

STAFF PAPER

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Project	Amendments to IFRS 17		
Paper topic	Proposed amendments to be finalised		
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Purpose of the paper

1. This paper discusses the proposed amendments to IFRS 17 *Insurance Contracts* that the International Accounting Standards Board (Board) tentatively decided, at its November 2019 meeting, to confirm at a future meeting without any substantive redeliberation.
2. The proposed amendments that the Board is asked to finalise at this meeting are the following:
 - (a) scope exclusion for loans (paragraphs 6–13 of this paper);
 - (b) contractual service margin attributable to investment services—coverage units for insurance contracts with direct participation features (paragraphs 14–16 of this paper);
 - (c) presentation in the statement of financial position—portfolio instead of group level (paragraphs 17–21 of this paper);
 - (d) applicability of the risk mitigation option—reinsurance contracts held (paragraphs 22–24 of this paper);
 - (e) transition reliefs for business combinations (paragraphs 25–29 of this paper);and

- (f) transition reliefs for the risk mitigation option—application from the transition date and the option to apply the fair value approach (paragraphs 30–35 of this paper).

Summary of staff recommendations

- 3. The staff recommend the Board finalise the amendments listed in paragraph 2 of this paper as proposed in the Exposure Draft *Amendments to IFRS 17*.

Structure of the paper

- 4. For each of the proposed amendments listed in paragraph 2 of this paper, the paper provides:
 - (a) an overview of the proposals in the Exposure Draft;
 - (b) an overview of the feedback; and
 - (c) the staff analysis, recommendations and questions for Board members.
- 5. Appendix A to this paper include extracts from the Basis for Conclusions on the Exposure Draft relevant for those proposed amendments.

Scope exclusion for loans

Proposals in the Exposure Draft

- 6. The Exposure Draft proposed that an entity would choose to apply IFRS 17 or IFRS 9 *Financial Instruments* to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder’s obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, using the IFRS 17 definition of a portfolio. The choice for each portfolio would be irrevocable.

7. The Exposure Draft also proposed transition requirements in IFRS 9 for entities that will:
- (a) choose, applying the amended IFRS 17, to apply IFRS 9 to the loan contracts discussed in paragraph 6 of this paper; and
 - (b) apply the amended IFRS 17 after they have already applied IFRS 9 and for which the transition requirements in IFRS 9 would not be applicable (ie entities that do not apply the temporary exemption in IFRS 4 *Insurance Contracts* and, therefore, are required to apply IFRS 9 (as issued in 2014) for annual reporting periods beginning on or after 1 January 2018).

Feedback

8. Of the respondents who provided comments on the proposed scope exclusion for the loan contracts discussed in paragraph 6 of this paper:
- (a) most respondents generally agreed with the Board’s proposal and rationale for proposing the amendment to IFRS 17; and
 - (b) a small number of respondents:
 - (i) disagreed with the scope exclusion because they believe that an entity should be required to apply IFRS 17 to all loan contracts that meet the definition of an insurance contract to appropriately reflect the insurance feature of those contracts; or
 - (ii) suggested the Board amend the proposal so that an entity would be *required* to apply IFRS 9 to the loan contracts that would be captured by the proposed scope exclusion because they believe that mandating the use of the same accounting requirements for the same type of contracts would ensure consistency and comparability between entities, without imposing IFRS 17 implementation costs to entities issuing those contracts.

9. Of the respondents who agreed with the Board’s proposal:
- (a) a small number of respondents:
 - (i) commented on the implications of accounting for such loan contracts applying IFRS 9. Those respondents suggested the Board confirm that the contractual cash flows of such loan contracts are not solely payments of principal and interest (SPPI) and, therefore, applying IFRS 9, such loan contracts would be accounted for at fair value through profit or loss.
 - (ii) highlighted the importance for an entity to disclose, in the notes to the financial statements, whether the entity has elected to apply IFRS 9 to such loan contracts.
 - (b) one respondent expressed concerns that requiring an entity to make the proposed choice portfolio by portfolio using the IFRS 17 definition of a portfolio would be burdensome to apply. This is because an entity that chooses to apply IFRS 9 to such loan contracts would be required to first apply IFRS 17 to identify a portfolio of contracts.
 - (c) one respondent provided a drafting suggestion about the wording of the proposed amendment that, in the view of this respondent, would reduce the risk of misinterpretation of the type of contracts that would be captured by the proposed scope exclusion. This respondent noted that in some mortgage contracts the amount of compensation under the insurance feature of the contract is limited to the amount required to settle what would have been the policyholder’s obligation absent the insurance feature. This respondent, therefore, suggested the Board amend the wording of the proposed scope exclusion as follows: ‘Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder’s obligation created by the contract (for example, loans with death waivers).’

10. A small number of respondents commented on the proposed transition requirements in IFRS 9. Those respondents expressed support for those proposed transition requirements.

Staff analysis and recommendations

11. The staff note that the Board considered the concerns and suggestions from respondents discussed in paragraphs 8(b) and 9(a)(i) of this paper when developing the Exposure Draft. Specifically, at the February 2019 Board meeting, the Board considered whether to:
- (a) propose an amendment to IFRS 17 so that entities would be required, rather than permitted, to apply IFRS 9 to the loan contracts discussed in paragraph 6 of this paper. The Board agreed with staff recommendations in Agenda Paper 2A *Loans that transfer significant insurance risk* of the February 2019 Board meeting not to require an entity to apply IFRS 9 to such loan contracts for the following reasons:
 - (i) amending IFRS 17 to require entities to apply IFRS 9 to such loan contracts might introduce a significant change for entities that currently account for those contracts applying IFRS 4 and are preparing to implement IFRS 17. Some entities might need to develop systems to account for contracts with insurance and non-insurance components in accordance with IFRS 9, while they are already developing systems to implement IFRS 17 to account for those contracts.
 - (ii) prohibiting entities from applying IFRS 17 to those loan contracts would not enable entities that issue those loan contracts and other types of insurance contracts to account for both types of contracts in the same way.
 - (iii) those loan contracts meet the definition of an insurance contract because they transfer significant insurance risk. IFRS 17 was developed with the objective that entities issuing contracts that transfer significant insurance risk faithfully represent those

contracts. The accounting model in IFRS 17 appropriately reflects the features of these contracts.

- (b) specify that, if an entity chooses to apply IFRS 9 to such loan contracts, the entity would always measure them at fair value through profit or loss. The Board concluded that such specification was not necessary noting that IFRS 9 is a principle-based and sufficiently robust Standard to handle complex financial instruments.

12. Regarding the concerns discussed in paragraph 9(b) of this paper, the staff note that, to avoid incurring costs to implement IFRS 17, entities that do not issue insurance contracts other than such loan contracts would elect to apply IFRS 9 to all such loan contracts. Therefore, those entities would not need to apply IFRS 17 to identify portfolios of insurance contracts.

13. The staff recommend the Board finalise the amendment discussed in paragraphs 6–7 of this paper as proposed in the Exposure Draft, reflecting the drafting suggestion discussed in paragraph 9(c) of this paper, because:

- (a) the feedback from outreach and comment letters provides support for the Board to finalise that amendment; and
- (b) the staff have not identified points the Board has not considered previously.

Question 1 for Board members

Do you agree that the Board should finalise:

- (a) the proposed amendment that would permit an entity to choose, portfolio by portfolio, to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder’s obligation created by the contract?
- (b) the proposed transition requirements in IFRS 9 for entities that choose to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount otherwise required to settle the policyholder’s obligation created by the contract?

Contractual service margin attributable to investment services—coverage units for insurance contracts with direct participation features

Proposals in the Exposure Draft

14. The Exposure Draft proposed to clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Feedback

15. All respondents who commented on the proposed clarification discussed in paragraph 14 of this paper supported the clarification.

Staff analysis and recommendations

16. The staff recommend the Board finalise the amendment discussed in paragraph 14 of this paper as proposed in the Exposure Draft because the feedback from outreach and comment letters provides support for the proposed clarification for identifying coverage units for insurance contracts with direct participation features.

Question 2 for Board members

Do you agree that the Board should finalise the proposed amendment to clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service?

Presentation in the statement of financial position—portfolio instead of group level

Proposals in the Exposure Draft

17. The Exposure Draft proposed that an entity present separately in the statement of financial position the carrying amount of portfolios (rather than groups) of insurance contracts issued that are assets and those that are liabilities. The proposed amendment

would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Feedback

18. Overall, respondents expressed support for the proposed amendment to the presentation of insurance contracts in the statement of financial position and agreed with the Board’s conclusion that the proposed amendment would decrease operational complexity and IFRS 17 implementation costs.
19. However, consistent with feedback during the development of the Exposure Draft, a small number of respondents continued to express the view that they would prefer the Board to require an entity to present insurance contract assets and liabilities at an entity level, rather than at a portfolio level. Some of those respondents:
 - (a) noted that different entities will identify portfolios in different ways and, therefore, those respondents think that a higher level of presentation in the statement of financial position would provide more useful information for users of financial statements to compare entities; or
 - (b) expressed the view that presenting separately insurance contract assets and liabilities does not provide useful information to users of financial statements.

Staff analysis and recommendations

20. The staff note that the Board considered the concerns and suggestions from respondents discussed in paragraph 19 of this paper when developing the Exposure Draft. Specifically, as explained in paragraph BC97 of the Basis for Conclusions on the Exposure Draft, when developing the Exposure Draft, the Board considered but rejected some stakeholders’ suggestions that presentation of insurance contracts in the statement of financial position should be at an entity level because that would risk a significant loss of useful information for users of financial statements.
21. The staff recommend the Board finalise the amendment discussed in paragraph 17 of this paper as proposed in the Exposure Draft because:

- (a) the feedback from outreach and comment letters provides support for the Board to finalise the proposal for the presentation of insurance contracts in the statement of financial position; and
- (b) the staff have not identified points the Board has not considered previously.

Question 3 for Board members

Do you agree that the Board should finalise the proposed amendment that would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued and of reinsurance contracts held that are assets and those that are liabilities?

Applicability of the risk mitigation option—reinsurance contracts held

Proposals in the Exposure Draft

22. The Exposure Draft proposed to extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features (ie contracts to which the variable fee approach applies). In accordance with the proposal, the option would also apply in circumstances in which an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features. The entity would be permitted to include in profit or loss some or all of the changes in the effect of financial risk on insurance contracts with direct participation features that usually adjust the contractual service margin. Doing so reduces accounting mismatches because the change resulting from financial risk in a reinsurance contract held is included in profit or loss.

Feedback

23. All respondents who commented on the proposal to extend the risk mitigation option to circumstances in which an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features:
- (a) supported the proposal; and

- (b) agreed with the Board’s view that the proposal would reduce accounting mismatches.

Staff analysis and recommendations

24. The staff recommend the Board finalise the amendment discussed in paragraph 22 of this paper as proposed in the Exposure Draft because the feedback from outreach and comment letters provides support for the proposal that would permit an entity to apply the risk mitigation option when the entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

Question 4 for Board members

Do you agree that the Board should finalise the proposed amendment that would permit an entity to also apply the risk mitigation option when the entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features?

Transition reliefs for business combinations

Proposals in the Exposure Draft

25. IFRS 17 requires an entity to classify a liability for settlement of claims as a liability for remaining coverage if the entity acquired the insurance contract during the claims settlement period and, at the acquisition date, the amount of claims is still uncertain.
26. The Exposure Draft proposed that, when applying IFRS 17 for the first time, an entity:
- (a) applying the modified retrospective approach, to the extent the entity cannot apply the requirement discussed in paragraph 25 of this paper retrospectively, classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired;
and

- (b) applying the fair value approach be permitted to classify such a liability as a liability for incurred claims.

Feedback

- 27. Overall, respondents expressed support for the proposed amendment to the IFRS 17 transition requirements discussed in paragraph 26 of this paper. Some respondents agreed with the Board's view that the proposed amendment would provide practical relief when an entity does not have information to apply the requirements of IFRS 17 retrospectively.
- 28. A small number of respondents suggested the Board confirm whether the proposed amendment would apply to all contracts acquired, rather than just to contracts acquired in a business combination within the scope of IFRS 3 *Business Combinations*. One of those respondents suggested the Board amend the wording of the proposed transition reliefs to clarify that those reliefs would apply to a transfer of insurance contracts that do not form a business or a business combination within the scope of IFRS 3, consistent with the wording in paragraph B93 of IFRS 17.

Staff analysis and recommendations

- 29. The staff recommend the Board:
 - (a) finalise the amendment to IFRS 17 transition requirements discussed in paragraph 26 of this paper because the feedback from outreach and comment letters provides support for the Board to finalise the proposed additional transition reliefs for insurance contracts acquired; and
 - (b) confirm that the proposed amendment would apply to contracts acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3, in the light of the feedback discussed in paragraph 28 of this paper.

Question 5 for Board members

Do you agree that the Board should finalise the proposed amendment discussed in paragraph 26 of this paper that would provide transition reliefs for insurance contracts acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3?

Transition reliefs for the risk mitigation option—application from the transition date and the option to apply the fair value approach***Proposals in the Exposure Draft***

30. IFRS 17 allows an entity that meets specified conditions not to recognise a change in the contractual service margin for some or all of the effect of financial risk on a group of insurance contracts with direct participation features (the risk mitigation option).
31. The Exposure Draft proposed that an entity:
 - (a) apply the risk mitigation option prospectively from the transition date, rather than the date of initial application. An entity would be required to designate risk mitigation relationships at or before the date it applies the option.
 - (b) that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participation features be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Feedback

32. Overall, respondents expressed support for the proposed amendments to the IFRS 17 transition requirements discussed in paragraph 31 of this paper.
33. Some respondents who supported the proposed amendments would prefer that the Board amend IFRS 17 to allow retrospective application of the risk mitigation option, in addition, or as an alternative, to the proposed transition requirements discussed in paragraph 31 of this paper.

Staff analysis and recommendations

34. The staff note that the Board tentatively decided, at its November 2019 meeting, to consider further suggestions from respondents to allow a retrospective application of the risk mitigation option. Even if the Board were to amend IFRS 17 to allow retrospective application of the risk mitigation option, the staff think that the amendments to IFRS 17 transition requirements discussed in paragraph 31 of this paper would still provide relief for entities that would not be able to apply the risk mitigation option retrospectively.
35. The staff recommend the Board finalise the amendments to the IFRS 17 transition requirements discussed in paragraph 31 of this paper because the feedback from outreach and comment letters provides support for the Board to finalise the proposed additional transition reliefs for the use of the risk mitigation option.

Question 6 for Board members

Do you agree that the Board should finalise the proposed amendment discussed in paragraph 31 of this paper that would provide transition reliefs relating to the use of the risk mitigation option?

Appendix A—relevant extracts from the Basis for Conclusions on the Exposure Draft

Scope exclusions—loan contracts that meet the definition of an insurance contract (paragraph 8A and Appendix D)

Proposed amendment

- BC9 IFRS 17 applies to all contracts that transfer significant insurance risk, regardless of the type of entity issuing the contracts, with some specific scope exclusions. The Board has been made aware that some credit card contracts and loan contracts transfer significant insurance risk and, consequently, are within the scope of IFRS 17. Examples are:
- (a) ...
 - (b) loan contracts such as a loan contract with a death waiver and a lifetime mortgage with a no-negative-equity-guarantee.
- BC10 The Exposure Draft proposes two additional scope exclusions to the requirements in IFRS 17:
- (a) ...
 - (b) paragraph 8A proposes that an entity may choose to apply IFRS 9 *Financial Instruments* instead of IFRS 17 to contracts that meet the definition of an insurance contract but that limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loan contracts with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts and the choice for each portfolio would be irrevocable.
- BC11 The Board decided it would not be necessary to propose additional disclosure requirements in IFRS 17 or IFRS 9 related to the proposed amendments in paragraphs 7(h) and 8A of the Exposure Draft (other than on transition in some circumstances, see paragraph BC30(b)). Both IFRS 17 and IFRS 9 already specify sufficient disclosure requirements for such contracts.

Rationale for changing the requirements

- BC12 The definition of an insurance contract in IFRS 17 is unchanged from IFRS 4, and so the contracts described in paragraph BC9 already meet the definition of an insurance contract applying IFRS 4. However, IFRS 4 permits an entity to separate from a host insurance contract some non-insurance components and apply other IFRS Standards to the non-insurance components. IFRS 4 also allows a wide range of accounting practices for components that are not separated. As a result, some entities may be applying IFRS 9 or IAS 39 *Financial Instruments: Recognition and Measurement*, or an accounting policy similar to the requirements

in those Standards, to such contracts. IFRS 17 is more restrictive on the separation of non-insurance components and is more specific in its requirements for accounting for all aspects of insurance contracts in their entirety. The Board was persuaded that for some entities that apply accounting policies consistent with IFRS 9 or IAS 39 to some credit card contracts and loan contracts that transfer significant insurance risk, the costs of applying IFRS 17 might exceed the benefits of changing to applying IFRS 17, as described in paragraphs BC13–BC22.

Proposed amendment to permit an entity to apply IFRS 9, instead of IFRS 17, to specified contracts that meet the definition of an insurance contract (paragraph 8A)

- BC18 Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder’s obligation created by the contract (for example, loan contracts with death waivers). An entity would provide useful information about such contracts applying either IFRS 17 or IFRS 9. Both credit risk and insurance risk are prominent features in such contracts and, as noted in paragraph BC14, both Standards have requirements that can address these risks, albeit with a different focus.
- BC19 Hence, the Board concluded:
- (c) requiring an entity to apply IFRS 17 to those contracts, when the entity had previously been applying an accounting policy consistent with IFRS 9 or IAS 39 to those contracts (or vice versa), could impose cost without a corresponding benefit; and
 - (d) more useful information for users of financial statements might be provided if an entity were to apply the same Standard to those contracts as it applies to other similar contracts it issues.
- BC20 Accordingly, the Board concluded that, for such contracts, an entity would be required to make the choice between applying IFRS 17 or IFRS 9 for each portfolio of insurance contracts and the choice for each portfolio would be irrevocable.
- BC21 The Board considered whether the proposed amendment in paragraph 8A of the Exposure Draft should be applied on a contract-by-contract basis, rather than on a portfolio of insurance contracts basis. Requiring a contract-by-contract basis would be consistent with the scope exclusion for fixed-fee service contracts in paragraph 8 of IFRS 17. However, the Board concluded that applying the proposed amendment in paragraph 8A of the Exposure Draft on a portfolio basis would mitigate the lack of comparability that might otherwise arise between similar contracts issued by the same entity, and between similar contracts issued by different entities.
- BC22 The Board considered a suggestion that IFRS 17 be amended to require an entity to separate a loan component from such an insurance contract, consistent with existing accounting practice for some contracts. However, the Board confirmed the approach in paragraphs 10–13 of IFRS 17—that components of a contract should

not be separated if they are highly interrelated. As explained in paragraph BC10(a) of the Basis for Conclusions on IFRS 17, it would be difficult for an entity to separate such components routinely and setting requirements to do so would result in complexity. Such separation would also ignore interdependencies between components, with the result that the sum of the values of the components may not always equal the value of the contract as a whole, even on initial recognition.

Transition requirements when an entity chooses to apply IFRS 9 to contracts specified in paragraph 8A (Appendix D)

- BC23 Entities that do not apply the temporary exemption in IFRS 4 are required to apply IFRS 9 (as issued in 2014) for annual periods beginning on or after 1 January 2018. Accordingly, some entities will apply the amended IFRS 17 after they have already applied IFRS 9.
- BC24 The Exposure Draft proposes transition requirements for such entities that choose, applying paragraph 8A of the Exposure Draft, to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract.
- BC25 Without those proposed requirements in the Exposure Draft, the transition requirements in Section 7.2 of IFRS 9 (as issued in 2014) would not be applicable for entities that have already applied IFRS 9. Accordingly, an entity would be required to apply the proposed amendments in the Exposure Draft retrospectively applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- BC26 Retrospective application in such circumstances would be consistent with the general requirement that an entity applies the classification and measurement requirements in IFRS 9 retrospectively. However, in some circumstances, an entity may not be able to apply the proposed amendments in the Exposure Draft retrospectively without the use of hindsight.
- BC27 When the Board developed the transition requirements in IFRS 9, it provided requirements to address scenarios in which it would be impracticable for entities to apply particular requirements retrospectively. The Board expects that similar scenarios might arise when an entity first applies IFRS 9 to contracts addressed by paragraph 8A of the Exposure Draft. Accordingly, the Exposure Draft proposes that an entity would apply the relevant transition requirements in IFRS 9 that are necessary to initially apply the proposed amendment in paragraph 8A of the Exposure Draft.
- BC28 The Board also considered specific transition requirements related to the fair value option in IFRS 9. An entity's decision to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract could change, either partially or in full, the classification and measurement of such contracts. Such changes may

create or eliminate accounting mismatches between the contracts and financial liabilities an entity might consider to be related to the contracts. Therefore, the Board decided to propose amendments to the IFRS 9 transition requirements that would permit an entity to designate, or that would require an entity to revoke its previous designation of, a financial liability at the date of initial application of the proposed amendments to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists, as a result of applying the proposed amendment in paragraph 8A of the Exposure Draft.

- BC29 The Board noted that paragraph C29 of IFRS 17 already permits an entity to designate a financial asset and requires an entity to revoke its previous designation of a financial asset at the date of initial application of IFRS 17. In addition, paragraphs C32–C33 of IFRS 17 require disclosures about those assets. Accordingly, the Board decided it is unnecessary to propose further requirements for the designation or de-designation of financial assets under the fair value option in IFRS 9.
- BC30 The Exposure Draft also proposes the following amendments for consistency with the transition requirements in IFRS 9 and IFRS 17:
- (a) an entity would not be required to restate prior periods to reflect the effect of the proposed amendments, and could choose to do so only if such restatement is possible without the use of hindsight and if the restated financial statements reflect all the requirements in IFRS 9 for the affected financial instruments;
 - (b) an entity would disclose, in addition to any disclosures required by other IFRS Standards, information about the changes in the classification and measurement of contracts as a result of applying the proposed amendments in paragraph 8A of the Exposure Draft; and
 - (c) an entity would not be required to disclose, for the current period or any prior period presented, the quantitative information otherwise required by paragraph 28(f) of IAS 8.

Contractual service margin attributable to investment-related service

Proposed amendment

- BC50 IFRS 17 requires an entity to recognise the contractual service margin, which is the unearned profit in a group of insurance contracts, in profit or loss over time on the basis of coverage units. The number of coverage units in a group of contracts is determined by considering, for each contract, the quantity of the benefits provided under the contract and the expected period over which those benefits will be provided. The Exposure Draft proposes two amendments relating to the identification of coverage units applying paragraph B119:
- (a) ...

- (b) the second proposed amendment would clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Rationale for changing the requirements

- BC54 A question submitted to the Transition Resource Group for IFRS 17 indicated that it would be useful to clarify that an entity is required to consider investment-related service when determining coverage units for insurance contracts with direct participation features. Transition Resource Group members thought coverage units for contracts with direct participation features should include investment-related service because those contracts are substantially investment-related service contracts. However, Transition Resource Group members held different views on whether IFRS 17 requires, permits or prohibits such an approach. Hence, the Board decided to clarify that such an approach is required.

Presentation in the statement of financial position (paragraphs 78–79, 99 and 132)

Proposed amendment

- BC91 The Exposure Draft proposes to amend paragraph 78 of IFRS 17, which requires an entity to present separately in the statement of financial position the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities and the carrying amount of groups of reinsurance contracts held that are assets and those that are liabilities.
- BC92 The proposed amendment to paragraph 78 of IFRS 17 would require an entity to instead present separately in the statement of financial position the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities and portfolios of reinsurance contracts held that are assets and those that are liabilities. There are no proposed changes to the measurement requirements of IFRS 17 as a result of this proposed amendment.
- BC93 The Exposure Draft proposes consequential amendments to paragraph 79 of IFRS 17 and to the disclosure requirements in paragraphs 99 and 132 of IFRS 17 to reflect a portfolio rather than a group level of presentation.

Rationale for changing the requirements

- BC94 The requirements in IFRS 17 for presenting groups of insurance contracts are consistent with the requirements for recognising and measuring groups of insurance contracts. The fulfilment cash flows included in the measurement of insurance contracts are the same regardless of the level at which they are measured. However, an entity is required to allocate fulfilment cash flows that

relate to remaining coverage at a group level to determine and recognise the contractual service margin (or loss on onerous contracts).

- BC95 Some stakeholders expressed concerns that identifying fulfilment cash flows for each group of insurance contracts typically requires integrating independent systems, such as cash management systems and actuarial systems at a level of a group of contracts. Some of those fulfilment cash flows do not need to be allocated to groups to apply the measurement requirements of IFRS 17, for example, amounts related to the settlement of incurred claims. Those stakeholders explained that new systems would need to be implemented to apply this aspect of IFRS 17, at significant cost. Those stakeholders suggested that presenting insurance contracts at a level that is higher than a group level would provide them with a meaningful practical relief that, in their view, would not significantly diminish the usefulness of information for users of financial statements.
- BC96 Feedback from initial outreach with users of financial statements supports the stakeholder views set out in paragraph BC95—that presenting insurance contracts at a level that is higher than a group level would not significantly diminish the usefulness of information when compared to presentation at a group level. Considering this information, the Board concluded that the benefit of the proposed amendment to paragraph 78 of IFRS 17 (operational relief for preparers of financial statements) would outweigh the cost (potential limited loss of useful information for users of financial statements).

Other approaches considered and rejected

- BC97 The Board considered some stakeholders' suggestions that presentation of insurance contracts in the statement of financial position should be at an entity level and rejected that suggestion because that would risk a greater loss of useful information for users of financial statements.

Applicability of the risk mitigation option (paragraph B116)

Proposed amendments

- BC101 The Exposure Draft proposes to extend the option in paragraphs B115–B116 of IFRS 17 relating to the accounting treatment of some types of risk mitigation. That option permits an entity to reflect some or all of the changes in the effect of financial risk on insurance contracts with direct participation features that usually adjust the contractual service margin immediately in profit or loss. An entity may apply that option if, and only if, the entity mitigates those financial risks using derivatives and meets the conditions in paragraph B116 of IFRS 17. Without that exception, the variable fee approach would create an accounting mismatch when an entity uses derivatives to mitigate financial risk in insurance contracts. Specifically:

- (a) the change in the fair value of the derivative would be recognised in profit or loss applying IFRS 9; but
- (b) the change in the insurance contract, the risk of which was mitigated by the derivative, would adjust the contractual service margin applying paragraph 45 of IFRS 17.

BC102 The proposed amendment in paragraph B116 of the Exposure Draft would extend that option to be available when an entity mitigates financial risk on insurance contracts with direct participation features using reinsurance contracts held.

BC103 The Board concluded that additional disclosures as a result of this amendment would not be needed because the existing disclosures relating to paragraphs B115–B116 of IFRS 17 would be sufficient.

Rationale for changing the requirements

BC104 Some entities purchase reinsurance contracts that cover insurance contracts with direct participation features that the entities issue. Those reinsurance contracts transfer both non-financial risk and financial risk to the reinsurer.

BC105 All reinsurance contracts held are accounted for applying the general measurement requirements in IFRS 17. Similar to previous feedback about derivatives, stakeholders expressed concern that an accounting mismatch arises because:

- (a) the change resulting from financial risk in a reinsurance contract held would be recognised in profit or loss applying paragraph 87 of IFRS 17; but
- (b) the change resulting from financial risk in underlying insurance contracts with direct participation features would adjust the contractual service margin applying paragraph 45 of IFRS 17.

BC106 The Board acknowledged that the concern expressed by stakeholders for reinsurance contracts held is similar to the concern previously raised in relation to derivatives—the identified accounting mismatches are created by the variable fee approach. The Board decided to propose an amendment to IFRS 17 that extends the scope of the risk mitigation option in paragraph B116 of IFRS 17 to address this concern. As a consequence of the proposed amendment, the accounting for insurance contracts with direct participation features may be different depending on whether the entity has purchased a reinsurance contract. However, the Board concluded that such an amendment would be acceptable because it is consistent with the option introduced previously to address a similar concern for derivatives.

Transition modifications and reliefs (paragraphs C3(b), C5A, C9A and C22A)

- BC119 The Exposure Draft proposes amendments that would provide additional transition modifications and reliefs for entities applying IFRS 17 for the first time for:
- (a) the classification of contracts acquired in their settlement period (paragraphs BC120–BC124); and
 - (b) the risk mitigation for insurance contracts with direct participation features (paragraphs BC125–BC133).

Classification of contracts acquired in their settlement period

Proposed amendment

- BC120 Liabilities that relate to the settlement of claims for insured events are generally treated as liabilities for incurred claims. However, if an entity acquires the insurance contract after the insured event occurred and the amount for which it will be settled is uncertain, IFRS 17 requires an entity to classify the liability that relates to the settlement of claims for that insured event as a liability for remaining coverage. For the acquiring entity, the insured event is the determination of the ultimate cost of those claims.
- BC121 Paragraph C9A of the Exposure Draft proposes an additional modification to the modified retrospective approach that would permit an entity to classify such liabilities for insurance contracts acquired before the transition date as a liability for incurred claims rather than a liability for remaining coverage. Consistent with the other requirements for the modified retrospective approach, an entity would be permitted to apply this modification only to the extent that it does not have reasonable and supportable information to apply a retrospective approach. Paragraph C22A of the Exposure Draft proposes that an entity applying the fair value approach would have an option to classify such a liability as a liability for incurred claims.
- BC122 No additional disclosures are proposed as a result of the proposed amendments in paragraphs C9A and C22A of the Exposure Draft. Paragraph 115 of IFRS 17 requires an entity to explain how it determined the measurement of insurance contracts at the transition date to enable users of financial statements to understand the nature and significance of the methods used and judgements applied in determining the transition amounts.

Rationale for changing the requirements

- BC123 The Board set the requirements in the modified retrospective approach to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Each modification

addresses specific areas of the requirements the Board expected would often be impracticable to apply retrospectively.

- BC124 Since IFRS 17 was issued, the Board has heard that it will often be impracticable for an entity to classify contracts acquired in their settlement period before the transition date as either a liability for remaining coverage or a liability for incurred claims. At the time those contracts were acquired, the entity may have managed the claims for those contracts with other contracts it issued and may have gathered data at a higher level than is required to distinguish between claims from contracts issued and claims from contracts acquired. The Board noted that the existing requirements in the modified retrospective approach and reliefs in the fair value approach do not resolve this challenge. Accordingly, the Board concluded that a new specific modification and new relief should be proposed for transition to IFRS 17.

Risk mitigation for insurance contracts with direct participation features

Proposed amendment

- BC125 Paragraph B115 of IFRS 17 allows an entity an accounting policy choice to reflect some or all of the changes in the effect of financial risk on insurance contracts with direct participation features that usually adjust the contractual service margin immediately in profit or loss. An entity can apply the option if, and only if, the entity mitigates those financial risks using derivatives and meets the conditions in paragraph B116 of IFRS 17 (or mitigates those financial risks using reinsurance contracts held applying the proposed amendment in paragraph B116 of the Exposure Draft). Applying paragraph C3(b) of IFRS 17, an entity is not permitted to apply the risk mitigation option for periods before the date of initial application, because the Board concluded that doing so would give rise to the risk of the use of hindsight.
- BC126 The Exposure Draft proposes two amendments to the transition requirements relating to the risk mitigation option:
- (a) the proposed amendment to paragraph C3(b) of IFRS 17 would permit an entity to apply the option in paragraph B115 of IFRS 17 prospectively from the transition date, rather than the date of initial application. To apply the option in paragraph B115 of IFRS 17 from the transition date, an entity would be required to designate risk mitigation relationships at or before the transition date.
 - (b) paragraph C5A of the Exposure Draft proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts would be permitted to instead apply the fair value approach to that group if, and only if:

- (i) the entity chooses to apply the risk mitigation option in paragraph B115 of IFRS 17 to the group prospectively from the transition date; and
- (ii) before the transition date, the entity has been using derivatives or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts.

BC127 The Board concluded that additional disclosures as a result of those amendments would not be needed because the disclosures in paragraphs 114–116 of IFRS 17 already require an entity to explain how it determined the measurement of insurance contracts at the transition date.

Rationale for changing the requirements

BC128 Some stakeholders stated that permitting retrospective application of the risk mitigation option in paragraph B115 of IFRS 17 would enhance comparability of information before and after the date of initial application of IFRS 17. In the Board's view, permitting an entity to apply the risk mitigation option consistently for risk mitigation activities that take place before and after the date of initial application of IFRS 17 could increase comparability between reporting periods and, therefore, provide users of financial statements with useful information. However, as the risk mitigation option can be applied to particular risks in a group of insurance contracts, permitting application of the option retrospectively would risk the use of hindsight and create opportunities for entities to decide the risk mitigation relationships to which to apply the option based on the known accounting outcome. Accordingly, the Board disagreed with a suggestion by stakeholders that an entity should be permitted to apply the risk mitigation option retrospectively.

BC129 Despite concluding that an entity should not be allowed to apply the risk mitigation option retrospectively, the Board sought to address stakeholders' concerns about a lack of consistency in the treatment of risk mitigation activities before and after the date of initial application of IFRS 17. The Board noted that the risk mitigation option is a choice and so an entity could avoid this inconsistency. However, the Board understood that some entities want to use the risk mitigation option, as intended, to address the accounting mismatch between insurance contracts with direct participation features and derivatives that meet specified conditions. As a result, the Board considered whether an alternative approach would allow an entity to avoid the mismatch without risking the use of hindsight.

BC130 The Board concluded it should be possible for an entity to apply the risk mitigation option from a date earlier than the date of initial application of IFRS 17 without risking the use of hindsight. Accordingly, to address concerns about inconsistency between the first reporting period applying IFRS 17 and the restated comparative information, the Board decided to allow an entity to apply the risk mitigation option in the comparative period if it does so prospectively. Applying the option prospectively requires the entity to designate the risk mitigation relationships to

which it will apply the option at or before the transition date.

- BC131 The Board also noted that an entity that uses the fair value transition approach in IFRS 17 avoids the situation in which changes in the fair value of derivatives being used for risk mitigation are reflected in opening retained earnings or equity but the corresponding changes in the insurance contracts are reflected in the contractual service margin. At the transition date, the fair value of derivatives will include only expectations about future cash flows. In the fair value approach, the fair value of insurance contracts at transition would also include only expectations about future cash flows. Any past gains or losses on derivatives and any effects on insurance contracts of past changes in financial risk would be reflected in opening retained earnings. However, applying the existing requirements in IFRS 17, an entity is only permitted to apply the fair value approach if it is impracticable to apply IFRS 17 retrospectively.
- BC132 In the Board's view, applying IFRS 17 retrospectively provides the most useful information about insurance contracts both on transition to IFRS 17, and in future reporting periods. However, the Board concluded that the loss of information would be acceptable if entities with risk mitigation activities were permitted to apply the fair value approach instead of retrospective application. The Board noted that those entities are unable to apply a full retrospective approach because paragraph C3(b) of IFRS 17 prohibits them from applying paragraph B115 of IFRS 17. Furthermore, the Board views the fair value approach as also providing useful information. However, the Board decided to limit the groups of insurance contracts to which this proposed amendment could apply, because it is intended to address only contracts for which stakeholders' concerns relating to risk mitigation apply.