IFRS

STAFF PAPER

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IASB® meeting

Project	**Amendments to IFRS 17**
Paper topic	Sweep issues—addendum

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Purpose of the paper

1. Agenda Paper 2 *Sweep Issues* sets out staff analysis and questions for the International Accounting Standards Board (Board) on sweep issues identified during the balloting process for finalising the amendments to IFRS 17 *Insurance Contracts*. This paper sets out staff analysis and questions on:
   (a) an issue identified after Agenda Paper 2 was posted; and
   (b) an extension of an amendment discussed in Agenda Paper 2.

Summary of staff recommendations

2. The staff recommend the Board amend IFRS 17 to:
   (a) amend the wording of paragraph B96(c) of IFRS 17 so it more clearly reflects the Board's intention; and
   (b) extend the amendment discussed in paragraphs 7–11 of Agenda Paper 2 to cover not just assets or liabilities previously recognised for cash flows related to that group *paid or received* before the group is recognised, but also for such assets or liabilities recognised applying other IFRS Standards *before the cash flows are paid or received* and before the group is recognised.

Structure of the paper

3. This paper discusses two sweep issues that were identified after Agenda Paper 2 was posted:

   (a) the wording of paragraph B96(c) of IFRS 17. Paragraph B96(c) of IFRS 17 sets out requirements for the effects of the unexpected payment or non-payment of investment components in a period (see paragraphs 5–8 of this paper); and

   (b) assets and liabilities for cash flows related to a group of contracts recognised because of the application of another IFRS Standard before the group of contracts is recognised and before the cash flows are paid or received (see paragraphs 9–13 of this paper).

4. Appendix A to this paper sets out recommended drafting for the staff recommendations in this paper.

Paragraph B96(c) of IFRS 17

5. Paragraph B96(c) of IFRS 17 sets out requirements for the effects of investment components unexpectedly paid or unexpectedly not paid. For example, it requires an entity to determine whether an investment component that was paid in a period was expected to be paid in that period. If it was not expected to be paid, there will be two effects:

   (a) the unexpected payment in the period; and

   (b) a reduction in the expected cash outflows in future periods.[1]

6. Paragraph B96(b) of IFRS 17 requires the effect described in paragraph 5(b) of this paper to adjust the contractual service margin. Paragraph BC235 of the Basis for Conclusions on IFRS 17 explains that the Board did not think it would provide useful information for a gain or loss to be recognised for the effect described in paragraph 5(a) of this paper and a corresponding decrease or increase in the contractual service

[1] The alternative situation would be for an investment component that was expected to be paid in the period, not to be paid. In that case, the two effects would be (a) the unexpected lack of a payment in the period and (b) an increase in the expected cash outflows in future periods.

margin for the effect described in paragraph 5(b) of this paper. Hence, paragraph B96(c) of IFRS 17 requires the effect described in paragraph 5(a) of this paper also to adjust the contractual service margin.

7. Between the beginning of the period and the unexpected payment or non-payment of the investment component, the investment component will be affected by the time value of money and may be affected by financial risk and changes in the time value of money and financial risk. Those effects might be as expected at the beginning of the period, or might differ from that expected at the beginning of the period. In either case, the effects should be recognised as insurance finance income or expenses, and should not adjust the contractual service margin. The amendment proposed in the 2019 Exposure Draft *Amendments to IFRS 17* was intended to clarify that treatment of these effects.

8. However, feedback has indicated that the wording in the Exposure Draft is confusing. The staff therefore recommend a change to the wording so that the intention is clear. The recommended wording is set out in Appendix A to this paper.

Question 1 for Board members
Do you agree that the Board should amend paragraph B96(c) of IFRS 17 as set out in Appendix A to this paper to clarify its intent?

Assets and liabilities for cash flows related to a group of insurance contracts recognised before the group is recognised

9. Agenda Paper 2 includes a staff recommendation to require an entity to include in the initial measurement of the contractual service margin of a group of insurance contracts the effect of the derecognition of any asset or liability previously recognised for cash flows related to that group *paid or received before* the group is recognised.

10. Feedback on that recommendation is that it should apply not just to assets or liabilities previously recognised because the cash flows were paid or received before the group of insurance contracts is recognised. Rather, it should also apply to assets and liabilities previously recognised because of the requirements of another IFRS Standard even if no cash flows have occurred.

11. An example of such a situation is where an entity has been invoiced for received services from a broker relating to a group of contracts not yet recognised, but has not yet paid the invoice. IFRS 9 *Financial Instruments* requires recognition of the liability for the payments due to the broker. The cash flow when the liability is settled will meet the definition of an insurance acquisition cash flow. However, as currently drafted IFRS 17 would not allow recognition of an asset for insurance acquisition cash flows in this circumstance.

12. The staff agree that the future cash flows in this example should be included in an asset for insurance acquisition cash flows before the recognition of the group of contracts to which the cash flows relate, and subsequently in the fulfilment cash flows of the recognised group. The staff therefore recommend the requirements in IFRS 17 for the recognition of an asset for insurance acquisition cash flows be amended to achieve this outcome. The recommended wording is set out in Appendix A to this paper.

13. No amendment is needed in relation to assets and liabilities for cash flows related to a group of insurance contracts other than insurance acquisition cash flows because IFRS 17 does not include specific requirements for such assets and liabilities that would restrict them from arising only from cash flows paid or received.

Question 2 for Board members
Do you agree that the Board should amend the requirements in IFRS 17 for the recognition of an asset for insurance acquisition cash flows to include future cash flows for which a liability has been recognised applying another IFRS Standard before the related group of insurance contracts is recognised?

Appendix A—recommended drafting

A1. This appendix sets out recommended drafting relating to the staff recommendations in this paper. Additions are underlined and deletions are struck through. Text that is not underlined or struck through is the text from IFRS 17 as originally issued in May 2017, or, if applicable, the text as proposed in the Exposure Draft.

Paragraph B96(c) of IFRS 17 (paragraphs 5–8 of this paper)

B96 For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

(a) …..

(b) changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph B97(a), measured at the discount rates specified in paragraph B72(c).~~;~~

(c) differences between any investment component or loan to a policyholder expected to become payable or repayable in the period and the actual investment component or loan to a policyholder that becomes payable or repayable in the period~~, except those described in paragraph B97(a), measured at the discount rates specified in paragraph B72(c)~~. Those differences are determined by comparing (i) the actual investment component or loan to a policyholder that becomes payable or repayable in a period with (ii) the payment or repayment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment or repayment before it becomes payable or repayable.

Asset for insurance acquisition cash flows (paragraphs 9–13 of this paper)

28B An entity shall recognise:

(a) insurance acquisition cash flows it expects to pay after the related group of insurance contracts is recognised as part of the fulfilment cash flows of the group of insurance contracts applying paragraph 32(a).

(b) insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the related group of insurance contracts is recognised as an asset. An entity shall recognise such an asset for each existing or future group of insurance contracts to which insurance acquisition cash flows are allocated.

(c) insurance acquisition cash flows it pays at the date of initial recognition of the group of insurance contracts as part of the contractual service margin of the group of insurance contracts applying paragraph 38(c).