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 that are discussed in a separate agenda paper.

(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
S82	Modification of an insurance contract	The submission notes discussions at the February 2018 and May 2018 TRG meetings on applying paragraph B5 of IFRS 17 to contracts acquired in their settlement period. The submission asks whether a new contract recognised as a result of a modification is accounted for similarly to contracts acquired in their settlement period applying paragraph B5 of IFRS 17 (ie if the new contract is in its settlement period on recognition, is the insured event the determination of the ultimate cost of the claims). The submission describes two specific examples and additionally asks how to identify the coverage units.	If the terms of an insurance contract are modified an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying IFRS 17 or other applicable Standards if, and only if, any of the conditions in paragraph 72(a)–(c) of IFRS 17 are satisfied. Applying paragraph B5 of IFRS 17, when an entity recognises new contracts that are in their settlement period, and therefore cover events that have already occurred but the financial effect of which is still uncertain, the insured event is the determination of the ultimate cost of the claims. The topic of identifying coverage units has been discussed at the February 2018 and May 2018 TRG meetings.
S83	Disclosures and reporting frequency	The submission asks how the reconciliation of estimates of the present value of future cash flows applying paragraphs 101 and 104 of IFRS 17 for the annual reporting period should be disclosed, considering the requirements in paragraph B137 of IFRS 17 relating to interim financial statements. For example, the submission asks whether changes disclosed as relating to past service in an interim reporting period should be disclosed as changes relating to current service in the annual reporting.	Paragraph B137 of IFRS 17 states an entity shall not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim reporting periods or in the annual reporting period. The amounts disclosed in the reconciliations set out in paragraphs 101 and 104 of IFRS 17 reflect amounts included in the measurement of insurance contracts. The staff observe that in the example in the submission the *description* of the amount as relating to past or current service does not affect the measurement.

Log #	Topic	Question	Response
S86	Definition of a portfolio when determining the boundary of a contract	The submission asks whether the reference to a 'portfolio of insurance contracts' in paragraph 34(b) of IFRS 17 is a 'portfolio of insurance contracts' as defined in Appendix A of IFRS 17. The submission notes the discussion of Agenda Paper 2 at the February 2018 TRG meeting and states that some stakeholders think that a ‘portfolio of insurance contracts’ should be interpreted at a more granular level than is defined in Appendix A of IFRS 17 for the purpose of applying paragraph 34(b) of IFRS 17 (for example, at a group of insurance contracts level).	A ‘portfolio of insurance contracts’ is a defined term in Appendix A of IFRS 17. There is no difference between the use of that defined term in paragraph 14 of IFRS 17 and paragraph 34 of IFRS 17.

Log #	Topic	Question	Response
S93	Weighted average discount rates	The submission is about applying paragraphs 28 and B73 of IFRS 17. The submission notes that a difference may arise between the following: (a) the current discount rate used to measure the fulfilment cash flows of each contract when it joins the group of insurance contracts applying paragraph B72(a) of IFRS 17; and (b) the weighted average discount rates used at initial recognition of the group of insurance contracts, as described in paragraphs B72(b)−B72(e), applying paragraph B73 of IFRS 17. The submission explains that the reason for the difference is the discrepancy between the future cash flows that are used for calculating the weighted average discount rate and the unwinding of those future cash flows going forward. The submission askes how to account for this difference and whether it will adjust the contractual service margin or be recognised as insurance finance income or expense.	Paragraph B72(a) of IFRS 17 requires the use of current discount rates applying paragraph 36 of IFRS 17 when measuring the fulfilment cash flows. Paragraph 87(b) of IFRS 17 requires that the effect of financial risk or changes in financial risk be recognised as insurance finance income or expenses. Entities that apply the other comprehensive income (OCI) disaggregation option in paragraph 88(b) of IFRS 17 and also apply paragraphs B72(e)(i) and B131 of IFRS 17 use the discount rates determined at the date of initial recognition to determine the amounts recognised in profit or loss using a systematic allocation. Applying paragraph B73 of IFRS 17, an entity is permitted to use a weighted-average discount rate over the period that contracts in the group are issued to determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)−(e) of IFRS 17. Paragraph B130 of IFRS 17 states that the cumulative amount recognised in OCI at any date is the difference between the carrying amount of the group of contracts and the amounts that a group would be measured at when applying the systematic allocation. This results in the amounts recognised in OCI over the duration of the group of contracts totalling zero. Therefore, an entity applying paragraph B131 of IFRS 17 shall determine the weighted-average discount rate that achieves this outcome.

Log #	Topic	Question	Response
S96 & S107	Definition of an insurance contract and contract boundary	S96 asks whether the contract boundary requirements in paragraphs 33−35 of IFRS 17 apply to the assessment of whether a contract meets the definition of an insurance contract, or whether they apply only to the measurement of contracts that have already been determined to meet the definition of an insurance contract. S107 questions how a contract which transfers insurance risk after a period of time, as discussed in paragraph B24 of IFRS 17, should be classified.	For a contract to meet the definition of an insurance contract there needs to be a transfer of significant insurance risk. Paragraph B24 of IFRS 17 explains that contracts that transfer insurance risk only after an option is exercised do not meet the definition of insurance contracts at inception. An entity should consider the requirements of other IFRS Standards in order to account for such contracts until they become insurance contracts. A contract which only transfers insurance risk after a period of time is different than an *insurance contract* that provides an option to add further insurance coverage (refer to Agenda Paper 3 of the May 2018 TRG meeting).

Log #	Topic	Question	Response
S97 & S100	Payments to policyholders	S97 asks whether an insured event refers only to an event that gives rise to significant insurance risk. The submission also asks how payments to policyholders that are contingent on events other than those that give rise to significant insurance risk are treated. The submission describes two benefits provided to policyholders under two contracts and questions whether these benefits represent claims, premium refunds or an investment component: (a) a maturity benefit payable under a life insurance contract if death does not occur. The benefit is not payable on surrender. (b) a deferred life annuity contract with guaranteed annuitisation rates, and with a provision that waives the market value adjustment (MVA) that would apply on surrender, upon death of the policyholder in the accumulation phase. S100 asks whether all payments to policyholders are claims, repayment of premiums, or repayment of an investment component. The submission considers a number of examples.	An insured event is an uncertain future event covered by an insurance contract that creates insurance risk. Payments made because of the occurrence of insured events are claims and are recognised as insurance service expenses, except to the extent they include an investment component. The question of whether a waiver transfers insurance risk was discussed in Agenda Paper 7 at the September 2018 TRG meeting. A payment to a policyholder can be a claim, a premium refund or can meet the definition of investment component. The principles of how to identify whether exchanges of cash flows between the entity and the policyholder relate to premiums, claims or meet the definition of an investment component were discussed in Agenda Paper 3 at the September 2018 TRG meeting. Further discussion on investment components is included in Agenda Paper 1 of this meeting.

Log #	Topic	Question	Response
S98	Exercising an option included within the contract	The submission asks how the exercise of an option to convert a contract to a different type of contract should be treated. For example, an insurance contract that can be converted to an annuity contract. Another example is a term life contract (similar in nature to contracts that are accounted applying the general model) that can be converted to a permanent life contract (similar in nature to contracts that are accounted for applying the variable fee approach).	Several discussions at previous TRG meetings are helpful in considering the accounting for such contracts. These include: (a) Agenda Paper 3 at the May 2018 TRG meeting—this paper analyses when cash flows arising from an option are within the boundary of the contract and notes that, applying paragraph 72 of IFRS 17, the exercise of a right included in the terms of a contract is not a contract modification. (b) Agenda Paper 5 at the September 2018 TRG meeting—this paper analyses when cash flows are outside of the contract boundary at initial recognition and facts and circumstances change over time, the exercise of an option that is in the contract boundary and the exercise of an option that is outside the contract boundary. The assessment of whether an insurance contract is accounted for applying the general model or the variable fee approach is made at inception applying the definition of an insurance contract with direct participation features in Appendix A of IFRS 17 to a contract in its entirety. See S107 for contracts that are not insurance contracts at inception.

Log #	Topic	Question	Response
S102	Accumulated OCI	The submission is about contracts measured applying the general model when an entity makes an accounting policy choice to disaggregate insurance finance income or expenses between profit or loss and OCI. The submission asks whether accumulated OCI on insurance contracts should be reclassified to profit or loss when experience does not unfold as expected, and if so, how.	Applying paragraph B130 of IFRS 17, if paragraph 88(b) of IFRS 17 applies, the amount of insurance finance income or expenses allocated to profit or loss is determined by a systematic allocation of the expected total finance income or expenses over the duration of the group. This results in the amounts recognised in OCI over the duration of the group of contracts totalling zero. The cumulative amount recognised in OCI at any date is the difference between the carrying amount of the group of contracts and the amount that the group would be measured at when applying the systematic allocation.

Log #	Topic	Question	Response
S105	Discretionary cash flows	The submission provides an example of a contract for which the entity exercises its discretion and pays cash flows at an amount different to the amount that is based on its commitment under the contract, applying different spread on assets return, without changing its commitment. The submission asks how such a difference should be treated.	At inception of a contract, paragraphs B98−B99 of IFRS 17 require an entity to specify the basis on which it expects to determine its commitment under the contract. Discretionary changes to this commitment adjust the contractual service margin and the effects of changes in assumptions that relate to financial risks on that commitment do not adjust the contractual service margin. To meet the objective of paragraph B98 of IFRS 17, the specification must be such that it provides a clear distinction between assumptions that relate to financial risks and discretionary changes. Paragraph B100 of IFRS 17 requires that if an entity cannot specify at inception of a contract what it regards as discretionary, it regards its commitment to be the return implicit in the estimate of the fulfilment cash flows at inception of the contract, updated to reflect current assumptions that relate to financial risk. To the extent that the changes in the fulfilment cash flows reflect differences between an investment component expected to become payable in the period and the actual payment that becomes payable in the period, an entity adjusts the contractual service margin applying paragraph B96(c) of IFRS 17. Changes in fulfilment cash flows related to changes in financial risks do not adjust the contractual service margin as required by paragraph B97(a) of IFRS 17.

Log #	**Topic**	**Question**	**Response**
S106	Reassessing portfolios	The submission describes a situation in which portfolios of insurance contracts change due to the manner in which the entity manages its contracts and questions the impact of such a change on the group unit of account or the application of the option to disaggregate insurance finance income or expenses between profit or loss and OCI.	Paragraph 24 of IFRS 17 requires that an entity establishes groups at initial recognition and does not reassess the composition of the groups subsequently. Paragraph B129 of IFRS 17 states that the option to disaggregate insurance finance income or expense between profit or loss and OCI is a policy choice applied to portfolios of insurance contracts. Applying paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* means that an entity selects and applies its accounting policy consistently for similar portfolios of insurance contracts. IAS 8 requirements are applicable for changes in accounting policies.

Log #	Topic	Question	Response
S110	Uncertainty related to exercising discretion	The submission questions whether the risk adjustment for non-financial risk takes into account uncertainty related to how management will apply discretion.	Paragraph B89 of IFRS 17 states that the risk adjustment for non-financial risk reflects all non-financial risks associated with the insurance contracts. It does not reflect risks that do not arise from the insurance contracts such as general operational risk. Paragraph B98 of IFRS 17 distinguishes between a change in the discretionary cash flows, that is regarded as relating to future service, and changes in assumptions that relate to financial risk on an entity's commitment. Therefore, uncertainty related to how management will apply its discretion for a group of insurance contracts, if not considered a general operational risk, is expected to be captured in the risk-adjustment for non-financial risk. To the extent management discretion reduces the amount it would charge for uncertainty, that discretion would reduce the risk-adjustment for non-financial risk. Paragraph B88 of IFRS 17 states that the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows. It reflects both favourable and unfavourable outcomes, in a way that reflects the entity's degree of risk aversion.

Log #	**Topic**	**Question**	**Response**
S113	Consistency in disaggregating changes in the risk adjustment for non-financial risk	The submission questions whether the choice included in paragraph 81 of IFRS 17 is required to be applied consistently in an entity.	Paragraph 81 of IFRS 17 states that an entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. Paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate.

Log #	Topic	Question	Response
S114	Changes in the fair value of underlying items applying the variable fee approach (VFA)	The submission describes a fact pattern of a participating contract that share returns with policyholders by paying dividends. The dividends scale varies based on the market value returns with respect to economic experience of investments and a statutory basis for the non-economic experience—such as expenses and reinsurance contracts held. Applying the variable fee approach, the submission questions the measure of the change related to non-economic experience. The submission asks whether it is a statutory basis used to determine dividends, an IFRS measure or a fair value measurement. The submission further considers the application of the option to disaggregate insurance finance income or expense between profit or loss and OCI and whether it is limited to financial income or expenses on underlying items held or any income or expense on underlying items held.	Applying paragraph 45 of IFRS 17, under the variable fee approach an entity adjusts the contractual service margin of a group of contracts based on changes in the fair value of underlying items. Therefore, a statutory basis or an IFRS measure which are not fair value measurements cannot be used to determine the adjustment to the contractual service margin. Paragraphs 89 of IFRS 17 permits a policy choice of disaggregating insurance finance income or expenses for the period to include in profit or loss an amount that eliminates accounting mismatches with *income or expenses included in profit or loss on the underlying items held*. Paragraph B131 of IFRS 17 requires that applying this choice an entity includes in profit or loss expenses or income that exactly *match the income or expenses included in profit or loss* for the underlying items, resulting in the net of the two separately presented items being nil. Therefore, the income or expense on underlying items held is not limited to financial income or expense.

Log #	Topic	Question	Response
S115	Definition of insurance contracts with direct participation features—applying paragraph B101(b) of IFRS 17	The submission describes a unit linked insurance contract for which the entity charges an asset management fee determined as a percentage of the fair value of the underlying items at the end of each period plus a premium for mortality cover by reducing the underlying items at the beginning of each period. The submission questions the application of paragraph B101(b) of IFRS 17 in determining whether a contract meets the definition of an insurance contract with direct participation features. First the submission asks how to determine the share of the fair value returns on the underlying items ignoring the mortality cover. It proposes: (a) a calculation that compares the share of each party in the fair value returns on the underlying items; (b) a calculation that results in 100% share to the policyholders in all circumstances; and (c) a calculation that compares the incremental share of each party in the fair value returns (incremental to a scenario in which the fair value returns are nil). Then the submission considers whether and how the premium for mortality cover deducted from the underlying items impacts the above calculation.	Paragraph B101(b) of IFRS 17 requires that the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items as a condition for meeting the definition of an insurance contract with direct participation features. Therefore, a determination based on any calculation other than a calculation of the policyholder's share in the fair value returns on the underlying items would be inconsistent with the requirements of IFRS 17. The deduction of a premium for mortality cover from the underlying items is, in effect, an amount paid out of the policyholder's share. In other words, the policyholder's share includes that charge. However, an entity needs to also consider paragraph B101(c) of IFRS 17 in determining whether the definition of an insurance contract with direct participation features is met. Paragraph B101(c) of IFRS 17 requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. For the purposes of this condition an entity considers changes in any amounts to be paid to the policyholder regardless of whether they have been paid from the underlying items or not. See example 2 in Appendix A to this paper.

S116	Applying paragraph 66(c)(ii) of IFRS 17 for reinsurance contracts held	The submission discussed two fact patterns. The first fact pattern describes circumstances in which only some of the contracts in a group of underlying contracts are covered by a proportional reinsurance contract. The submission questions how to determine the amount to be recognised in profit or loss for reinsurance contracts held applying paragraph 66(c)(ii) of IFRS 17. The second fact pattern describes circumstances in which the underlying insurance contracts, expected profitable, have not been recognised but cash flows related to them are included in the measurement of the reinsurance contract held. Following initial recognition of the reinsurance contracts held, the underlying contracts were issued as onerous contracts. The submission questions how to determine the amount to be recognised in profit or loss for reinsurance contracts held applying paragraph 66(c)(ii) of IFRS 17.	With regards to the first fact pattern, paragraph 66 of IFRS 17 requires an adjustment to the contractual service margin of a reinsurance contract held for changes in the fulfilment cash flows that relate to future service. However, changes in the fulfilment cash flows of the reinsurance contracts held that result from a change in the fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts are recognised in profit or loss. Paragraph BC315 of the Basis for Conclusions on IFRS 17 explains that a corresponding change in cash inflows from a group of reinsurance contracts held does not adjust the contractual service margin of the group of reinsurance contracts held, and therefore, to the extent that the change in the fulfilment cash flows of the group of underlying contracts is matched with a change in fulfilment cash flows on the group of reinsurance contracts held, there is no net effect on profit or loss. IFRS 17 does not prescribe how to determine the amount of the change in the fulfilment cash flows of reinsurance contract held that corresponds to the changes in the fulfilment cash flows of the group of underlying contracts. An entity will therefore be required to apply judgement considering all relevant facts and circumstances. With regards to the second fact pattern, Paragraph 66(c) of IFRS 17 is applicable to changes in fulfilment cash flows of a reinsurance contract that relate to future service. Paragraphs B96−B100 of IFRS 17 include the relevant requirements applicable to experience adjustments. The topic of reinsurance contracts held for onerous underlying insurance contracts is also being considered through a process other than TRG.

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

Log #	Topic	Question	Response
S117	Premium waiver presentation in profit or loss	The submission questions whether an entity should exclude from revenue premiums waived as a result of an insured event or should account for them as part of insurance service expense (as an incurred claim).	Insured events give rise to claims. To the extent that a premium waiver results from an insured event, it is a claim. IFRS 17 requires an entity to recognise insurance service expenses for claims incurred in the period regardless of whether claims were settled net of premiums due. Treating premium waivers as claims is therefore consistent with the requirements of IFRS 17.

Log #	Topic	Question	Response
S118	Consideration of reinsurance in the risk adjustment for non-financial risk	The submission questions whether the effect of reinsurance should be considered in calculating the risk adjustment for non-financial risk for contracts that have been reinsured. The submission further provides an example illustrating two alternative approaches in determining such effect.	Paragraph B88 of IFRS 17 requires that the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows. The risk adjustment for non-financial risk reflects the degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk. Therefore, if an entity considers reinsurance when determining the compensation it requires for bearing non-financial risk related to underlying insurance contracts, the effect of the reinsurance (both cost and benefit) would be reflected in the risk adjustment for non-financial risk of the underlying insurance contracts. IFRS 17 does not specify the estimation techniques to be used to determine the risk adjustment for non-financial risk. Paragraph 64 of IFRS 17 requires that the risk adjustment for non-financial risk for reinsurance contracts held represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts. Therefore, the risk adjustment for non-financial risk of the reinsurance contract held could not be nil, unless: (a) the entity considers reinsurance when determining the compensation it requires for bearing non-financial risk related to underlying insurance contracts; and (b) the cost of acquiring the reinsurance is equal or less than the expected recoveries. See example 1 in Appendix A to this paper.

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

Log #	Topic	Question	Response
S119	Risk of non-performance of the issuer of a reinsurance contract held	The submission explains that non-performance risk of a reinsurer may incorporate different risks such as insolvency risk and the risks related to disputes and further negotiations. The submission questions whether these risks are identified as financial or non-financial risks and the impact this determination has on the measurement of reinsurance contracts held when determining the risk being transferred applying paragraph 64 of IFRS 17.	For reinsurance contracts held, applying paragraph 64 of IFRS 17 rather than paragraph 37 of IFRS 17, an entity determines the risk adjustment for non-financial risk at the amount of the risk being transferred by the policyholder of the group of reinsurance contracts held to the issuer of those contracts. Paragraph 63 of IFRS 17 discusses the estimates of the present value of the future cash flows of a reinsurance contract held and specifically requires that those estimates should include *the effect of any risk of non-performance* by the issuer of the reinsurance contract including the effects of collateral and losses from disputes. Thus, the risk adjustment for non-financial risk of a reinsurance contract held reflects only the risks that the cedant transfers to the reinsurer. The risk of non-performance by the reinsurer is not a risk transferred to the reinsurer nor does it reduce the risk transferred to the reinsurer. It is only reflected in the present value of the future cash flows of the reinsurance contract held, similar to the treatment of financial risks. Paragraph 63 of IFRS 17 does not provide specific requirements on how to determine the effect of any risk of non-performance. Paragraph 67 of IFRS 17 requires that changes in the fulfilment cash flows related to the risk of non-performance do not adjust the contractual service margin, therefore an entity recognises them in profit or loss. This treatment is consistent with the accounting treatment for financial risks.

Log #	Topic	Question	Response
S121	Interest accretion on insurance acquisition cash flows	The submission questions whether IFRS 17 requires or permits an entity to accrete interest on the amount of insurance acquisition cash flows paid for determining the insurance revenue and insurance services expenses applying paragraph B125 of IFRS 17. The submission notes that ignoring interest accretion on insurance acquisition cash flows could result in different revenue recognised for contracts with similar premium if one contract incurred insurance acquisition cash flows and the other does not.	Paragraph B120 of IFRS 17 states that the total insurance revenue for a group of insurance contracts is the consideration for the contracts, ie the amount of premiums paid to the entity adjusted for a financing effect and excluding any investment components. Paragraph B125 of IFRS 17 requires that an entity shall determine insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relate to recovering those cash flows to each reporting period in a systematic way on the basis of the passage of time. An entity shall recognise the same amount as insurance service expenses. A systematic way to recognise insurance service expenses and insurance revenue related to insurance acquisition cash flows does not preclude a way that considers an interest accretion.

Log #	**Topic**	**Question**	**Response**
S122	Changes in fulfilment cash flows as a result of inflation	The submission questions whether changes in fulfilment cash flows as a result of changes in inflation assumptions are treated as changes in non-financial risk (and adjust the contractual service margin) or changes in financial risk for contracts measured under the general model. The submission provides examples of cash flows that may change as a result of a change in inflation assumption. One example is claims cash flows that are contractually linked to a specified CPI index. Another example is expenses cash flows that are not contractually liked to an inflation index but may be expected to increase with inflation. The submission notes practice of determining nominal expected cash flows for both types of cash flows using the implied inflation curve.	Paragraph B128 of IFRS 17 requires that for the purpose of IFRS 17: (a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; and (b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk. Therefore, cash flows that an entity expects to increase with an index are considered to be an assumption that relates to financial risks, even if they are not contractually linked to a specified index.
S123	Reassessment of premium allocation approach eligibility and election	The submission questions whether an entity is required or permitted to reassess a contract's eligibility for the premium allocation approach and as a result to revoke its election to apply the approach. The submission further asks how such a transition from the premium allocation approach to the general model should be treated.	An entity may apply the premium allocation approach to some insurance contracts provided that certain criteria are met *at inception*. As required by paragraph 53 of IFRS 17 the criteria are assessed for each group and the election is made for each group meeting the criteria. Given the eligibility criteria are assessed at inception, the standard does not require or permit reassessment of the eligibility criteria or the election to apply the approach.

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

Log #	Topic	Question	Response
S125	Experience adjustments arising from premiums received for onerous groups of insurance contracts	The submission questions the accounting sequence of reversing a loss component in a financial period with premium experience adjustments that relate to future service and a change in cash flows that is consequential to those adjustments. The submission includes an example illustrating a premium experience adjustment related to future service that on its own would increase the loss component, and a change in the fulfilment cash flows related to future service that on its own would decrease the loss component, while taken together they decrease the loss component. The submission then considers whether a gross disclosure should be provided applying paragraphs 103(b) and 104(a) of IFRS 17.	Paragraph 103(b) and 104(a) of IFRS 17 require an entity to provide disclosure of changes that relate to future service separately from those related to current or past service. In this example all the changes relate to future service.

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

(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
S87	Assessing liquidity of insurance contracts	The submission notes that the draft of the International Actuarial Note on discount rates for IFRS 17 published by the International Actuarial Association includes a concept of 'inherent value' that should be considered to assess the liquidity of insurance contracts. The submission states that if this concept is applied, most insurance contracts would be qualified as liquid which seems to be contrary to IFRS 17 requirements. The submission includes specific examples of term life insurance with level premiums or yearly renewable term premiums and asks for further guidance on how to assess the liquidity of insurance contracts.	Determining discount rates for insurance contracts was discussed at the September 2018 TRG meeting. The discount rate determined must achieve the objectives set out in paragraph 36 of IFRS 17. Providing detailed application guidance is not within the remit of the TRG.

Log #	Topic	Question	Response
S89	Application of IFRS 17 to Takaful operations and models	The submission notes that many Takaful models exist globally and describes a number of those basic models. The submission asks how the different requirements of IFRS 17 should be applied (initial recognition, subsequent calculation of the fulfilment cash flows, risk adjustment for non-financial risk, contractual service margin, loss component and presentation in the primary financial statements) without interfering with the Islamic structure of the Takaful model which they regard as different from conventional insurance. The submission also asks whether the element of mutuality of a Takaful company qualify it to follow a mutual entity, in part or in whole, for the different Takaful models.	Providing specific application guidance for detailed fact patterns is not within the remit of the TRG. The staff will consider whether there are matters relating to Takaful operations and models that would be relevant for a discussion with the Islamic Finance Consultative Group.

Log #	Topic	Question	Response
S91	Top-down discount rate —subsequent measurement	The submission is related to Agenda Paper 2 discussed at the September 2018 TRG meeting. The submission asks for TRG members views on whether it would be appropriate applying the top-down discount rate approach to determine discount rates: (a) at initial recognition of each group, using the target asset mix that the entity plans to invest in for that group as the reference portfolio of assets; and (b) subsequently, using the actual asset mix covering all underwriting years as the reference portfolio of assets.	Determining discount rates applying the top-down approach was discussed at the September 2018 TRG meeting. The discount rate determined must achieve the objectives set out in paragraph 36 of IFRS 17. Identifying a reference portfolio of assets that will enable an entity to meet that objective is dependent on the specific facts and circumstances. Providing specific application guidance is not within the remit of the TRG.

Log #	Topic	Question	Response
S94 & S95	Definition of an investment contract with discretionary participation features	The submissions describe an investment contract in a specific jurisdiction that is linked to a crediting rate. The crediting rate is based on returns on assets held and weighted average rates on local treasury bonds and can be adjusted by the entity to some extent, based on future expected revenue and returns (the discretionary feature). The submissions assumes that the contract meets the first and second criteria of the definition of an investment contract with discretionary participation features in IFRS 17. The submissions ask whether the product meets the third criteria of the definition of an investment contract with discretionary participation features in IFRS I7, given that paragraph BC162 of the Basis for Conclusions on IFRS 4 *Insurance Contracts* noted that the definition does not capture unconstrained contractual discretion to set a crediting rate that is used to credit interest or other returns to policyholders.	Providing detailed application guidance for specific transactions is not within the remit of the TRG. However, stakeholders may find the following references helpful in considering similar transactions: (a) the definition of an investment contract with discretionary participation features in IFRS 17 is consistent with the definition of discretionary participating features in IFRS 4. Both require that the additional amounts are contractually based on returns on specified pools of contracts, specified types of contracts, specified pools of assets, or the profit or loss of the entity or fund that issues the contract. (b) the discretionary features in each investment contract need to be assessed against these criteria considering all relevant facts and circumstances.

Log #	Topic	Question	Response
S109	Group insurance policies—retrospective rating agreements	The submission includes a follow up question to a submission discussed in Agenda Paper 8 of the September 2018 TRG meeting regarding group insurance policies and Agenda Paper 3 of the September 2018 TRG meeting about commissions and reinstatement premiums. The submission questions whether a payment under a retrospective rating agreement that would be considered a premium refund if it was paid to the policyholders, would still be considered as such if it is paid to the association or bank. Alternatively, the submission questions whether this amount is a commission expense paid for the right to sell insurance contracts to members of the association or customers of the bank.	The IFRS 17 requirements with respect to the presentation of amounts as a cost or a reduction in revenue, discussed at the September 2018 TRG meeting, are applicable to exchanges between the parties to an insurance contract—ie the party issuing the insurance contract and the party holding it. The staff observe that the accounting for exchanges of amounts related to insurance contracts between the entity and other parties, such as explained in the submission, should be considered using other IFRS Standards. Providing detailed application guidance for this specific transaction is not within the remit of the TRG.

Log #	Topic	Question	Response
S111	Accounting for the reinstatement of a lapsed contract	The submission describes a contract with a feature that provides a policyholder of a contract that lapsed an option to reinstate the contract within a contractually specified period, as long as the contract had not been surrendered. A contract lapses when the policyholder fails to pay premiums. In this fact pattern the entity may agree to reinstate the contract only after new underwriting, but once agreed the contractual premium is not repriced, the premiums for previous periods are paid, and coverage is reinstated. The submission considers the liability related to contract's reinstatement as an insurance liability and questions its classification as liability for remaining coverage or liability for incurred claims. The submission also questions the accounting for experience adjustments related to reinstatement of contracts.	Providing detailed application guidance for specific transactions is not within the remit of the TRG. However, stakeholders may find the following references helpful in considering similar transactions: (a) Agenda Paper 3 of the May 2018 TRG meeting regarding options to add insurance coverage. An entity should assess whether its substantive obligation to provide services ends when a contract with such features lapses applying the requirements of paragraph 34 of IFRS 17. (b) the definition of a liability for remaining coverage in Appendix A of IFRS 17. Cash flows related to the unexpired portion of the coverage period, such as the expected reinstatement of contracts, are part of the liability for remaining coverage. (c) paragraphs B96−B97 of IFRS 17, for determining when to adjust the contractual service margin of such contracts.

Log #	Topic	Question	Response
S126	A policyholder's right to reinstate a contract after it lapses	The submission describes two specific fact patterns of health insurance contracts for which the policyholder has a right to terminate a contract, which results in its lapse, and a right to reinstate the contract. The policyholder's right to reinstate the contract is either exercised by paying the premiums that were not paid since the contract has lapsed until the reinstatement date or by exercising an option that the policyholder acquired after the contract has lapsed. In the latter case, the option is repriced annually based on the latest mortality table. In both cases, when the insurance contract is reinstated it is reinstated without further underwriting or repricing of the premiums. The submission questions the cash flows within the boundary of each type of contract and whether the contracts are derecognised when they lapse.	Providing detailed application guidance for specific transactions is not within the remit of the TRG. Agenda Paper 3 of the May 2018 TRG meeting regarding options to add insurance coverage may be helpful in considering similar transactions. An entity should assess whether its substantive obligation to provide services ends when a contract with such features lapses applying the requirements of paragraph 34 of IFRS 17.

Log #	**Topic**	**Question**	**Response**
S127	Fair value of insurance contracts	The submission observes that entities do not reflect non-performance risk in the measurement of insurance contracts when applying the retrospective approach to transition to IFRS17. The submission also observes that applying the fair value approach to transition, IFRS 13 *Fair Value Measurement* is applied literally and therefore reflects the non-performance risk of the entity. The submission observes that the difference between the two approaches can result in a significant difference in the valuation of existing insurance contracts at the transition date, reduced comparability between entities and difficulties in measuring the non-performance risks and therefore suggests the Board should specify in IFRS 17 that the fair value approach does not reflect non-performance risk.	Paragraph 31 of IFRS 17 requires that the fulfilment cash flows do not reflect the non-performance risk of the entity. This is applicable to fulfilment cash flows regardless of the transition approach that is applied to determine the contractual service margin on transition to IFRS 17. Applying the fair value approach, an entity determines the contractual service margin comparing the fulfilment cash flows and the fair value of a group of insurance contracts at transition date, as required by paragraph C20 of IFRS 17. Fair value is measured applying IFRS 13 (except for paragraph 47 of IFRS 13 relating to demand features). Fair value measurement reflects the effect of non-performance risk.

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

Log #	Topic	Question	Response
S84 & S99	Investment management expenses	The submissions ask in what circumstances cash flows that arise as a consequence of investment management activities are fulfilment cash flows of insurance contracts. S99 provides examples of the expense of managing a portfolio of assets on which credited returns are based, the expense of hedging the financial risks association with an option embedded in an insurance contract, and the expense of an asset-liability management function. S84 also asks, when applying a top-down discount rate approach, whether the discount rate should be calculated net or gross of investment management expenses.	This topic was discussed at the January 2019 Board meeting as part of the amendments to IFRS 17 ongoing project.
S88	Level of aggregation—annual cohorts	The submission notes the narrow scope amendment to paragraph 28 of IFRS 17 tentatively proposed by the Board at the June 2018 Board meeting. In relation to this, the submission asks whether 'contracts issued more than one year apart' in paragraph 22 of IFRS 17 should be read as referring to the date the entity becomes party to the contract or the date that a contract meets the criteria for recognition in paragraph 25 of IFRS 17.	This submission relates to the annual improvement tentatively proposed by the Board at the June 2018 Board meeting. The staff plan to consider this question when drafting the forthcoming Exposure Draft.

Log #	Topic	Question	Response
S92	Policyholder dividends	The submission is about policyholder dividends for specific contracts accounted for applying the general model. The submission describes a fact pattern in which policyholder dividends are based on the profit of the entity. The profit comprises gains and losses from different sources (insurance results, investment performance and operations). The submission asks: (a) whether changes in policyholder dividend cash flows should be classified and accounted for separately for each source of underlying profit; (b) whether the total ultimate amount of policyholder dividends determined in a period should be classified as a liability for incurred claims even if there is still uncertainty on timing and amount of dividend payments to individual policyholders; and (c) how to account for the effect of law and regulation on expected policyholder dividends.	(a) changes in fulfilment cash flows that result from changes in underlying items, such as the entity's profit, should be treated for the purposes of IFRS 17 as changes in investments and therefore as changes in assumptions that relate to financial risk. As such, applying paragraph 87 of IFRS 17 they are included in insurance finance income or expenses. The staff will consider whether this needs to be clarified through an annual improvement in the forthcoming Exposure Draft. (b) amounts are no longer included in the liability for remining coverage as defined in Appendix A to IFRS 17 and are included in the liability for incurred claims as defined in Appendix A to IFRS 17 when they relate to events that have already occurred. The staff plan to consider the effect of the amendments related to the inclusion of an investment related service or an investment return service when identifying coverage units on the distinction between liability for incurred claims and liability for remaining coverage for amounts related to the investment component as part of drafting the forthcoming Exposure Draft. (c) paragraph 2 of IFRS 17 requires an entity to consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying IFRS 17.

Log #	Topic	Question	Response
S101, S120 & S124	Changes in the risk adjustment for non-financial risk due to time value of money and financial risk	S101 asks whether the portion of a change in the risk adjustment for non-financial risk due to the impacts of the time value of money and financial risk should be excluded from the change in the risk adjustment for non-financial risk that relates to future service which adjusts the contractual service margin. Assuming the answer to this question is yes, S101, S120 and S124 question the discount rate (locked-in rate or current rate) that would be used to adjust the contractual service margin. The submissions also consider the interaction with paragraph 81 of IFRS 17.	Paragraph B90 of IFRS 17 states that the risk adjustment for non-financial risk is included in the measurement of insurance contracts in an explicit way and is conceptually separate from the estimates of future cash flows and the discount rates that adjust those cash flows. Applying paragraph 81 of IFRS 17, an entity is not required, but may choose, to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. Paragraph B96(d) of IFRS 17 requires that changes in the risk adjustment for non-financial risk that relate to future service adjust the contractual service margin. Paragraph B97 of IFRS 17 requires that for groups of insurance contracts without direct participation features the contractual service margin is not adjusted for the effect of time value of money and financial risks. The staff plan to clarify as an annual improvement in the forthcoming Exposure Draft that the choice made applying paragraph 81 of IFRS 17 would result in different adjustments made to the contractual service margin applying paragraph B96 of IFRS 17. If an entity applies the choice in paragraph 81 of IFRS 17, the adjustment to the contractual service margin will be consistent with adjusting the contractual service margin for changes in estimates of present value of future cash flows applying paragraph B96(b) of IFRS 17.

Log #	**Topic**	**Question**	**Response**
S103	Recovery of insurance acquisition cash flows	The submission relates to Agenda Paper 6 discussed at the September 2018 TRG meeting. The submission asks how unrecoverable insurance acquisition cash flows incurred in a reporting period prior to initial recognition of the related group of insurance contracts should be treated.	This topic was discussed at the January 2019 Board meeting and is considered through the amendments to IFRS 17 ongoing project.
S104	Adjusting the loss component for changes in the risk adjustment for non-financial risk	The submission questions whether changes in the risk adjustment for non-financial risk that relate to future service adjust the loss component, noting that paragraphs 48(a) and 50(b) of IFRS 17 refer to changes in the fulfilment cash flows arising from changes in estimates of future cash flows.	Paragraphs 44(c) and 45(c) of IFRS 17 require that a change in the fulfilment cash flows as specified in paragraphs B96−B100 of IFRS 17 adjust the contractual service margin except if an increase in the *fulfilment cash flows* gives rise to a loss component or a decrease in the *fulfilment cash flows* is allocated to the loss component. Changes in the fulfilment cash flows related to future cash flows include changes in the risk adjustment for non-financial risk according to paragraph B96 of IFRS 17. Therefore, changes in the risk adjustment for non-financial risk that relate to future service are allocated to the loss component when relevant. The staff plan to clarify paragraphs 48(a) and 50(b) of IFRS 17 as an annual improvement in the forthcoming Exposure Draft.

Log #	Topic	Question	Response
S108	Acquisition cash flows related to reinsurance contracts held	The submission questions whether the proposed amendment to paragraph 27 of IFRS 17, as tentatively decided by the Board at its June 2018 meeting, results in contradiction to paragraph 65(a) of IFRS 17. The submission observes that the proposed amendment suggests that an entity is prohibited from recognising an asset or liability for acquisition cash flows with respect to reinsurance contracts held.	Paragraph 65(a) of IFRS 17 requires an entity to derecognise any asset or liability previously recognised for cash flows related to a group of reinsurance contracts held when determining the contractual service margin of that group. Paragraph 27 of IFRS 17, as proposed by the Board, is not intended to prohibit the recognition of such asset or liability with respect to reinsurance contracts held. The staff will consider this when drafting the amendments.

Appendix A—Examples

Example 1— Risk adjustment for non-financial risk when an entity expects to buy reinsurance (related to S118)

A1. Suppose an entity would determine the premium it charges for insurance contracts as illustrated in the following table, ignoring the possibility of reinsurance and before considering any profit:

Present value of claims	100
Risk adjustment for non-financial risk	30
Premium	**130**

A2. However, the entity knows that reinsurance is available to it, and the entity expects to cover 50% of claims using reinsurance. It expects the cost of purchasing this reinsurance to be 60. When the entity includes this possibility in its assessment of the premium it will charge for the insurance contracts (still before thinking about any profit), it determines the following amounts:

	Expected to be covered by reinsurance	Not expected to be covered by reinsurance	Total insurance contracts issued
Present value of claims	50	50	100
Risk adjustment for non-financial risk	10	15	25
Premium	**60**	**65**	**125**

A3. The reinsurance contract held transfers 50% of the risk from the entity so is accounted for as follows:

Present value of claim recoveries	50
Risk adjustment for non-financial risk (=25/2)	12.5
Contractual service margin (net gain)	(2.5)
Reinsurance premium	**60**

Example 2—Application of paragraph B101(b) of IFRS 17 (related to S115)

(a) *Without mortality charge*

A4. An insurance contract gives the policyholder the returns on underlying items, after paying an annual management fee of 0.75% of the assets. The expected duration of the contract is 10 years and the expected returns on underlying items are 5%. The expected account balance is calculated in the following table:

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Opening balance	15,000	15,632	16,290	16,977	17,692	18,437	19,214	20,023	20,867	21,746	
Returns on underlying items	750	782	815	849	885	922	961	1,001	1,043	1,087	9,094
Annual management fee	(118)	(123)	(128)	(134)	(139)	(145)	(151)	(158)	(164)	(171)	(1,432)
Closing balance	**15,632**	**16,290**	**16,977**	**17,692**	**18,437**	**19,214**	**20,023**	**20,867**	**21,746**	**22,662**	

A5. To apply paragraph B101(b) of IFRS 17, the fair value returns are 9,094, of which the entity expects to pay to the policyholder 7,662 (22,662 − 15,000).

(b) With mortality charge

A6. An insurance contract gives the policyholder the returns on underlying items, after paying an annual management fee of 0.75% of the fair value of the underlying items. The expected duration of the contract is 10 years and the expected returns on underlying items are 5%. An annual charge for mortality cover of 100 reduces the underlying items at the start of each year. The expected account balance is calculated in the following table:

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Opening balance	15,000	15,527	16,076	16,648	17,245	17,866	18,514	19,189	19,892	20,625	
Mortality charge	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(1,000)
Returns on underlying items	745	771	799	827	857	888	921	954	990	1,026	8,779
Annual management fee	(118)	(122)	(127)	(131)	(136)	(141)	(146)	(151)	(157)	(162)	(1,390)
Closing balance	**15,527**	**16,076**	**16,648**	**17,245**	**17,866**	**18,514**	**19,189**	**19,892**	**20,625**	**21,389**	

A7. To apply paragraph B101(b) of IFRS 17, the fair value returns are 8,779. The entity expects to pay to the policyholder 6,389 (21,389 −15,000), having deducted the mortality charge. Hence, in total, the share of the fair value returns that the entity expects to pay to the policyholder is 7,389 (6,389 + 1,000).