of the relative weighting of the benefits provided by insurance coverage and investment-related services or investment return services. However, because of the significance of the effect of assessing these relative weightings on the allocation of the contractual service margin in profit or loss for many insurance contracts, the staff propose highlighting the importance of that disclosure in IFRS 17. Consequently, the staff recommend the Board amend IFRS 17 to include a specific requirement needed to comply with the objective in paragraph 117 of IFRS 17, a disclosure about the approach used to assess the relative weightings of the benefits provided by insurance coverage and investment-related services or investment return services.

Question 1 for Board members
Do you agree the Board should amend IFRS 17 to require: (a) 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 allowed by paragraph 109 of IFRS 17 of providing qualitative information; and (b) 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 requirement in paragraph 117 of IFRS 17 related to significant judgments and changes in judgements made in applying IFRS 17?

Insurance acquisition cash flows for renewals outside of the contract boundary

Background information

Tentative decisions

15. Since the publication of IFRS 17, the Board has tentatively decided to propose the following amendments to IFRS 17 relating to insurance acquisition cash flows:

   (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.

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

   (b) 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.

   (c) 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.

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

(e) 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.

IFRS 17 disclosure requirements

16. Paragraph 93 of IFRS 17 states that the objective of the disclosure requirements is for the entity to disclose information in the notes that gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on entity's financial position, financial performance and cash flows. Paragraphs 94-96 of IFRS 17 further require an entity to:

(a) consider the level of detail necessary to satisfy the disclosure objective and to disclose information necessary to meet the objective.

(b) aggregate information in a way that does not obscure useful information and does not aggregate item with different characteristics. Furthermore, it requires an entity to aggregate information (subject to materiality) consistently with requirements in IAS 1 *Presentation of Financial Statements*, for example by type of contracts, geographical area or reportable segments.

17. The reconciliations of contract balances in paragraphs 97–105 of IFRS 17 require an entity to disclose specific quantitative information about acquisition cash flows included in the measurement of recognised groups of insurance contracts. However, IFRS 17 does not require any specific information about amounts of acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts.

18. Paragraph 117 of IFRS 17 requires an entity to disclose the significant judgements and changes in judgements made in applying IFRS 17 (see paragraphs 10–11 of this paper).

Staff analysis

Acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts

19. Paragraph 27 of IFRS 17 requires the recognition of an asset for insurance acquisition cash flows that occur before the related group of insurance contracts is recognised. The asset is derecognised when the cash flows are included in the measurement of the related group of insurance contracts on initial recognition.

20. The proposed amendments would extend the period for which such an asset exists for acquisition cash flows related to renewals, and consequently is expected to increase the amount of the asset. Furthermore, the timing of when the entity expects that asset to be derecognised and included in the measurement of the group of contracts will vary depending on the entity's assumptions related to renewals such as the timing and number of renewals. Consequently, even though such assets existed in IFRS 17 before the proposed amendments, the staff think it is appropriate to reconsider the related disclosure requirements.

Quantitative information

21. IFRS 17 does not require specific quantitative disclosures about insurance acquisition cash flows that have not yet been included in the measurement of a group of insurance contracts.

22. The staff think that quantitative information about such insurance acquisition cash flows will be more important for users of financial statements after the proposed amendments to IFRS 17. This is because, as discussed in paragraph 20 of this paper, there could be a longer period until the cash flows are included in the measurement of a group of insurance contracts and hence a greater amount not yet included in that measurement compared to those arising under the existing IFRS 17 requirements. Therefore, the staff recommend the Board amend IFRS 17 to require specific reconciliation of the acquisition cash flows asset at the beginning and the end of the period and its changes, specifically recognition of any impairment loss or reversals.

23. As noted in paragraph 16 of this paper, IFRS 17 requires disclosures aggregated in a way that provides useful information. The staff think that aggregation of quantitative information should be consistent across all reconciliations to allow an entity to understand the relationships between all amounts disclosed. Consequently, the staff recommends the Board require the aggregation of the information provided for the reconciliation of insurance acquisition cash flows not yet included in the measurement of a group of insurance contracts should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts.

24. In addition, the staff think it is important for users of financial statement to understand when the insurance acquisition cash flows are expected to be included in the measurement of a group of insurance contracts. This is because the insurance acquisition cash flows (and their recovery) will only be recognised as an expense (and revenue) once they are part of the measurement of a group of contracts.

25. Consequently, the staff recommend the Board amend IFRS 17 to require a quantitative disclosure, similar to that required in paragraph 109 of IFRS 17 on when the entity expects to recognise the contractual service margin in profit or loss (see paragraph 9 of this paper). This new disclosure would require an entity to disclose when it expects to include insurance acquisition cash flows as part of the initial measurement on recognition of a group of insurance contracts.

Qualitative information

26. The staff think that the disclosure requirement in paragraph 117 of IFRS 17 (see paragraph 18 of this paper) is sufficient to cover the inputs and assumptions related to the recoverability assessment of the acquisition cash flows asset balance. The staff does not propose adding specific requirements, in contrast with the proposal for a specific requirement related to the recognition of the contractual service margin in profit or loss in paragraph 14 of this paper. This is because the contractual service margin is a fundamental feature of the measurement of insurance contracts that will affect many insurance contracts and will have a significant effect on the amounts recognised in the financial statements.

Comparison with IFRS 15

27. The staff note that this recommendation (and the requirement in IFRS 17 explained in paragraph 26) would result in an entity providing similar information about acquisition cash flows to that provided for the costs incurred to obtain or fulfil a contract with a customer applying IFRS 15 *Revenue from Contracts with Customers.* IFRS 15 requires:

    (a) qualitative disclosure related to the judgements made in determining the amount of those costs and the method it uses to determine the amortisation for each reporting period; and

    (b) quantitative disclosure related to the closing balances of assets recognised from those costs and the amount of amortisation and any impairment losses recognised in the reporting period.

28. However, the staff note the following differences:

    (a) IFRS 15 does not require quantitative disclosure about contract balances in the form of a reconciliation. Paragraph BC357 of IFRS 15 notes this is because the cost of providing such a rigid disclosure would outweigh the benefit to users. However, the staff note that in IFRS 17 already requires reconciliation of insurance contract balances, hence the proposed disclosure in paragraph 22 is consistent with that approach. In addition, insurance acquisition costs are likely to be more significant than the acquisition costs for contracts within the scope of IFRS 15, at least in part because of the broader scope of costs that fall within the definition of insurance acquisition costs.

    (b) The disclosure related to the expected derecognition of asset balances recommended in paragraph 25 is not required by IFRS 15. This is because IFRS 17 requires an entity to include acquisition costs in the measurement of the insurance contracts (once those contracts are recognised) while IFRS 15 does not.

Question 2 for Board members
Do you agree the Board should amend IFRS 17 to require: (a) a reconciliation of the asset created by insurance acquisition cash flows not yet included in the measurement of a group of insurance contracts at the beginning and the end of the reporting period and its changes, specifically the recognition of any impairment loss or reversals. The aggregation of the information provided for this reconciliation should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts. (b) quantitative disclosure, in appropriate time bands, of the expected inclusion of these acquisition cash flows in the measurement of related insurance contracts when the related insurance contracts are recognised.