

Emerging Economies Group Meeting
May 2020
Agenda paper 2

IFRS 17

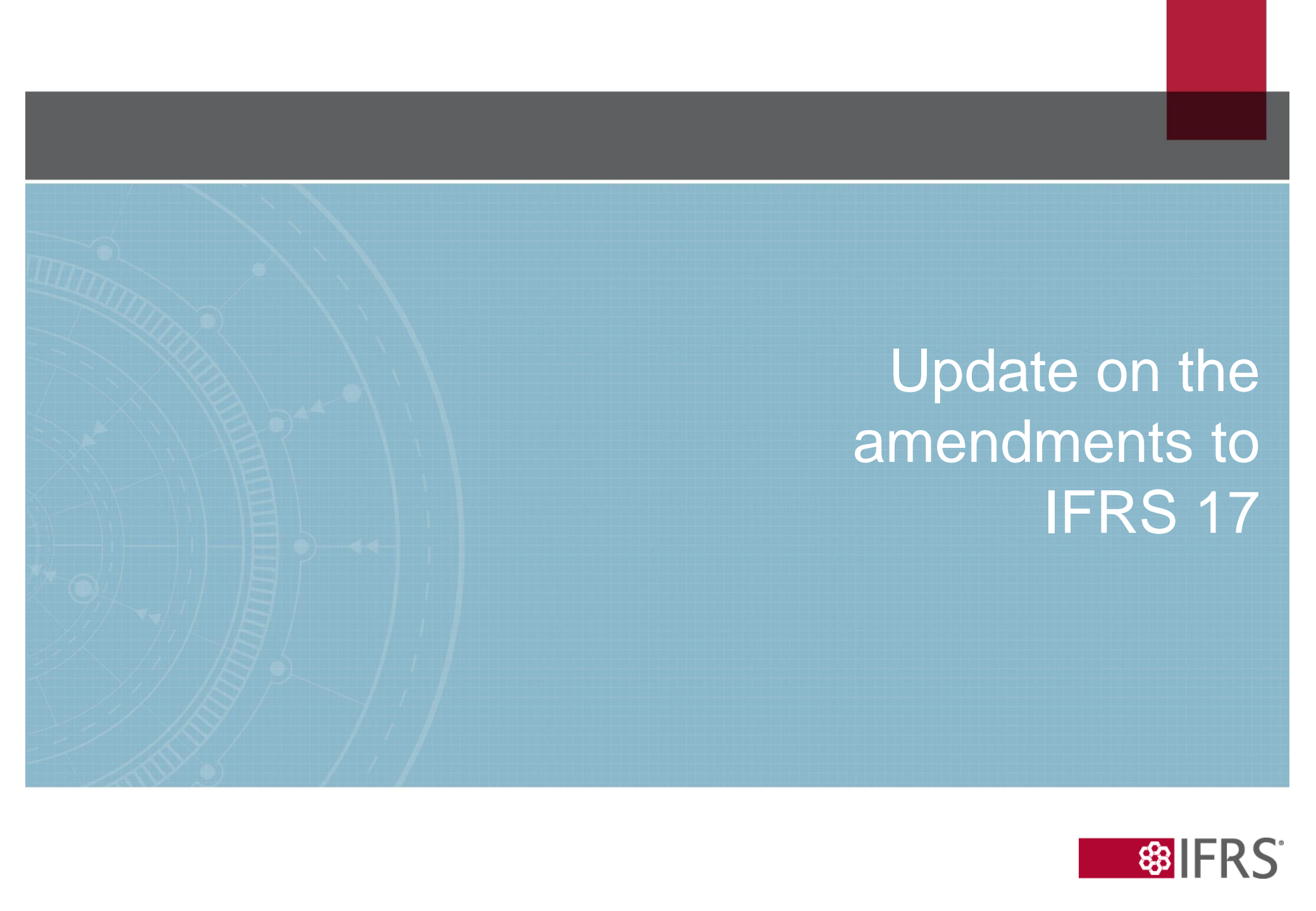
Insurance Contracts

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Objective of this session

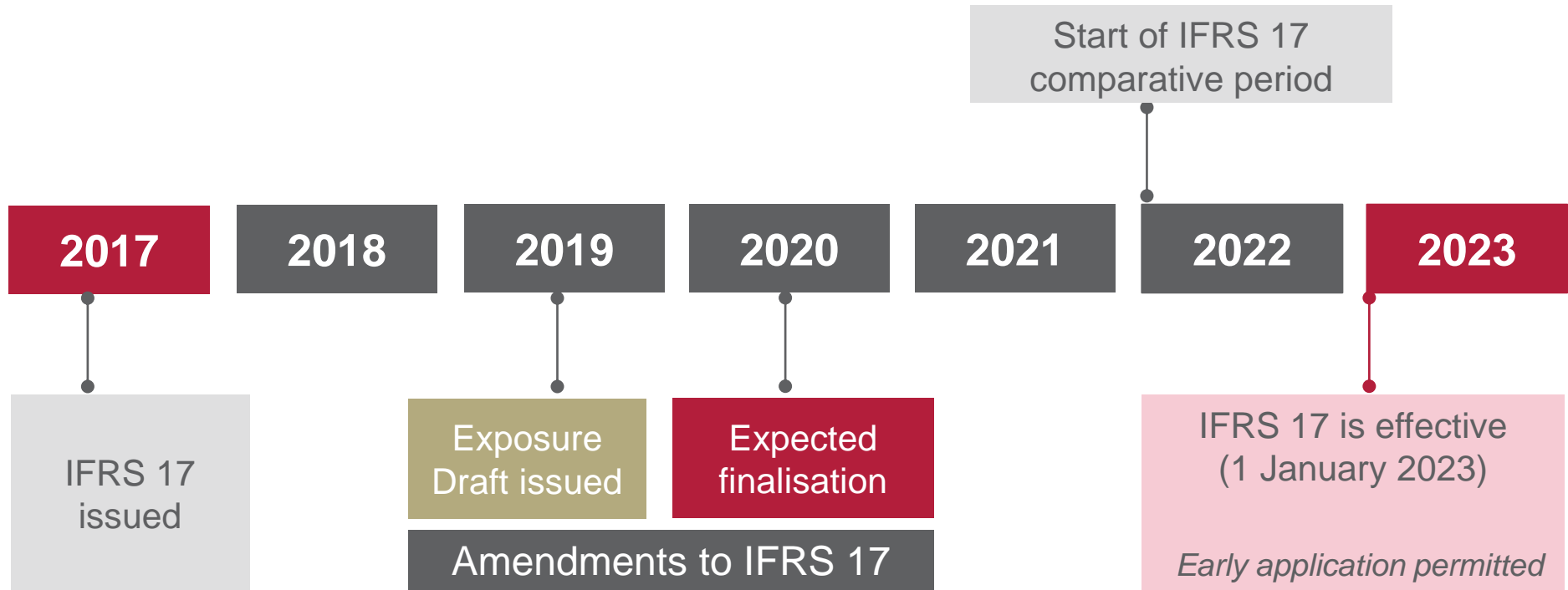
- IASB will provide EEG members with an **update** on the **amendments to IFRS 17**, which are expected to be issued around the end of June 2020

- IASB and EEG members will discuss the status of IFRS 17 **implementation activities** around the world and IASB support to implementation



Update on the amendments to IFRS 17

IFRS 17 timeline



IASB support for IFRS 17 implementation

Why is IASB amending IFRS 17?

5



To aid companies implementing the new requirements

The targeted amendments

address many of the concerns and challenges raised by companies implementing IFRS 17

reduce IFRS 17 application costs for companies and make it easier for companies to explain the results of applying IFRS 17

Overall feedback on the Exposure Draft

6

Overall support for considering concerns and challenges raised since IFRS 17 was issued and proposing targeted amendments to IFRS 17



70 meetings in
14 jurisdictions



123
comment letters

Some respondents think the Board **should**

- **extend the scope** of some of the proposed amendments
- **reconsider some of the suggested amendments** the Board considered when developing the Exposure Draft and decided not to propose
- **consider new implementation challenges** specific to transactions / jurisdictions

November 2019—Categories of topics

1	Proposed amendments to confirm	<ul style="list-style-type: none">• Support for Board’s proposal• Concerns and suggestions already considered when developing the Exposure Draft• The staff did not identify points the Board has not considered previously
2	Topics with feedback from respondents to consider further	<ul style="list-style-type: none">• Concerns and suggestions about the Board’s proposal• The staff identified points for the Board to consider
3	Topics with feedback from respondents not to consider further	<ul style="list-style-type: none">• Support for Board’s decision not to propose changes• Concerns and suggestions already considered when developing the Exposure Draft• The staff did not identify points the Board has not considered previously

November 2019—Redeliberation plan

Scope exclusion for loans 1	Coverage units for variable fee approach contracts 2	Balance sheet presentation: portfolio instead of group level 3	Risk mitigation option: reinsurance contracts held 4	Transition reliefs for contracts acquired 5
Transition reliefs for the risk mitigation option 6	Insurance acquisition cash flows 7	Reinsurance contracts held: recovery of losses 8	Scope exclusion for credit cards 9	Coverage units for general model contracts, disclosures, terminology 10
Proposed minor amendments 11	Effective date of IFRS 17 12	IFRS 9 temporary exemption 13	Interim financial statements 14	Risk mitigation option: use of non-derivatives 15
Additional specific transition modifications and reliefs 16	Other topics raised by respondents 17	Risk mitigation option: no retrospective application at transition 18	Contracts acquired in their settlement period 19	Annual cohorts for some specific insurance contracts 20

Topics 1-6: proposed amendments to confirm

Other topics: topics with feedback from respondents to consider further

Outcome of discussions

December 2019 – March 2020

6

Six amendments to IFRS 17 finalised as proposed in the Exposure Draft

7

Seven proposed amendments finalised with some changes

(acquisition cash flows, reinsurance contracts held, credit cards, coverage units for general model contracts, minor amendments, effective date of IFRS 17 and temporary exemption from IFRS 9)

4

Four additional amendments

(choice for interim financial statements, risk mitigation option using non-derivatives, additional transition reliefs, policyholder's tax)

3

Three topics with requirements in IFRS 17 unchanged

(retrospective application of risk mitigation option, contracts acquired in their settlement period, annual cohorts for some specific insurance contracts)

Amendments finalised as proposed (1/2)

10



Scope exclusion for some loans

1

- Permitted to apply **either 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



Coverage units for VFA contracts

2

- For insurance contracts with direct participation features, recognise the contractual service margin in profit or loss considering both **insurance coverage** and **investment-related service**



Simplified balance sheet presentation

3

- Insurance contract assets and insurance contract liabilities presented in the balance sheet using **portfolios** of insurance contracts **rather than groups** of insurance contracts



Extension of risk mitigation option

4

- For insurance contracts with direct participation features, permitted to use the risk mitigation option also when the company uses **reinsurance contracts held** to mitigate financial risks



Transition reliefs for contracts acquired

5

- At transition account for liabilities for claims settlement acquired in a business combination or portfolio transfer as a **'liability for incurred claims'** if the company does not have reasonable and supportable information to apply a retrospective approach



Transition reliefs for the risk mitigation option

6

- A company would be permitted to
 - apply the risk mitigation option **from the date of transition** to IFRS 17 if the company designates the risk mitigation relationships to which it will apply the option no later than that date
 - use the **fair value approach** to transition, if it chooses to apply the risk mitigation option prospectively from the transition date, has mitigated financial risk before the date of transition and can apply IFRS 17 retrospectively

7 Insurance acquisition cash flows



Proposed amendment

- **Allocation** of part of the insurance acquisition cash flows to expected contract renewals
- Recognition of those cash flows as an **asset** until the company recognises renewals
- Assessment of the **recoverability** of the asset at each reporting date
- **Disclosures**
 - reconciliation of asset changes
 - expected timing of recognition of renewals

Supporting arguments

- ✓ General agreement that the proposed amendment would help entities **explain their results**

Findings and suggestions

- ✗ Concerns about **complexity** and increase in **ongoing costs**
- ✗ Request for **more guidance**
- ✗ Request for **transition reliefs**

IASB decision

- Finalise amendment **as proposed** in the Exposure Draft
- Requirements for **transition** and for **contracts acquired**

8 Reinsurance contracts held: recovery of losses

13



Proposed amendment

- Recognition of a **gain** on reinsurance contracts held to the extent:
 - a company recognises losses on onerous insurance contracts at **initial recognition**
 - the reinsurance contracts
 - cover the losses of the underlying contracts on a **proportionate** basis (ie a fixed percentage of claims is recovered)
 - are entered into before or at the same time the onerous underlying contracts are issued

Supporting arguments

- ✓ Support for the **direction** of the amendment to **reduce accounting mismatches**

Findings and suggestions

- ✗ Request to **extend the population** of reinsurance contracts to which the amendment would apply
- ✗ Concerns that the amendment might be **open to abuse**

IASB decision

- Extend amendment to **all reinsurance contracts held**

9 Scope exclusion for credit cards



Proposed amendment

- Requirement to apply IFRS 9 to **credit cards** that meet the definition of an insurance contract if the company does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer
 - for example, credit cards that provide insurance coverage for free

Supporting arguments

- ✓ General agreement that the scope exclusion would **reduce implementation costs**

Findings and suggestions

- ✗ Request to extend to **other banking products**
- ✗ Concerns that when the insurance is contractual credit cards **may not meet SPPI**

IASB decision

- Extend exclusion to **similar contracts**
- Separate **contractual insurance** and apply **IFRS 17** to it

10 Coverage units for general model contracts, disclosures, terminology

15



Proposed amendment

- Recognition of the contractual service margin **both** when insurance **coverage** and any **services** relating to investment activities are provided
- **Disclosures**
 - timing of expected recognition in profit or loss of remaining contractual service margin
 - judgement used to determine the profit generated by any service relating to investment activities, in addition to the insurance coverage

Supporting arguments

- ✓ General agreement that **services related to investment activities** need to be considered

Findings and suggestions

- ✗ Criteria for investment-return service **too narrow**
- ✗ Complexity of **multiple service contracts**

IASB decision

- Confirm proposals, but refer to **'investment return'**
- Include **investment activity costs** in fulfilment cash flows even if no investment-return service

11 Proposed minor amendments

16



Proposed amendments

- Minor amendments to the requirements in IFRS 17 to address a number of cases in which the drafting did not achieve the **intended outcome**
- **Editorial corrections** to IFRS 17 that had been identified after IFRS 17 was issued

Supporting arguments

- ✓ **Overall support** for the proposed minor amendments

Findings and suggestions

- ✗ Some concerns and requests for **clarifications** for some minor amendments

IASB decision

- Confirm proposed minor amendments with **some improvements in drafting**

12 Effective date of IFRS 17 and IFRS 9

13 temporary exemption

17



Proposed amendment

- Defer the **effective date** by one year to **1 January 2022**
- Extend the temporary exemption from **IFRS 9** for some insurers by one year to **1 January 2022**

Supporting arguments

- ✓ Overall support for the deferral of the effective date and for the alignment of the first application of **IFRS 17 and IFRS 9**

Findings and suggestions

- ✗ **Globally consistent effective date**

IASB decision

- Defer the effective date by two years to **1 January 2023**
- Extend the temporary exemption to **1 January 2023**

14 Interim financial statements

Exposure Draft

- Consideration of **concerns and challenges** about the prohibition to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 subsequently
- However, **no change proposed** in the Exposure Draft

Feedback

- Significant **implementation/application costs** from:
 - maintaining two sets of accounting estimates
 - changing existing accounting practices from a year-to-date basis to a period-to-period basis

IASB decision

- A company should make an **accounting policy choice** whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 subsequently

15 Risk mitigation option: use of non-derivatives

Exposure Draft

- Consideration of a suggestion that the risk mitigation option should also apply when a company uses **financial instruments other than derivatives**, for example, bonds, to mitigate financial risk
- However, **no change proposed** in the Exposure Draft

Feedback

- **Not clear** why a company is precluded from using the risk mitigation option when using non-derivatives
- **IFRS 9 permits** non-derivatives measured at fair value through profit or loss as **hedging instruments**

IASB decision

- Extend risk mitigation option when the company **mitigates the effect of financial risk** on the fulfilment cash flows that do not vary based on underlying items using **non-derivatives at fair value through profit or loss**

16 Additional specific transition modifications and reliefs

20

Exposure Draft

- **Three proposed specific modifications and reliefs** in response to some challenges raised relating to applying specific aspects of the transition requirements
- Expectation that **estimates at transition** will often be needed

Feedback

- Suggestions to permit the use of **more optionality** and **flexibility** generally when applying the modified retrospective approach
- Suggestions to **add other** specific modifications

IASB decision

- Add **three** new specific transition modifications
 - investment contracts with discretionary participation features
 - reinsurance contracts held (recovery of losses)
 - interim reports

17 Policyholder's tax

Exposure Draft

- **No change proposed** in the Exposure Draft
- A company excludes income tax payments and receipts not paid or received in a fiduciary capacity from the fulfilment cash flows

Feedback

- Some income tax payments and receipts, although not paid or received in a fiduciary capacity, are **costs specifically chargeable** to the policyholder under the terms of the contract. Those costs should be included in the fulfilment cash flows

IASB decision

- Resolve contradiction and amend IFRS 17 to require income tax payments and receipts that **are specifically chargeable** to the policyholder under the terms of the contract to be **included** in the fulfilment cash flows

18 Retrospective application of risk mitigation option

22

Exposure Draft

- Consideration of a suggestion to permit retrospective application
- However, **no change proposed** in the Exposure Draft
- Risk of use of **hindsight** could result in **cherry picking** and **reduced credibility of information**

Feedback

- Some disagreement with **cost-benefit analysis**
- Suggestion to reconsider 'all or nothing' approach and **conditions** for applying that possible approach

IASB decision

- **Retain, unchanged**, the prohibition from applying the option retrospectively
 - previous cost-benefit analysis holds
 - 'all or nothing' unachievable in most cases
 - concern addressed by other amendments

19 Contracts acquired in their settlement period

23

Exposure Draft

- Consideration of **concerns** that applying IFRS 17 would be a **significant change** from existing practice
- However, **no change proposed** in the Exposure Draft
- **Consistent** with treatment of other activities in a business combination

Feedback

- Challenging determination of **insured event**
- Alternative **suggestions** for measurement and presentation
- **Costs** for companies applying only **PAA**

IASB decision

- **Retain, unchanged**, requirements in IFRS 17
 - exception to definition of insured event would be a fundamental change
 - IFRS 17 gives useful information

20 Annual cohorts for some specific insurance contracts

Exposure Draft

- Consideration of concerns and challenges for contracts, including those with **risk sharing**
- However, **no change proposed** in the Exposure Draft
- Information about profitability from different generations is **useful** and justifies the costs

Feedback

- Some think **costs** do not outweigh benefits for contracts with **intergenerational sharing of risks**
- Some think that for those contracts **arbitrary allocations** are needed, resulting in information that is **not useful**

IASB decision

- **Retain, unchanged**, the annual cohort requirement
 - very limited population for which cost-benefit balance is open to question
 - scope of any exemption complex and impossible to define robustly
 - too great a risk of loss of critical information (eg effect of financial guarantees)

Topics not considered further

Separate presentation of premiums receivable and claims payable

Risk mitigation option for general model contracts

Comparative information on initial application

Annual cohorts other than for some specific insurance contracts

Contract boundary of reinsurance contracts held

Subjectivity in determining discount rates and risk adjustment

Risk adjustment in a group of entities

Discount rate used to adjust the CSM

OCI option

Classification of contracts acquired in business combinations

Scope of the VFA—reinsurance contracts

Mutual entities

General optionality and flexibility in modified retrospective approach

Reliefs in full retrospective approach



Implementation activities

Implementation progress to date

27

Implementation stage	<ul style="list-style-type: none">• Many larger companies started implementation when IFRS 17 was issued• Smaller companies started implementation later• Larger companies typically have developed internal system solutions• Smaller companies typically rely on external system solutions
Implementation challenges	<ul style="list-style-type: none">• IASB provided implementation support since 2017 and is in the process of finalising some targeted amendments to ease implementation, including deferral of the effective date
Effective date	<ul style="list-style-type: none">• IASB has decided on new effective date for IFRS 17 of 1 January 2023
Worldwide adoption	<ul style="list-style-type: none">• Many jurisdictions have already endorsed IFRS 17• Endorsement is in progress in other jurisdictions

IASB support for IFRS 17 implementation

28

A comprehensive programme of stakeholder engagement and implementation support



Webinars



Articles and
other
materials



Conferences



Transition Resource
Group (TRG)

4
meetings

127
implementation
questions

Informal technical
discussion with

- regulators
- standard-setters
- preparers
- auditors



Over 300 meetings with
stakeholders

Education for

- investors
- regulators
- standard-setters
- preparers



Over 100 meetings
with investors

Targeted amendments to

- ease implementation
- reduce costs
- respond to concerns and challenges



123 comment letters
70 meetings

June 2020



Issuance of the final amendments to IFRS 17

Going forward



Implementation support

- No further TRG meetings scheduled
- TRG has not been disbanded and is available for consultation by IASB if needed
- Stakeholders can make IASB aware of implementation questions via email to insurancecontracts@ifrs.org
- Educational material has been developed in the context of IFRS 17 as originally issued
- Stakeholders should consider information in educational material in the context of the forthcoming amendments

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