

STAFF PAPER

December 2018

IASB[®] meeting

Project	Insurance Contracts		
Paper topic	Cover note		
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Introduction

1. The papers for this meeting:
 - (a) provide an analysis of some of the concerns and implementation challenges raised by stakeholders about the requirements in IFRS 17 *Insurance Contracts* since the Standard was issued; and
 - (b) ask whether the International Accounting Standards Board (Board) agrees with the staff recommendations:
 - (i) to amend the requirements in IFRS 17 for the presentation of insurance contracts on the statement of financial position as discussed in Agenda Paper 2A *Presentation of insurance contracts on the statement of financial position*; and
 - (ii) not to amend the requirements in IFRS 17 for the other topics discussed in Agenda Papers 2A–2F.
2. This cover note provides:
 - (a) background information about the tentative decisions made by the Board at its recent meetings;

- (b) a list of the papers for this meeting with a table of concordance of the topics discussed at the October 2018 Board meeting; and
- (c) an outline of the next steps.

Background

3. The Board has concluded that applying IFRS 17 for the first time will result in significant costs for some entities, but overall the benefits of IFRS 17 will outweigh the costs (for discussion of the costs and benefits of IFRS 17 refer to the *Effects Analysis on IFRS 17*).
4. At its October 2018 meeting, the Board discussed an overview of the main concerns and implementation challenges raised by stakeholders about requirements in IFRS 17. The Board was not asked to make any decisions about those concerns and implementation challenges.
5. At the same 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 already under way or risk undue delays in the effective date of this Standard, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.

6. At its November 2018 meeting, the Board tentatively decided to propose a one-year deferral of the effective date of IFRS 17. Accordingly, entities would be required to apply IFRS 17—and any amendment to IFRS 17—for annual periods beginning on or after 1 January 2022. The Board noted that a deferral of the effective date of IFRS 17 for one year would not unduly disrupt implementation—ie it would meet the criterion mentioned in paragraph 5(b) of this paper.
7. 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. Therefore, any proposed amendments to IFRS 17 would need to be finalised on a timely basis to allow for this period before 1 January 2022.

Papers for this meeting

8. The papers for this meeting provide an updated analysis about 13 of the 25 topics discussed in Agenda Paper 2D *Concerns and implementation challenges* for the October 2018 Board meeting. For this meeting, those 13 topics have been grouped by content in the following papers:
 - (a) Agenda Paper 2A *Presentation of insurance contracts on the statement of financial position*;
 - (b) Agenda Paper 2B *Discount rates, risk adjustment and OCI option*;
 - (c) Agenda Paper 2C *Variable fee approach*;
 - (d) Agenda Paper 2D *Business combinations*;
 - (e) Agenda Paper 2E *Future cash flows in the measurement of reinsurance contracts held*; and
 - (f) Agenda Paper 2F *The treatment of accounting estimates in interim financial statements*.
9. The following table shows how the topics discussed in Agenda Paper 2D for the October 2018 Board meeting and the papers for this meeting correspond.

October 2018 Board meeting (Agenda Paper 2D)	December 2018 Board meeting
1—Scope of IFRS 17 Loans and other forms of credit that transfer insurance risk	Discussion planned at future meetings
2—Level of aggregation of insurance contracts	Discussion planned at future meetings
3—Measurement Acquisition cash flows for renewals outside the contract boundary	Discussion planned at future meetings
4—Measurement Use of locked-in discount rates to adjust the contractual service margin	Agenda Paper 2B
5—Measurement Subjectivity Discount rates and risk adjustment	Agenda Paper 2B
6—Measurement Risk adjustment in a group of entities	Agenda Paper 2B
7—Measurement Contractual service margin: coverage units in the general model	Discussion planned at future meetings
8—Measurement Contractual service margin: limited applicability of risk mitigation exception	Agenda Paper 2C
9—Measurement Premium allocation approach: premiums received	Agenda Paper 2A
10—Measurement Business combinations: classification of contracts	Agenda Paper 2D
11—Measurement Business combinations: contracts acquired during the settlement period	Agenda Paper 2D
12—Measurement Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous	Discussion planned at future meetings
13—Measurement Reinsurance contracts held: ineligibility for the variable fee approach	Discussion planned at future meetings
14—Measurement Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued	Agenda Paper 2E
15—Presentation in the statement of financial position Separate presentation of groups of assets and groups of liabilities	Agenda Paper 2A
16—Presentation in the statement of financial position Premiums receivable	Agenda Paper 2A

October 2018 Board meeting (Agenda Paper 2D)	December 2018 Board meeting
17—Presentation in the statement(s) of financial performance OCI option for insurance finance income or expenses	Agenda Paper 2B
18—Defined terms Insurance contract with direct participation features	Agenda Paper 2C
19—Interim financial statements Treatment of accounting estimates	Agenda Paper 2F
20—Effective date Date of initial application of IFRS 17	Tentative decisions made at the November 2018 Board meeting
21—Effective date Comparative information	Discussion planned at future meetings
22—Effective date Temporary exemption from applying IFRS 9	Tentative decisions made at the November 2018 Board meeting
23—Transition Optionality	Discussion planned at future meetings
24—Transition Modified retrospective approach: further modifications	Discussion planned at future meetings
25—Transition Fair value approach: OCI on related financial assets	Discussion planned at future meetings

Next steps

10. At future meetings, the staff will bring papers on the remaining topics.
11. After the Board has considered all the individual topics, the Board plans to consider the package of amendments as a whole before concluding whether the benefits of making the amendments outweigh the costs.