IFRS

STAFF PAPER

March 2019

IASB® meeting

Project	**Amendments to IFRS 17 *Insurance Contracts***
Paper topic	Implications for disclosure and transition requirements

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Purpose

1. This paper provides an overview of the implications for disclosure and transition requirements of the tentative decisions of the International Accounting Standards Board (Board) to amend IFRS 17 *Insurance Contracts* up to the February 2019 Board meeting. The implications for disclosure and transition requirements of any further possible amendments to IFRS 17 recommended by the staff and discussed in the agenda papers for the March 2019 Board meeting are discussed in those papers when relevant.

2. This paper should be read in conjunction with:

   (a) Agenda Paper 2E—*Transition requirements—Risk mitigation option*, which discusses the application of the risk mitigation option at transition.

   (b) Agenda Paper 2F—*Transition requirements—Loans that transfer significant insurance risk*, which discusses possible amendments to the transition requirements in IFRS 17 that would apply to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract if an entity chooses to apply IFRS 9 *Financial Instruments* to those contracts it issues when IFRS 17 is effective.

(c) Agenda Paper 2G—*Amendments to disclosure requirements resulting from the Board's tentative decisions to date,* which discusses possible amendments to the disclosure requirements for the Board's tentative decisions to amend IFRS 17 for the following topics:

   (i) the contractual service margin recognised in profit or loss determined by considering insurance coverage and investment-related services or investment return services; and

   (ii) insurance acquisition cash flows for renewals outside of the contract boundary.

Summary of staff recommendations

3. The staff recommend the Board amend IFRS 17 as discussed in Agenda Papers 2E, 2F and 2G and retain all other disclosure and transition requirements in IFRS 17.

Structure of the paper

4. This paper is structured in two parts:

   (a) Part 1—Amendments the Board has tentatively decided to propose in response to the concerns and implementation challenges identified by stakeholders during their implementation processes; and

   (b) Part 2—Minor amendments that the Board has tentatively decided to propose at its June 2018 meeting as part of the Board's annual improvements to IFRS Standards.[1]

5. The staff propose to discuss the topics in this paper with the Board on an exception basis—ie the staff will ask only a general question as to whether the Board agrees with the staff recommendations. The staff would discuss a topic only if requested to

[1] The annual improvement on coverage units for insurance contracts with direct participation features that the Board tentatively decided to propose at its June 2018 meeting is included in the table in Part 1 of this paper in the light of the similar implications for disclosure and transition requirements with the amendment on coverage units for insurance contracts without direct participation features that the Board tentatively decided to propose at its January 2019 meeting.

do so by a Board member. The staff ask for advance notification from Board members if they intend to discuss any topics to assist in meeting planning.

Staff analysis and recommendation

Part 1—Amendments the Board has tentatively decided to propose in response to the concerns and implementation challenges identified by stakeholders during their implementation processes

6. The following table includes staff analysis and recommendation for each of the amendments the Board has tentatively decided to propose in response to the concerns and implementation challenges identified by stakeholders during their implementation processes.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
1—Scope of IFRS 17 (February 2019)	Amendment of the scope of IFRS 17 and IFRS 9 for insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract to enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9.	The staff recommend no action, other than as discussed in Agenda Paper 2F about disclosures at transition. IAS 1 *Presentation of Financial Statements* requires an entity to disclose the accounting policies used in measuring insurance contracts. Applying IAS 1, an entity is expected to disclose whether it elects to apply IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract. IFRS 17 was developed with the objective that entities provide relevant information in a way that faithfully represents the features of all types of insurance contracts. Therefore, the staff think that the disclosure requirements in IFRS 17 are sufficient for insurance contracts that provide insurance coverage only for the	Refer to staff analysis and recommendation in Agenda Paper 2F.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
		settlement of the policyholder's obligation created by the contract. IFRS 9 was developed for the accounting for financial instruments with complex features and IFRS 7 *Financial instruments: Disclosures* requires an entity to disclose information about those complex features. Although IFRS 7 does not include any specific requirement to provide information about the insurance risk to which an entity is exposed, the staff think that the requirements in IFRS 7 are adequate to provide information about the features of insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract. IFRS 9 already applies to some insurance contracts (ie financial guarantee contracts) and the qualitative and quantitative disclosures for credit risk required by IFRS 7 apply to insurance contracts accounted for applying	

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
		IFRS 9.[2] The staff think that those disclosures are sufficient for insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract because those contracts mainly expose the entity to credit risk.	
2—Insurance acquisition cash flows for renewals outside the contract boundary (January 2019)	Allocation of part of the insurance acquisition cash flows to expected contract renewals.	Refer to staff analysis and recommendation in Agenda Paper 2G.	The staff recommend no action. An entity would treat insurance acquisition cash flows for renewals outside of the contract boundary in a similar way as other insurance acquisition cash flows relating to a group of issued insurance contracts before the group is recognised (see paragraph 27 of IFRS 17).

[2] Appendix A of IFRS 7 defines credit risk as 'the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation'.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
3—Contractual service margin: coverage units in the general model (January 2019)	Allocation of the contractual service margin of some general model contracts based on coverage units determined considering both insurance coverage and any investment return service.	Refer to staff analysis and recommendation in Agenda Paper 2G.	The staff recommend no action. Paragraph C15 of IFRS 17 includes specified modifications that an entity can use to determine the contractual service margin at transition for general model contracts, without specifying how to determine coverage units. Therefore, the staff have not identified any implication for the transition requirements of the Board's tentative decision about determination of coverage units in the general model.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
4—Contractual service margin: coverage units in the variable fee approach (June 2018)	Clarification that the definition of the coverage period for insurance contracts with direct participation features includes periods in which the entity provides investment-related services.	Refer to staff analysis and recommendation in Agenda Paper 2G.	The staff recommend no action. Paragraph C17 of IFRS 17 includes specified modifications that an entity can use to determine the contractual service margin at transition for variable fee approach contracts, without specifying how to determine coverage units. Therefore, the staff have not identified any implication for the transition requirements of the Board's tentative decision about determination of coverage units in the variable fee approach.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
5—Risk mitigation exception (January 2019)	Application of the risk mitigation exception in the variable fee approach when an entity uses reinsurance contracts held to mitigate financial risks.	The staff recommend no action. The amendment expands the scope of the existing risk mitigation exception in paragraph B115 of IFRS 17. An entity using reinsurance contracts held to mitigate financial risks will provide the disclosures required by IFRS 17 when entities apply the risk mitigation exception. Paragraph 95 of IFRS 17 requires an entity to consider appropriate aggregation or disaggregation of the information disclosed. Hence separate disclosure of the effect of applying the risk mitigation exception for the use of derivatives and for the use of reinsurance contracts held will be disclosed if considered useful.	The staff recommend no action because of this amendment. Refer to staff analysis and recommendation in Agenda Paper 2E about the application of the risk mitigation option at transition.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
6—Reinsurance contracts held—onerous underlying insurance contracts (January 2019)	If an insurer recognises losses on underlying insurance contracts at initial recognition, it would also recognise a gain at the same time on proportionate reinsurance contracts held.	The staff recommend no action. The gain recognised on the reinsurance contract held is similar to the loss component on the underlying contracts. IFRS 17 requires the disclosure requirements to be adapted to reflect the features of reinsurance contracts held. The staff therefore do not think any additional disclosure requirements are necessary.	The staff recommend no action. The amendment expands the scope of the exception in paragraph 66(c)(ii) of IFRS 17. When drafting the amendments to IFRS 17, the staff will consider whether, for reinsurance contracts held, it is necessary to adapt the wording of the specified modifications that an entity applying the modified retrospective approach can use.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
7—Presentation of insurance contracts in the statement of financial position (December 2018)	Presentation of insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.	The staff expect the Exposure Draft to propose a consequential amendment to paragraph 99 of IFRS 17 so that when an entity discloses the reconciliations required by paragraphs 100–105 of IFRS 17, the entity presents, for each reconciliation, the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for portfolios (rather than groups) of contracts that are assets and a total for portfolios (rather than groups) of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78 of IFRS 17.[3]	The staff recommend no action. The amendment does not affect the measurement of insurance contracts and therefore the staff have not identified any implication for the transition requirements.

[3] The staff also expect the Exposure Draft to propose a consequential amendment to paragraph 79 of IFRS 17 about the presentation of portfolios (rather than groups) of insurance contracts in the statement of financial position.

Topic	**Amendment tentatively decided by the Board**	**Disclosures—staff analysis and recommendation**	**Transition—staff analysis and recommendation**
8—Date of initial application of IFRS 17 (November 2018)	One-year deferral of the mandatory effective date of IFRS 17, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.	The staff recommend no action. The staff note that paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* detail the disclosure requirements for the expected impact of new IFRS Standards which have not yet been adopted. An entity that does not early apply IFRS 17 would be required to provide those disclosures for one additional year.	The staff recommend no action. An entity that does not early apply IFRS 17 would apply the transition requirements one year later.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
9—Temporary exemption from applying IFRS 9 (November 2018)	Amendment of the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9, so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.	The staff recommend no action. The staff note that entities that continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* are already required by IFRS 4 to make additional disclosures to enable users of financial statements to make comparisons with entities applying IFRS 9. An entity that defers the application of IFRS 9 by one additional year would provide those disclosures for that additional year.	The staff recommend no action. An entity that defers the application of IFRS 9 until IFRS 17 is effective would apply the transition requirements in IFRS 9 and in IFRS 17 at the same time.
10—Transition (February 2019)	Additional specified modification to the transition approaches for the classification of a liability that relates to the settlement of claims incurred before an insurance contract was acquired.	The staff recommend no action. 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.	Not applicable.

Part 2—Minor amendments that the Board has tentatively decided to propose as part of the Board's annual improvements to IFRS Standards

7. Annual improvements to IFRS Standards are limited to changes that either clarify the wording in a Standard or correct relatively minor unintended consequences. The staff have not identified any implications for disclosure and transition requirements of the tentative decisions of the Board at its June 2018 meeting. An extract of the June 2018 IASB *Update* summarising the Board’s tentative decisions is reported below:

   The Board tentatively decided to propose the following minor amendments to IFRS 17 (and other Standards amended by IFRS 17):

   (a) to amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued.

   (b) to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group.

   (c) to remove requirements that could result in double-counting of the risk-adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses.

   (d) to correct the terminology in the sensitivity analysis disclosures.

   (e) to exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17.

   (f) to amend IFRS 3 *Business Combinations* so that the amendment made by IFRS 17 on the classification of insurance contracts applies prospectively.[4]

   (g) to amend IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments* and IAS 32 *Financial Instruments: Presentation* to achieve the intended scopes of these financial instruments Standards and the scope of IFRS 17, particularly with respect to insurance contracts held.

[4] This amendment relates to transition requirements.

(h) to add an explanation that, in Example 9 of the Illustrative Examples on IFRS 17, the time value of the guarantee changes over time.

Question for Board members
Except for the topics discussed in Agenda Paper 2E, 2F and 2G, which are subject to separate questions for Board members, do you agree that the Board should not amend the transition and disclosures requirements in IFRS 17?