Extracts from external review draft of IFRS 17

Level of aggregation

14. An entity shall identify *portfolios of insurance contracts*. A portfolio comprises contracts that are subject to similar risks and managed together as a single pool. Contracts within a product line (for annuities) would be expected to have similar risks, and contracts in different product lines (for example whole-life compared to term-life) would be expected to be in different portfolios.

15. An entity shall divide a portfolio into:

    (a) a group of contracts that are onerous at initial recognition (see paragraph 41(a)), if any;

    (b) a group of contracts that at initial recognition have no significant risk of becoming onerous, if any; and

    (c) a group of the remaining contracts in the portfolio, if any.

16. To determine which contracts are onerous at initial recognition, an entity shall measure:

    (a) individual contracts; or

    (b) if, using reasonable and supportable information about a set of contracts, the entity can determine that the set of contracts will either all be onerous or will contain no onerous contracts, that set of contracts.

17. An entity shall assess whether contracts that are not onerous at initial recognition have no significant risk of becoming onerous:

    (a) at a level of aggregation consistent with how the entity's internal reporting provides information about changes in estimates; and

    (b) based on the sensitivity of the fulfilment cash flows to changes in estimates which, if they occurred, would result in the contracts becoming onerous.

18. An entity is permitted to divide portfolios into more groups than described in paragraph 15. For example an entity may choose to divide the portfolios into:

    (a) more groups if the entity's internal reporting provides information that distinguishes at a more granular level the different risks of contracts becoming onerous subsequent to initial recognition; or

    (b) more than one group of contracts that are onerous at inception, if the entity's internal reporting provides information at a more granular level about the extent to which the contracts are onerous.

19. An entity shall not include contracts issued more than one year apart in the same group. To achieve this, if necessary, the entity shall further divide the groups described in paragraphs 15 and 18.

20. A group shall comprise a single contract if that is the result of applying paragraphs 14-19.

21. An entity shall apply the recognition and measurement requirements of this Standard to the groups of contracts determined by applying paragraphs 14-20. To measure groups of contracts, an entity may estimate the fulfilment cash flows at a higher level of aggregation than a group or portfolio, so long as the entity is able to include the appropriate fulfilment cash flows in the measurement of a group applying paragraph 28 by allocating such estimates to groups of contracts.

Appendix C
Effective date and transition

This Appendix is an integral part of this Standard.

Effective date

C1. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9 and IFRS 15 at or before the date of initial application of this Standard. If an entity applies this Standard earlier, it shall disclose that fact.

C2. For the purpose of the transition requirements in paragraphs C3–C33, the date of initial application is the start of the annual reporting period in which an entity first applies this Standard.

Transition

C3. An entity shall apply this Standard retrospectively unless impracticable, except:

(a) an entity need not present the quantitative information required by paragraph 28(f) of IAS 8.

(b) an entity shall not apply the option in paragraph B108 for periods before the date of initial application of this Standard.

C4. To apply this Standard retrospectively, an entity shall at the beginning of the period immediately preceding the date of initial application:

(a) recognise and measure each group of insurance contracts as if this Standard had always applied;

(b) derecognise any existing balances that would not exist had this Standard always applied; and

(c) recognise any resulting net difference in equity.

C5. When, and only when, it is impracticable for an entity to apply paragraph C3 for a group of insurance contracts, an entity shall apply:

(a) the modified retrospective approach in paragraphs C6–C19, subject to C1(a); or

(b) the fair value approach in paragraphs C20–C24.

Modified retrospective approach

C6. The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information. Accordingly, in applying the modified retrospective approach, an entity shall:

(a) use reasonable and supportable information. If the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it shall apply the fair value approach.

(b) maximise the use of information that would have been used to apply a fully retrospective approach, but need only use information available without undue cost or effort.

C7. Paragraphs C9-C18 set out permitted modifications to retrospective application in the following areas:

(a) assessments about insurance contracts or groups of insurance contracts that would be made at the date of initial recognition;

(b) amounts related to the contractual service margin for insurance contracts without direct participation features;

(c) amounts related to the contractual service margin for insurance contracts with direct participation features;

(d) insurance contract revenue; and

(e) insurance finance income or expenses.

C8. To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9-C18 only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at initial recognition

C9. Applying paragraph C8, an entity shall determine the following matters using information available at the beginning of the period immediately preceding the date of initial application:

(a) how to identify groups of insurance contracts, applying paragraphs 14-21;

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B97-B102; and

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying B94.

C10. Applying paragraph C8, an entity shall not apply paragraph 19 to divide groups into groups that do not include contracts issued more than one year apart.

Determining the contractual service margin for insurance contracts without direct participation features

C11. Applying paragraph C8, an entity shall estimate the future cash flows at the date of initial recognition of a group of insurance contracts (or subsequently) as the amount of the future cash flows at the beginning of the period immediately preceding the date of initial application, adjusted by the cash flows that are known to have occurred between the date of initial recognition of a group of insurance contracts (or subsequently) and the beginning of the period immediately preceding the date of initial application;

C12. Applying paragraph C8, an entity shall determine the discount rate(s) that applied at the date of initial recognition of a group of insurance contracts (or subsequently):

(a) using an observable yield curve that, for at least three years before the beginning of the period immediately preceding the date of initial application, approximates the yield curve estimated applying paragraphs 32 and B69-B80, if such an observable yield curve exists; and

(b) if the observable yield curve in paragraph (a) does not exist, estimate the discount rates that applied at the date of initial recognition by determining an average spread between an observable yield curve and the yield curve estimated applying paragraphs 32 and B69-B80, and applying that spread to that observable yield curve. That spread shall be an average over at least three years before the date of initial application of the Standard.

C13. Applying paragraph C8, an entity shall determine the risk adjustment at the date of initial recognition of a group of insurance contracts (or subsequently) by adjusting the risk adjustment at the beginning of the period immediately preceding the date of initial application by the expected release of risk before the beginning of the period immediately preceding the date of initial application. The expected release of risk should be determined by reference to release of risk for similar insurance contracts that the entity issues at the beginning of the period immediately preceding the date of initial application;

C14. Applying paragraph C8, an entity shall determine the amount of the contractual service margin recognised in profit or loss because of the transfer of services before the beginning of the period immediately preceding the date of initial application by comparing the remaining coverage units with the total coverage units of the group of contracts.

Determining the contractual service margin for insurance contracts with direct participation features

C15. Applying paragraph C8 for contracts with direct participation features, an entity shall determine the contractual service margin at the beginning of the period immediately preceding the date of initial application as:

(a) the total fair value of the underlying items at that date; less

(b) the fulfilment cash flows at that date, adjusted to reflect cash flows not related to the underlying items that have already occurred before that date. The cash flows not related to the underlying items that have already occurred shall be accreted at the discount rate specified in paragraph B70(b), determined at the beginning of the period immediately preceding the date of initial application; and

(c) the amount of contractual service margin that relates to service provided before that date. The entity shall estimate this amount taking into account distributions to the entity from the underlying items before that date and by comparing the remaining coverage units with the total coverage units of the group of contracts.

Insurance contract revenue

C16. Applying paragraph C8 to determine, for the purpose of measuring insurance contract revenue, the carrying amount of the liability for remaining coverage, an entity shall at the beginning of the period immediately preceding the date of initial application:

(a) determine the carrying amount of the liability for the remaining coverage at the beginning of the period immediately preceding the date of initial application presented as the sum of the fulfilment cash flows and the contractual service margin at that date, applying paragraphs C9-C15.

(b) determine any losses on initial recognition of the group of insurance contracts applying paragraphs C9-C15 unless impracticable.

(c) determine any amounts allocated to the loss component of the liability for remaining coverage applying paragraphs C9-C15.

(d) assume that there are no changes in estimates between the date of initial recognition and the beginning of the period immediately preceding the date of initial application that were recognised in profit or loss before the beginning of the period immediately preceding the date of initial application.

C17. If impracticable to estimate any losses at the beginning of the period immediately preceding the date of initial application applying paragraphs paragraphs C9-C15, an entity shall assume that there are no such losses.

Insurance finance income or expenses

C18. For groups of insurance contracts that, applying paragraph C10, include contracts issued more than one year apart, an entity shall:

(a) determine the discount rates specified in paragraph B70(b) at the beginning of the period immediately preceding the date of initial application instead of at the initial recognition of the contract; and

(b) if the entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 79(b) and 80(b), determine the cumulative difference between the insurance finance income or expenses recognised in profit or loss and the total insurance finance income or expenses at the beginning of the period immediately preceding the date of initial application:

(i) as nil, unless (ii) applies; and

(ii) for insurance contracts with direct participation features to which paragraph B124 applies, as equal to the cumulative difference between the finance income or expenses on the underlying items recognised in profit or loss and the total finance income or expenses on the underlying items.

C19. For groups of insurance contracts that do not include contracts issued more than one year apart, applying paragraph C8, an entity shall:

(a) determine the discount rates specified in paragraph B70(b) applying paragraph C12 when the entity applies paragraph C12 to estimate the contractual service margin at initial recognition; and

(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 79(b) and 80(b), determine the cumulative difference between the insurance finance income or expenses recognised in profit or loss and the total insurance finance income or expenses in equity at the beginning of the period immediately preceding the date of initial application:

(i) for insurance contracts for which changes in financial assumptions do not have a substantial effect on the amounts paid to the policyholder, using the discount rates that applied at the date of initial recognition applying paragraph C12 when the entity applies paragraph C12 to estimate the contractual service margin at initial recognition.

(ii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B123, on the basis that the assumptions that give rise to financial risk that applied at the date of initial recognition are those that apply on the beginning of the period immediately preceding the date of initial application, ie as nil; and

(iii) for insurance contracts with direct participation features to which paragraph B124 applies, as equal to the cumulative difference between the finance income or expenses on the underlying items recognised in profit or loss and the total finance income or expenses on the underlying items.

Fair value approach

C20. To apply the fair value approach, an entity shall determine the contractual service margin at the beginning of the immediately preceding period as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date.

C21. In applying the fair value approach, an entity may apply paragraph C22 to determine:

(a) how to identify groups of insurance contracts, applying paragraphs 14-21;

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B97-B102; and

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying B94.

C22. An entity may choose to determine the matters in paragraph C21 using:

(a) reasonable and supportable evidence for what the entity would have determined give the terms of the contract and the market conditions at the date of initial recognition; or

(b) information available at the beginning of the period immediately preceding the date of initial application.

C23. In applying the fair value approach, an entity may choose not apply paragraph 19 and include in a group contracts issued more than one year apart. An entity shall only divide groups into those issued within a year if it has reasonable and supportable information to make the division.

(a) an entity not applying paragraph 19 shall use the discount rate specified in paragraph B70(b) determined at the beginning of the period immediately preceding the date of initial application instead of at the initial recognition of the contract.

(b) an entity applying paragraph 19, is permitted to use the discount rate specified in paragraph B70(b) determined at initial recognition of a group of contracts or determined at the beginning of the period immediately preceding initial application:

C24. In applying the fair value approach, if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income, it is permitted to determine the cumulative difference between the insurance finance income or expenses recognised in profit or loss and the total insurance finance income or expenses at the beginning of the period immediately preceding the date of initial application:

(a) retrospectively, but only if it has reasonable and supportable information to do so; or

(b) as nil unless (c) applies; and

(c) for insurance contracts with direct participation features to which paragraph B124 applies, as equal to the cumulative difference between the finance income or expenses on the underlying items recognised in profit or loss and the total finance income or expenses on the underlying items.

Comparatives

C25. Notwithstanding the references to the period immediately preceding the date of initial application in paragraphs C4–C24, an entity may also present adjusted comparative information applying this Standard for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to ‘the beginning of the period immediately preceding the date of initial application' in paragraphs C4–C24 shall be read as the 'the beginning of the earliest adjusted comparative period presented'.

C26. The disclosure requirements of paragraphs 84-123 of this Standard need not be applied for any period presented before the beginning of the period immediately preceding the date of initial application.

C27. If an entity presents unadjusted comparative information and disclosures for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

Redesignation of financial assets

C28. At the date of initial application of this Standard, an entity that applied IFRS 9 to annual reporting periods prior to the initial application of this Standard:

(a) may reassess whether an eligible financial asset meets the condition in paragraphs 4.1.2(a) or 4.1.2A(a) of IFRS 9. A financial asset is eligible if, and only if, the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of this Standard. Examples of financial assets that would not be eligible for reclassification are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of this Standard.

(b) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is no longer met because of the application of this Standard.

(c) may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is met.

(d) may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

(e) may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

C29. An entity shall apply paragraph C28 on the basis of the facts and circumstances that exist at the date of initial application of this Standard. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in IFRS 9. The date of initial application for that purpose shall be deemed to be the date of initial application of this Standard'.

C30. An entity that applies paragraph C28 need not restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of IFRS 9 for those redesignated or reclassified financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between (a) the previous carrying amount of those financial assets and (b) the carrying amount of those financial assets at the date of initial application.

C31. When an entity applies paragraph C28, it shall disclose in that annual reporting period for those financial assets by class:

(a) if paragraph (a) applies, its policy for determining eligible financial assets;

(b) if any of paragraphs (a) -(e) apply:

(i)the measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of this Standard;

(ii) the new measurement category and carrying amount of the affected financial assets determined after applying paragraph C28;

(c) if paragraph (b) applies, the amount of financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.

C32. When an entity applies paragraph C28, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

(a) how it applied paragraph C28 to those financial assets whose classification has changed as a result of initially applying this Standard;

(b) the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9; and

(c) an explanation of why the entity came to any different conclusions in the new assessment of its business model.

Withdrawal of other IFRSs

C33. This Standard supersedes IFRS 4, as revised in 2016.