

Update on Insurance Contracts

Accounting Standards Advisory Forum meeting
December 2016

ASAF agenda paper 7

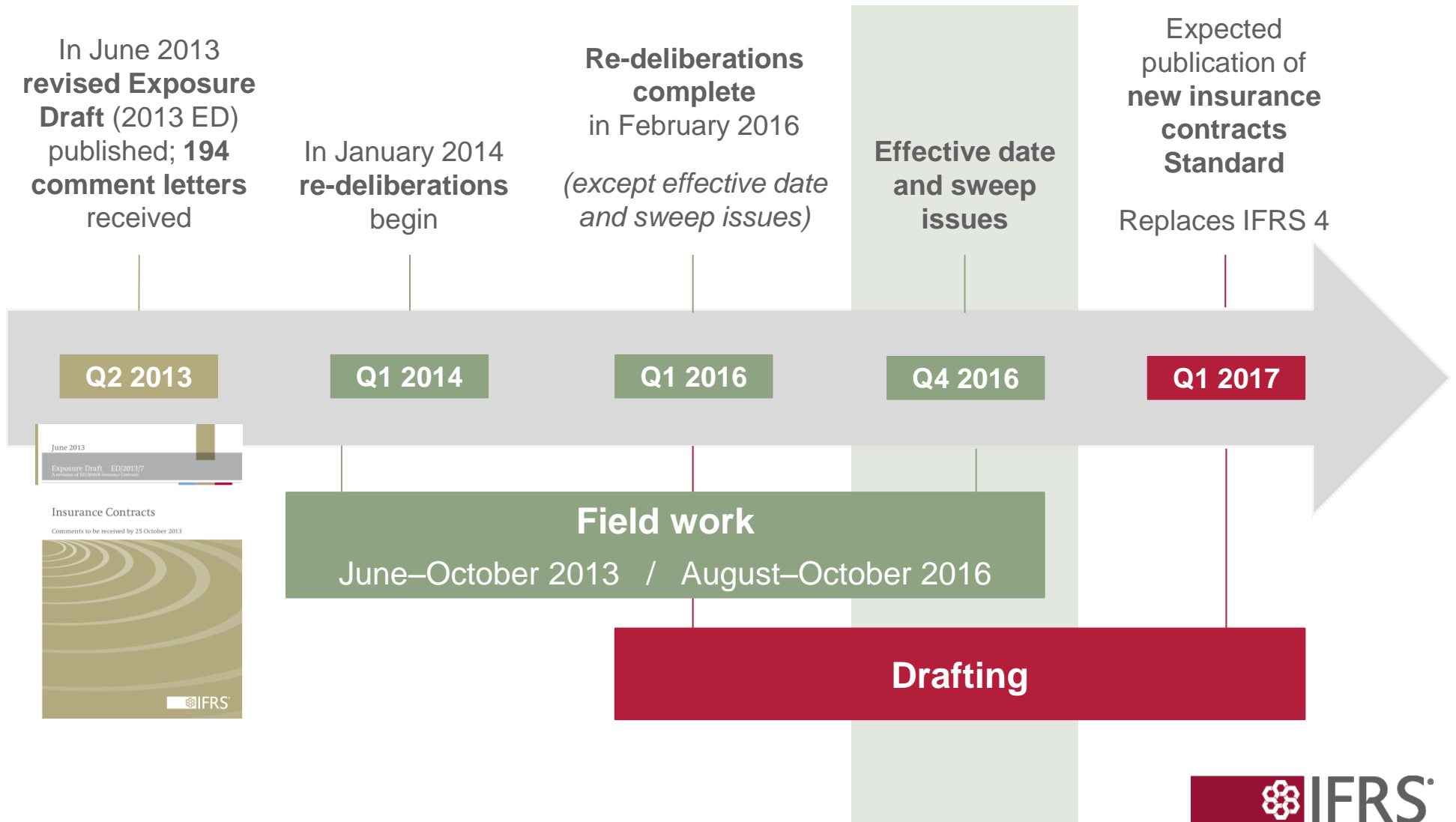
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New insurance contracts Standard

Where we are

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External testing and review

Participants

- 12 testing participants from the majority of the major regions
- Questionnaire and extracts from the draft of IFRS 17 on six selected topics were provided
- Additional input on specific topics
 - Scope of the variable fee approach from a North European industry trade body
 - Derivatives used to mitigate financial risk from a large multi-national insurer
 - Unsolicited input on selected topics resulting from public questionnaire
- Unsolicited input from testing performed by a group of large insurers from North America
- Input from selected individuals, including each of the Big-Four audit firms and national Standard-setters supporting participants in their jurisdiction

External testing and review

Feedback

Topic		Main findings
①	Aggregation of contracts	Concerns about: <ul style="list-style-type: none">– Notion of ‘similar profitability’ used to aggregate contracts– Very high number of groups that would require excessively granular calculations– Differences exist between interpretation of draft IFRS 17 and the way companies manage their business to assess profitability and track contracts’ performance
②	Scope of variable fee approach	Request for further guidance on how to interpret the scope of the variable fee approach (ie definition of contracts with direct participation features)
③	Derivatives used to mitigate financial market risk	<ul style="list-style-type: none">– Request to extend the approach applicable to specific financial risks– Concern about mismatches arising from prospective application of the requirements

External testing and review

Feedback

Topic		Main findings
④	Determining the amount of insurance finance income or expenses in OCI	No significant issues identified
⑤	Recognition of changes in estimates	Concern about the accounting for the combined effect of (a) experience adjustments and (b) the associated changes in estimates of future cash flows; many changes would require the adjustment of the CSM, creating operational challenges
⑥	Transition	Concerns about: <ul style="list-style-type: none">– Cost and complexity– Sufficient relief provided by the simplified transition approach– Completeness of the simplified transition approach– Ability to use ‘better’ information if available

November 2016 Board Meeting

List of topics discussed

	Paper Topic
2A	Methodology - external testing of draft IFRS 17
2B	Results - external testing of draft IFRS 17
2C	Level of aggregation
2D	Experience adjustments
2E	Transition issues
2F	Mitigating financial risks reflected in insurance contracts
2G	Other sweep issues
2H	Mandatory effective date of IFRS 17

- Board meeting held on 15 November 2016
- Summary of tentative decisions available in IASB[®] *Update*

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