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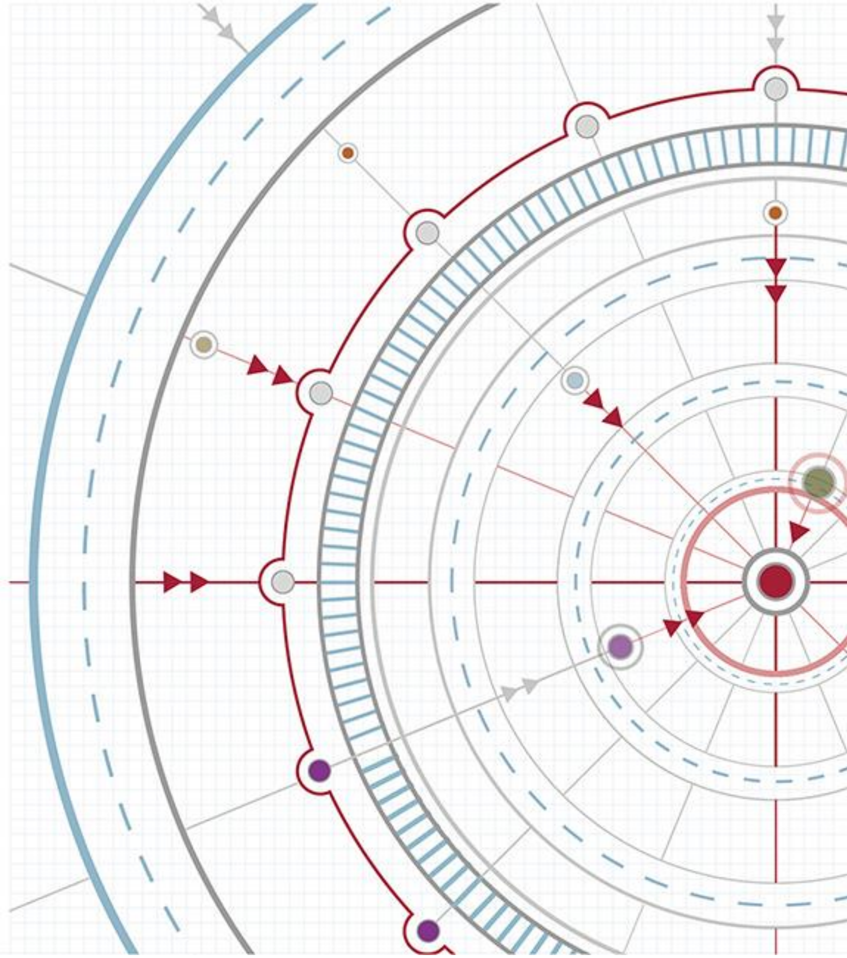

Overview of Exposure Draft *Amendments to IFRS 17*

National Standard-Setters webinar, June 2019

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Objectives of the proposed amendments

Maintain IFRS 17 improvements

- The targeted amendments
  - do not change the fundamental principles of the Standard
  - will not result in a significant loss of useful information for investors
  - refine the requirements for some topics, in the light of insurers' experience when starting implementation

Aid implementation

- The targeted amendments
  - are narrow in scope but provide meaningful support and address a number of concerns raised by insurers
  - will ease IFRS 17 implementation, without unduly disrupting implementation
  - will make it easier for insurers to explain the results of applying IFRS 17 to investors

Not all possible amendments meet the criteria

Change not justified **or** Significant loss of information **or** Unduly disrupt implementation

Reinsurance contract boundary	Excluding cash flows of reinsurance contracts held relating to underlying contracts not yet issued would go against the fundamental principle in IFRS 17 that all future cash flows are reflected in the measurement of an insurance contract
Level of aggregation	Suggested changes could result in: • loss of information about trends in the entity's profitability • delayed recognition of losses on onerous contracts / profit on profitable contracts
Reducing OCI optionality	Requiring, rather than permitting, insurance finance income or expenses to be presented either entirely in profit or loss or partly in OCI to improve comparability could require significant rework for preparers

12 targeted amendments in 8 areas

Deferral of effective date by one year

IFRS 17

IFRS 9

1

Additional scope exclusions

Loans

Credit cards

2

Allocation of acquisition costs to expected contract renewals

3

Attribution of profit to service relating to investment activities

4

Extension of risk mitigation option

5

Reduced accounting mismatches for reinsurance

6

Simplified balance sheet presentation

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Additional transition reliefs

Business combinations

Risk mitigation from the transition date

Risk mitigation and fair value approach

8

1 Deferral of effective date by one year

Concerns and challenges raised

- Limitations in the availability of internal or third party experts, particularly actuaries and IT systems providers
- Entities need more time to prepare than they originally expected
- Uncertainty arising from the discussion about possible amendments to IFRS 17 and subsequent changes affects planning and budget of entities implementing IFRS 17

IASB's response

- One-year deferral of the effective date of IFRS 17 (based on uncertainty created by possible amendments)
- Extension to 2022 of the expiry date for the temporary exemption from applying IFRS 9 (for some insurers)
- Need to have timely application of IFRS 17 and IFRS 9

Proposed amendment

2 Scope exclusion for some loans

Concerns and challenges raised

- A loan contract that transfers significant insurance risk is an insurance contract that contains both a loan and an insurance component
- Applying IFRS 4 some entities separate the loans in such contracts and apply IFRS 9 to those loans
- IFRS 17 does not permit the continuation of this practice
- IFRS 17 currently applies to the loan contract in its entirety

IASB's response

- Permitted to apply either IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract
- The choice would be made portfolio by portfolio, using the IFRS 17 definition of a portfolio

Proposed amendment

Scope exclusion for some credit cards

Concerns and challenges raised

- Some credit card contracts provide insurance coverage—for purchases made using the credit card—free or for a fixed fee
- Entities that today account for those credit card contracts applying IFRS 9 would need to change the accounting when IFRS 17 is effective, shortly after having incurred costs to comply with IFRS 9

IASB's response

- IFRS 17 would not apply to credit card contracts for which the fee charged to the customer does not reflect an assessment of the insurance risk associated with that individual customer
- Other relevant IFRS Standards apply (eg IFRS 9, IFRS 15 or IAS 37)

Proposed amendment

Acquisition costs for renewals

Concerns and challenges raised

- Commissions paid unconditionally on contracts that have been issued cannot be allocated to expected contract renewals
- In some cases, commissions may exceed the premium for the initially written contracts causing the contracts to be onerous – viewed as being inconsistent with economics

IASB's response

- Part of insurance acquisition cash flows would be allocated to expected contract renewals
- Cash flows recognised as an asset until the entity recognises contract renewals
- Recoverability of the asset assessed each period

Proposed amendment

3 Acquisition costs for renewals—Example

- Non-refundable commissions paid for new contracts expected to be renewed
- Sometimes the commission exceeds premiums for the initial contract because the insurer expects the commission will be recovered from renewals

IFRS 17 (as originally issued)

Cash flows	Year 1 (initial contract)	Year 2 (expected renewal)	Year 3 (expected renewal)
Premium	**100**	**100**	**100**
Claim	**-**	**-**	**-**
Commission	**(150)**	**-**	**-**
Expected (loss) / unearned profit	**(50)**	**100**	**100**

Proposed amendment

Cash flows	Year 1 (initial contract)	Year 2 (expected renewal)	Year 3 (expected renewal)
Premium	**100**	**100**	**100**
Claim	**-**	**-**	**-**
Commission	**(50)**	**(50)**	**(50)**
Expected unearned profit	**50**	**50**	**50**
Asset for acquisition costs	**(100)**		

4 Attribution of profit to service relating to investment activities

Concerns and challenges raised

- For insurance contracts without direct participation features, contractual service margin recognised in profit or loss considering only insurance coverage
- For some contracts the insurance coverage period differs from the period in which the policyholder gets return on an investment component

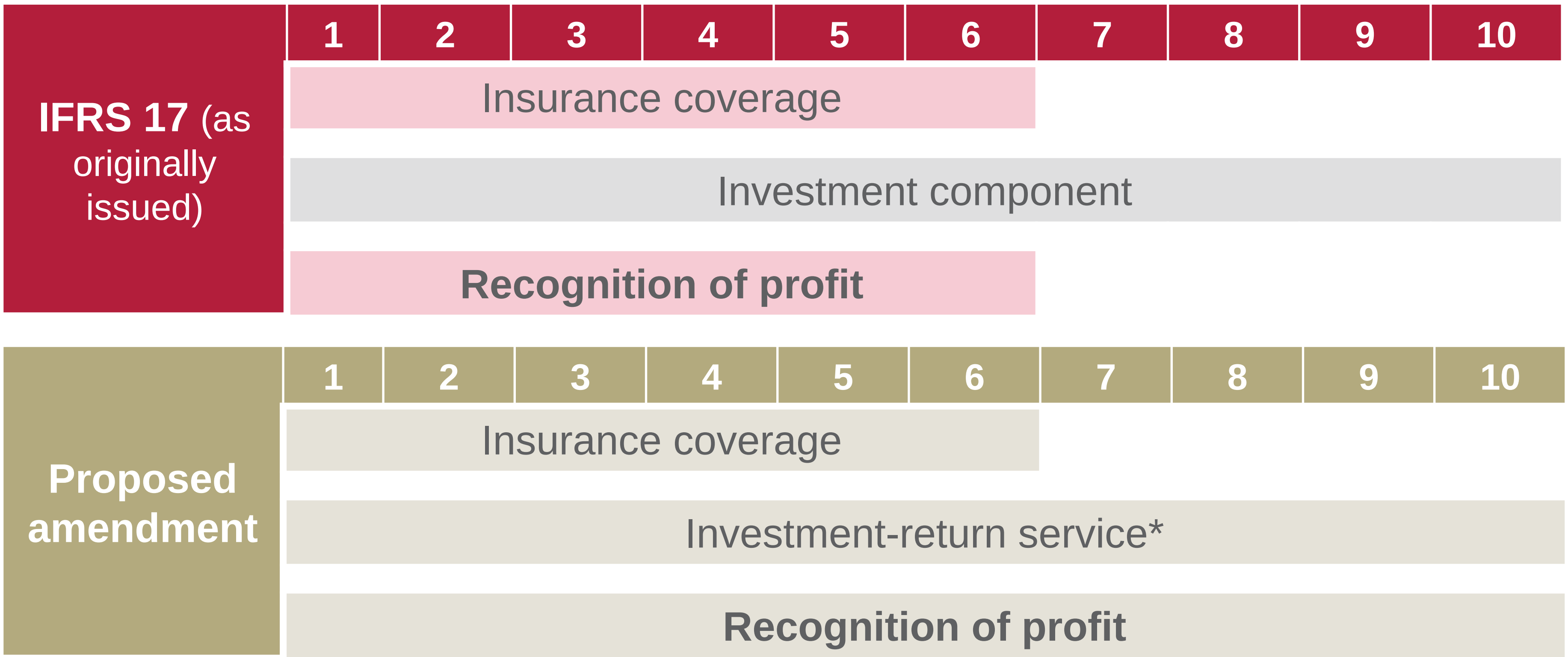
IASB's response

- For insurance contracts without direct participation features, recognise the contractual service margin in profit or loss considering both insurance coverage and any investment-return service

Proposed amendment

Attribution of profit to service relating to investment activities—Example

- 10-year contract with an investment component providing insurance coverage for the first 6 years



* Not all insurance contracts with an investment component provide investment-return service

5 Extension of risk mitigation option

Concerns and challenges raised

- Derivatives or reinsurance contracts may be used to mitigate financial risks arising from insurance contracts with direct participation features
- When derivatives mitigate financial risks, the entity can choose to recognise changes in insurance contracts in profit or loss, rather than as adjustments to the contractual service margin, to offset the changes in fair value of derivatives (risk mitigation option)

IASB's response

- For insurance contracts with direct participation features, permitted to use the risk mitigation option also when the entity uses reinsurance contracts held to mitigate financial risks

Proposed amendment

6 Reduced accounting mismatches for reinsurance

Concerns and challenges raised

- On initial recognition of onerous insurance contracts losses recognised immediately
- When those losses are covered by a reinsurance contract held any corresponding gains are recognised over the coverage period
- Accounting mismatches may arise

IASB's response

- An entity that recognises losses on onerous insurance contracts at initial recognition would also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts (i) cover the losses of the underlying contracts on a proportionate basis and (ii) are entered into before the onerous underlying contracts are issued

Proposed amendment

6 Reduced accounting mismatches for reinsurance—Example

IFRS 17 (as originally issued)	
Insurance contracts issued	
Premiums	**100**
Claims	**(150)**
Expected loss (recognised immediately)	**(50)**
Proportionate reinsurance contracts held	
Reinsurance premiums	**(125)**
Claims recovered from reinsurance (80%)	**120**
Net cost (recognised over time)	**(5)**

Proposed amendment	
Insurance contracts issued	
Premiums	**100**
Claims	**(150)**
Expected loss (recognised immediately)	**(50)**
Proportionate reinsurance contracts held	
Reinsurance premiums	**(125)**
Claims recovered from reinsurance	**120**
of which:	
- recovery of loss	**40**
- remaining claims	**80**
Net cost	**(5)**
of which:	
- gain recognised immediately (*)	**40**
- adjusted net cost recognised over time	**(45)**

(*) Gain on reinsurance contracts held of 40 is equal to the expected loss of the underlying insurance contracts multiplied by the fixed percentage of claims the insurer has a right to recover from the reinsurer (50 x 80% = 40)

7 Simplified balance sheet presentation

Concerns and challenges raised

- Groups of insurance contracts presented in an asset position separately from groups of insurance contracts in a liability position
- To do this, need to identify premiums received and premiums receivable for each group of insurance contracts
- Better IT systems integration is needed resulting in significant implementation costs

IASB's response

- Insurance contract assets and insurance contract liabilities presented in the balance sheet using portfolios of insurance contracts rather than groups of insurance contracts

Proposed amendment

8 Transition—use of estimates

Concerns and challenges raised

- Stakeholders raised concerns that the specified transition reliefs in IFRS 17 implied that entities could not make estimates in determining transition amounts

IASB's response

- The Basis for Conclusions on the Exposure Draft of proposed amendments to IFRS 17 explains that the Board expects entities to make estimates in determining transition amounts

8 Transition—business combinations

Concerns and challenges raised

- Liabilities for claims settlement are treated as a ‘liability for remaining coverage’ if the contracts were acquired in a business combination and as a ‘liability for incurred claims’ if the contracts were issued by the entity
- Some entities use a single system to manage all liabilities for claims settlement and find it difficult to obtain the required data to separate and measure liabilities for claims settlement in two different ways

IASB’s response

- At transition account for liabilities for claims settlement acquired in a business combination as a ‘liability for incurred claims’ if the entity does not have reasonable and supportable information to apply a retrospective approach

Proposed amendment

8 Risk mitigation from the transition date

Concerns and challenges raised

- The risk mitigation option cannot be applied for periods before the date of initial application of IFRS 17—ie before the beginning of the annual reporting period in which IFRS 17 is first applied
- This prohibition may affect comparative information for the period immediately before the date of initial application

IASB's response

- An entity would be permitted to apply the risk mitigation option from the date of transition to IFRS 17—ie the beginning of the annual reporting period immediately before the date of initial application—if the entity designates the risk mitigation relationships to which it will apply the risk mitigation option no later than that date

Proposed amendment

8 Risk mitigation and fair value approach

Concerns and challenges raised

- The risk mitigation option cannot be applied retrospectively
- If risk mitigation activities were in place before the date of initial application of IFRS 17 some stakeholders think that equity on transition and revenue recognised in future periods might be distorted

IASB's response

- An entity would be permitted to use the fair value approach to transition, if it chooses to apply the risk mitigation option prospectively from the transition date, has used derivatives or reinsurance to mitigate financial risk before the date of transition and can apply IFRS 17 retrospectively

Proposed amendment

Next steps

Proposed amendments set out in an Exposure Draft

90 day comment period (July-September 2019)

Outreach to obtain additional feedback

Comments welcomed from all stakeholders

IASB will finalise amendments to IFRS 17 considering the feedback on the Exposure Draft

Materials published in June 2019

Exposure Draft *Amendments to IFRS 17*—specifies the proposed amendments to IFRS 17 for the accounting for insurance contracts

Basis for Conclusions on the Exposure Draft—summarises the Board's considerations in developing the proposed amendments

Snapshot of Amendments to IFRS 17—provides an overview of the proposed amendments to IFRS 17

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