STAFF PAPER

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Project	**Transition Resource Group for IFRS 17 *Insurance Contracts***
Paper topic	Reporting on other questions submitted

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Introduction

1. This paper summarises other questions submitted to the Transition Resource Group for IFRS 17 *Insurance Contracts* (TRG). These submissions have been categorised as questions that:

   (a) can be answered applying only the words in IFRS 17;

   (b) do not meet the submission criteria; or

   (c) are being considered through a process other than a TRG discussion (such as a proposed annual improvement).

2. Submissions *not* summarised in this paper are those:

   (a) that are discussed in a separate agenda paper;

   (b) for which the staff have requested further information from the submitter; or

   (c) that will be considered for discussion at a future TRG meeting.

(a) Questions that can be answered applying only the words in IFRS 17 *Insurance Contracts*

The staff will consider publishing educational materials on these topics in the future to further support implementation.

Log #	Topic	Question	Response
S13	Modifications to retrospective application	This submission is about applying the full retrospective approach to transition. The submission asks what modifications are permitted when applying IFRS 17 retrospectively. Specifically, the submission questions whether reasonable approximations are permitted when applying IFRS 17 retrospectively or whether the existence of specified modifications in the modified retrospective approach suggests that other modifications should not be used when applying IFRS 17 retrospectively.	Applying paragraph C3 of IFRS 17, an entity shall apply IFRS 17 retrospectively unless impracticable. Paragraphs 50–53 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provide requirements on determining whether retrospective application is impracticable. Paragraph 51 of IAS 8 states: […] the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimates to reflect the circumstances that existed when the transaction, other event or condition occurred.

Log #	Topic	Question	Response
S14	Projected returns on assets	The submission asks whether 'risk neutral' or 'real world' scenarios should be used for stochastic modelling techniques to project future returns on assets, applying paragraph B48 of IFRS 17. The submission describes a 'real world' approach to be based on an assumed distribution of scenarios that is intended to reflect realistic assumptions about actual future asset returns. The submission describes a 'risk neutral' approach to be based on an assumed distribution of scenarios that is not intended to reflect realistic assumptions about actual future asset returns. Instead, there is an underlying assumption that, on average, all assets earn the same risk-free return, with a range of scenarios analysed reflecting the assumed volatility of returns for an asset class consistent with volatility implied by option prices.	Applying paragraph B48 of IFRS 17, an entity is required to apply judgement to determine the technique for estimating market variables to meet the objective of achieving consistency with observable market variables. Paragraph B74(b) of IFRS 17 states the requirements for discounting cash flows that vary based on the returns of any financial underlying items. Applying paragraph B77 of IFRS 17 an entity is not required to divide estimated cash flows into those that vary based on the return on underlying items and those that do not. If not divided, the discount rate should be appropriate for the estimated cash flows as a whole. Any consideration beyond this is actuarial in nature and therefore does not fall within the remit of the TRG.

(a) Questions that can be answered applying only the words in IFRS 17 *Insurance Contracts*

Log #	Topic	Question	Response
S28	Insurance contracts with direct participation features – adjustments to the contractual service margin	The submission states that within IFRS 17 there are two different definitions of the adjustments to the contractual service margin for insurance contracts with direct participation features. The submission considers these two different definitions to result in different mathematical outcomes. Specifically, the submission compares: – Paragraph 45(b) of IFRS 17 'the entity's share of the change in the fair value of the underlying items'; and, – Paragraph B112 of IFRS 17 'changes in the entity's share of the fair value of the underlying items'.	The adjustment to the contractual service margin in paragraph 45(b) of IFRS 17 provides the same mathematical outcome as paragraph B112 of IFRS 17. The staff will consider this topic for future educational materials.
S29	Discount rates used in the allocation of insurance finance income or expenses to profit or loss	The submission considers the discount rate used to determine the amount of the insurance finance income or expenses to be included in profit or loss if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income. Specifically, the submission considers paragraph B72(e)(i) of IFRS 17 for a group of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders. The submission asks whether an entity should use an effective yield rate or a yield curve.	Applying paragraph B72(e)(i) of IFRS 17, an entity shall use the discount rate determined at the date of initial recognition of a group of contracts applying paragraph 36 of IFRS 17 to nominal cash flows that do not vary based on the returns on any underlying items. Paragraph B72(e)(i) of IFRS 17 does not mandate the use of an effective yield rate or a yield curve, as long as the rate is the rate that applies to nominal cash flows that do not vary based on any underlying items, applying paragraph 36.

Log #	Topic	Question	Response
S32	Issued adverse loss cover and contracts acquired in their settlement period	The submission states that for issued adverse loss cover and contracts acquired in their settlement period, it is not clear how the liability for remaining coverage will be reduced because service has been provided. The submission asks when claims are incurred for these contracts. The submission also asks, for contracts acquired in their settlement period, what subsequent treatment should be applied if the liability for remaining coverage is determined to have nil contractual service margin at initial recognition (ie insurance contracts are measured at zero with nil contractual service margin) and estimates of future cash outflows decrease subsequently.	*When claims are incurred for issued adverse loss cover and contracts acquired in their settlement period* Applying paragraph B5 of IFRS 17 (for insurance contracts that cover events that have already occurred but the financial effect of which is still uncertain), the claims are incurred when the financial effect becomes certain. This is not when an entity has a reliable estimate if there is still uncertainty involved. Conversely, this is not necessarily when the claims are paid if certainty has been achieved prior to the actual payment. *Subsequent treatment if the contractual service margin is nil at initial recognition* Paragraphs B93-B95 of IFRS 17 state the requirements for determining a contractual service margin at initial recognition for insurance contracts acquired. In the scenario presented in the submission, there is a contractual service margin of zero at initial recognition. Subsequent measurement of insurance contracts acquired, including changes in estimates that adjust the contractual service margin, is the same as for insurance contracts issued applying paragraphs 40–52 of IFRS 17. Therefore, a contractual service margin larger than zero may be recognised post acquisition.

(a) Questions that can be answered applying only the words in IFRS 17 *Insurance Contracts*

Log #	Topic	Question	Response
S35	Level of aggregation – no significant possibility of becoming onerous	The submission asks how ‘no significant possibility’ should be interpreted as set out in paragraph 16(b) of IFRS 17. The submission expresses a view that one possible interpretation is by analogy to the concept of significant insurance risk in paragraphs B17-B23 of IFRS 17.	The term ‘no significant possibility’ in paragraph 16(b) of IFRS 17 should be interpreted in the context of the objective of the requirement. The objective is to identify contracts with no significant possibility of becoming onerous at initial recognition in order to group such contracts separately from contracts that are onerous at initial recognition and any remaining contracts in the portfolio that are not onerous at initial recognition. ‘No significant possibility of becoming onerous’ is different from ‘significant insurance risk’ and the concept of significant insurance risk should not be used by analogy.
S37	Projected economic conditions	The submission asks whether an entity’s estimate of future economic conditions is ever required to estimate future cash flows. Specifically, the submission considers the estimates of non-market variables that correlate to market variables applying paragraph B53 of IFRS 17. The submission considers scenarios using either a risk-neutral approach or an approach based on the entity’s actual expectations.	Paragraph B48 of IFRS 17 requires an entity to apply judgement to determine the technique for estimating market variables to meet the objective of achieving consistency with observable market variables. Paragraph B74(b) of IFRS 17 sets out the requirements for discounting cash flows that vary based on the returns of any financial underlying items. Applying paragraph B77 of IFRS 17 an entity is not required to divide estimated cash flows into those that vary based on the return on underlying items and those that do not. If not divided, the discount rate used should be appropriate for the estimated cash flows as a whole. Any consideration beyond this is actuarial in nature and therefore does not fall within the remit of the TRG.

Log #	Topic	Question	Response
S38	Reflecting minimum guarantees	The submission asks whether paragraph B76 of IFRS 17 restricts how minimum guarantees are reflected in the present value of future cash flows. Specifically, the submission asks if it is required that the minimum guarantees are reflected through adjusting the discount rate (and not through adjustments to the cash flows).	IFRS 17 requires that the time value of a guarantee be reflected in the measurement of the fulfilment cash flows; however, it does not require the use of a specific approach to do this. Applying B86 of IFRS 17, financial risk is included in the estimates of the future cash flows or the discount rate used to adjust the cash flows. Paragraph B48 of IFRS 17 explains that judgement is required to determine the technique for measuring market variables and that the technique used must result in the measurement of any options and guarantees being consistent with observable market prices for such options and guarantees. Any consideration beyond this is actuarial in nature and therefore does not fall within the remit of the TRG.

(a) Questions that can be answered applying only the words in IFRS 17 *Insurance Contracts*

Log #	Topic	Question	Response
S40	Discount rate for reinsurance contracts held	The submission questions what discount rate should be used to measure the present value of future cash flows of a reinsurance contract held if the liquidity characteristics of the underlying contracts are different from those of the reinsurance contract held.	Paragraph 63 of IFRS 17 requires an entity to use consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of the future cash flows for the group(s) of underlying insurance contracts. This consistency is required to the extent that the same assumptions apply to both the underlying contracts and the reinsurance contracts held. This requirement does not require/permit the entity to use the same assumptions used for measuring the underlying contracts when measuring the reinsurance contracts held if those assumptions are not valid for the terms of the reinsurance contracts held. If different assumptions apply for the reinsurance contract held, the entity uses those different assumptions when measuring that contract.

(a) Questions that can be answered applying only the words in IFRS 17 *Insurance Contracts*

Log #	Topic	Question	Response
S41	Coverage units for reinsurance contracts held	The submission asks whether, for reinsurance contracts held, coverage units are determined based on the services provided by the reinsurer or the coverage units of the underlying insurance contracts.	Applying paragraph B119 of IFRS 17, the coverage units in a group of insurance contracts are determined based on the quantity of coverage provided by the contracts in the group. For a group of reinsurance contracts held, this is the coverage received by the insurer from those reinsurance contracts held, and not the coverage provided by the insurer to its policyholders through the underlying insurance contracts. When determining the quantity of benefits received from a reinsurance contract held, an entity may consider relevant facts and circumstances related to the underlying insurance contracts. Determining the quantity of benefits for identifying coverage units was discussed at the February 2018 meeting of the TRG and will be discussed at the May 2018 meeting. Example 8 in Appendix B of Agenda Paper 5 of the May 2018 meeting considers proportional reinsurance coverage.
S42	Risk of non-performance of the issuer of a reinsurance contract	The submission asks whether, for reinsurance contracts held, the risk of non-performance of the issuer of the reinsurance contracts is considered within the estimates of the present value of future cash flows or the risk adjustment for non-financial risk.	Paragraph 63 of IFRS 17 explicitly requires the effect of any risk of non-performance by the reinsurer to be included in the estimates of the present value of the future cash flows. Applying paragraph 64 of IFRS 17, the risk adjustment for non-financial risk represents the amount of risk being transferred by the entity to the reinsurer.

(a) Questions that can be answered applying only the words in IFRS 17 *Insurance Contracts*

(b) Questions that do not meet the submission criteria

The criteria established for the TRG state that implementation questions should meet the following criteria:

(a) must be related to, or arise from, IFRS 17;

(b) may result in possible diversity in practice; and

(c) are expected to be pervasive, ie relevant to a wide group of stakeholders.

Any question submitted should include a detailed description of the possible ways in which IFRS 17 could be applied.

Log #	Topic	Question	Response
No submissions reported in this category.			

(c) Questions that are being considered through a process other than a TRG discussion

Log #	Topic	Question	Response
S33	Scope of IFRS 17	The submission asks whether IFRS 17 would apply to six examples of contracts typically issued by non-insurance entities. Those examples can be grouped in the following three categories: (a) loan contracts that may waive some or all of the payments due under the contract in specified circumstances; (b) service contracts including a form of EBITDA guarantee; and (c) credit card contracts providing coverage for a supplier failure.	The definition of an insurance contract—which determines which contracts are within the scope of IFRS 17—is the same as the definition in IFRS 4 *Insurance Contracts,* with clarifications to the related guidance in Appendix B of IFRS 4 to require that (a) an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant; and (b) a contract does not transfer significant insurance risk if there is no scenario with commercial substance in which the insurer can suffer a loss on a present value basis. Therefore, a contract that is an insurance contract in applying IFRS 4 is expected to be an insurance contract in applying IFRS 17. The consequences of being within the scope of IFRS 17, which sets out recognition and measurement requirements for insurance contracts, are however different. Outreach will be performed to better understand the nature of the contracts described in the submission and how they are accounted for today.