



# STAFF PAPER

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## IFRS® Interpretations Committee meeting

<b>Project</b>	<b>Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)</b>	
<b>Paper topic</b>	Comments on tentative agenda decision	
<b>CONTACT(S)</b>	Dennis Deysel	<a href="mailto:ddeysel@ifrs.org">ddeysel@ifrs.org</a>
	Anne McGeachin	<a href="mailto:amcgeachin@ifrs.org">amcgeachin@ifrs.org</a>

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## Introduction

1. In March 2022, the IFRS Interpretations Committee (Committee) published a [tentative agenda decision](#) in response to a submission about the recognition of profit applying IFRS 17 *Insurance Contracts* to a group of annuity contracts.
2. The objectives of this paper are to:
  - (a) analyse comments on the tentative agenda decision; and
  - (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

## Structure of the paper

3. This paper includes:
  - (a) background;
  - (b) comment letter summary;
  - (c) detailed feedback and staff analysis; and
  - (d) staff recommendation.
4. Appendix A to this paper sets out the proposed wording of the final agenda decision.

## Background

5. The fact pattern involves a group of annuity contracts under which the policyholder of each contract:
  - (a) pays the premium upfront and has no right to cancel the contract or seek a refund;
  - (b) receives a periodic payment from the start of the annuity period for as long as the policyholder survives; and
  - (c) receives no other services under the contract.
  
6. The submission asked about the application of paragraph B119 of IFRS 17. Paragraph B119 states:
 

An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period...The amount is determined by:

  - (a) identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.
  - (b) allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the insurance contract services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.
  - (c) recognising in profit or loss the amount allocated to coverage units provided in the period.
  
7. The submission set out two methods of determining the quantity of the benefits of insurance coverage provided under the group of annuity contracts and asked whether

both methods would meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided:

- (a) Method 1—a method based on the amount of the annuity payment the policyholder is able to validly claim.
- (b) Method 2—a method based on the present value of expected future annuity payments.

***The Committee’s tentative decisions***

- 8. IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in paragraph B119 of reflecting the insurance contract services provided in each period. Different methods may achieve that objective depending on the facts and circumstances.
- 9. In determining the quantity of the benefits of insurance coverage provided under a contract, an entity considers (a) the periods in which it has an obligation to pay a valid claim if an insured event occurs; and (b) the amount of the valid claim if the claim is made.
- 10. The Committee observed that, under the contractual terms of the annuity contracts described in the submission, an entity is obliged to pay a periodic amount from the start of the annuity period for each year of the policyholder’s survival (the insured event). Survival in one year does not oblige the entity to pay amounts that compensate the policyholder for surviving in future years; claim amounts payable to the policyholder in future years are contingent on the policyholder surviving in those future years.
- 11. The Committee concluded that, in determining the quantity of the benefits of insurance coverage provided under each annuity contract, a method based on:
  - (a) the amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle in paragraph B119 of IFRS 17 by:
    - (i) assigning a quantity of the benefits only to periods for which the entity has an obligation to investigate and pay valid claims for the insured event; and

- (ii) aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim in each period.
  - (b) the present value of expected future annuity payments (Method 2) does not meet the principle in paragraph B119 of IFRS 17 because it would:
    - (i) assign a quantity of the benefits to periods for which the entity has no obligation to investigate and pay valid claims for the insured event; and
    - (ii) misrepresent the quantity of the benefits provided in a period by considering claim amounts the policyholder can access and benefit from only in future periods.
12. The Committee also noted that:
- (a) the entity would apply other requirements in IFRS 17 to recognise in profit or loss—separately from the contractual service margin—the risk adjustment for non-financial risk. The Committee did not discuss those other requirements.
  - (b) an entity could provide other insurance contract services to policyholders in addition to insurance coverage for survival. The conclusion in the tentative agenda decision applies to insurance coverage for survival, regardless of other services provided. If the contracts provide other insurance contract services, the entity would also need to consider the pattern of transfer of those services to the policyholder.
13. Based on its analysis, the Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contracts as described in the submission to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan.

## Comment letter summary

14. We received 28 comment letters by the comment letter deadline. All comment letters received are available on our website.<sup>1</sup> This agenda paper includes an analysis of only the comment letters received by the comment deadline, which are reproduced in Agenda Paper 7A.
15. Respondents comment on the Committee’s technical analysis and conclusions in the tentative agenda decision as well as on the possible consequences of publishing an agenda decision less than a year before IFRS 17 is in effect.
16. Further details about the matters raised by respondents, together with our analysis, are presented below. We have separately analysed comments on:
  - (a) the Committee’s technical analysis and conclusions (paragraphs 17–50); and
  - (b) the consequences of finalising the agenda decision (paragraphs 51–83).

## Technical analysis and conclusions

17. Almost all respondents comment, to different extents, on the Committee’s technical analysis and conclusions in the tentative agenda decision.
18. Some respondents support the technical analysis and conclusions in the tentative agenda decision. For example, the European Securities and Markets Authority (ESMA) says:

ESMA agrees with the...tentative agenda decision that in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract...(Method 1) meets the principle in paragraph B119 of IFRS 17..., while ...(Method 2) does not meet this principle. We consider that this decision would provide the necessary clarity and improve the consistent application of principles and requirements of IFRS 17.

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<sup>1</sup> At the date of posting this agenda paper, we had received one late comment letter from The Canadian Institute of Actuaries.

19. Many respondents disagree with aspects of the Committee’s technical analysis and conclusions in the tentative agenda decision. Some of these respondents say aspects of the explanatory material go beyond the requirements in IFRS 17 and suggest that standard-setting would be required to reach the conclusions in the tentative agenda decision.
20. We have analysed respondents’ comments on the Committee’s technical analysis in the following sections:
- (a) *what* are the benefits provided under an annuity contract (as determined by paragraph B119(a)) (see paragraphs 21–27);
  - (b) *when* is insurance coverage provided (that is, what benefits are provided in each period, as determined by paragraph B119(b)) (see paragraphs 28–45); and
  - (c) other comments (see paragraph 46).

***What are the benefits provided under an annuity contract (as determined by paragraph B119(a))?***

21. Paragraph B119(a) requires an entity to identify the coverage units in a group of insurance contracts. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of benefits provided under a contract and its expected coverage period.

***Respondents’ comments***

22. Some respondents say Method 1 fails to reflect the full benefit of the insurance coverage provided. In particular, some respondents say the benefits the policyholder receives under the insurance coverage can be viewed as protection against the uncertainty of how long the policyholder will survive. For example,

- (a) the Association of British Insurers (ABI) explains:

The Insurer must satisfy itself that the policyholder understands the terms of the contract and the service they are buying, notably protection **against the risk of longevity** before they are permitted to sell the product. This crucial point appears not to have been properly considered in the staff analysis provided by

IFRIC which focusses heavily on the insurance risk of simply survival. (emphasis added)

(b) Aviva adds:

...the only reason a policyholder chooses an annuity contract, rather than an alternative product which provides a regular income, is for **the protection against the risk that the policyholder lives longer** than expected. (emphasis added)

### *Staff analysis*

23. We agree that the purpose of a life-contingent annuity contract, and a distinguishing feature of it, is to guarantee an agreed amount of income from an agreed date for the rest of the policyholder's life. Life-contingent annuity contracts transfer to the entity the risk of the policyholder living longer than expected (longevity risk). Paragraph B26(d) of IFRS 17 describes life-contingent annuity contracts in this manner: 'life-contingent annuities...[are] contracts that provide compensation for the uncertain future event—the survival of the annuitant...—to provide the annuitant...with a level of income that would otherwise be adversely affected by his or her survival'.
24. We also agree that the price of a contract and the value of the contract to the policyholder will include an amount for the transfer of insurance risk.
25. However, IFRS 17 requires an entity to account for the effect and extent of the insurance risk transferred from the policyholder to the entity separately from other components of the insurance contract—in the recognition and measurement of the *risk adjustment for non-financial risk*<sup>2</sup>.
26. In contrast, for the purpose of recognising *the contractual service margin* in profit or loss, IFRS 17 requires identification of the quantity of the benefits provided under a contract, reflecting the insurance contract services provided in a period. Paragraph BC279(a) of the Basis for Conclusions on IFRS 17 explains that the IASB

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<sup>2</sup> IFRS 17 defines (a) the *risk adjustment for non-financial risk* as 'the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the entity fulfils insurance contracts'; and (b) *insurance risk* as 'risk, other than financial risk, transferred from the holder of a contract to the issuer'. The risk adjustment is recognised in profit or loss as the entity is released from risk.

decided that an allocation pattern for the contractual service margin based on the release of the risk adjustment for non-financial risk is not relevant in determining the satisfaction of the performance obligation (insurance coverage) of the entity. This is because the risk adjustment is already included in the measurement of the fulfilment cash flows—it does not form part of the contractual service margin, which depicts the profit in the contract in addition to the compensation required for bearing risk.

27. Accordingly, in our view the transfer of insurance risk from the policyholder to the entity is not included in the benefits considered when identifying coverage units applying paragraph B119 of IFRS 17.

***When is insurance coverage provided (that is, what benefits are provided in each period, as determined by paragraph B119(b))?***

28. Paragraph B119(b) requires an entity to determine what coverage units have been provided in the period and what coverage units are expected to be provided in the future. Accordingly, an entity must determine what benefits have been provided in the period and what benefits are expected to be provided in the future.

*Respondents' comments*

29. As described in paragraph 11, the tentative agenda decision discussed two methods for determining the pattern of the provision of insurance coverage:
- (a) the benefit provided in a period is based on the amount of the annuity payment the policyholder is able to validly claim (Method 1); and
  - (b) the benefit provided in a period is based on the present value of expected future annuity payments (Method 2).
30. None of the respondents that comment on the technical analysis express a view that Method 1 fails to comply with the requirements in IFRS 17. Some respondents say Method 2 also meets the requirements in IFRS 17, explaining that in their view:
- (a) a continuous stand-ready obligation, depicted by the liability for remaining coverage, exists from inception of the contract.
  - (b) the fact that in the current period expected future payments are conditional on further insured events does not mean that the entity has not already provided

benefits to policyholders. This is because the entity has already covered insurance risk relating to the future payments.

- (c) for a given period, the survival of the policyholder beyond the period can be seen as the insured event. The valid claim for the period is the total annuity payments until the policyholder's death.
  - (d) the benefits provided in a period are all the benefits a policyholder would lose if they die in the period.
31. Some respondents say an entity should be able to determine what service (and hence what benefits) it provides rather than it being a matter for the Committee. For example, Aviva says:
- We believe the proposed tentative agenda decision goes beyond the scope assigned to an IFRS IC agenda decision because it is not just an explanation of the standard's guidance, paragraph B119, it is an interpretation of what service the customer receives, and the method that can be used to recognise the associated revenue. We do not believe it is within the scope of the IFRS IC remit to opine on service provided.
32. Some respondents say the analysis in the tentative agenda decision goes beyond an analysis of the words in IFRS 17 and instead adds requirements to the Accounting Standard:
- (a) some say the definitions of the liability for incurred claims and the liability for remaining coverage in Appendix A to IFRS 17 cannot be used to establish how an entity determines coverage units; and
  - (b) some say paragraphs BC140 and BC141 of the Basis for Conclusions on IFRS 17 provide no guidance or requirements on when the coverage period starts or in what period insurance contract services are being transferred.
33. One respondent, Aviva, says there is a component of service—over and above the uncertainty in the cash flows arising from the insurance risk transferred—that is not recognised in line with the transfer of service by applying Method 1. Although this can be a small amount per annum, for the very long-term contracts in question the cumulative effect becomes very material over time.

*Staff analysis*

34. We agree with respondents that there is a continuous obligation from inception of the contract because the entity has accepted insurance risk. However, we do not agree that the existence of the obligation necessarily implies that the entity has provided service under the contract. Paragraphs BC140 and BC141 of the Basis for Conclusions explain that an entity can accept risk before it performs under the contract (that is, before it has provided service). We agree that those paragraphs provide no discussion of when an entity transfers insurance coverage, but they do indicate it is not linked to the acceptance of risk.
  
35. Further, as discussed in paragraphs 23–27 of this paper, in our view the transfer of risk is not a factor that an entity considers when determining the quantity of the benefits provided, coverage units and the transfer of insurance contract services. Accordingly, the benefits provided by each of the contracts need to be assessed without considering the transfer of risk.
  
36. In the contracts considered in the submission, the only insurance contract service—as defined in IFRS 17—is insurance coverage. Hence, an entity needs to assess what benefits are provided by the insurance coverage, excluding the transfer of risk. Insurance coverage is defined in Appendix A to IFRS 17 (within the definition of insurance contract services) as ‘coverage for an insured event’. Excluding the transfer of risk, the only benefits provided by insurance coverage are the potential amounts that can be claimed if an insured event occurs. These benefits are provided only in a period in which an insured event can occur, creating—if it does occur—a right for the policyholder to make a valid claim. An insured event is defined as ‘an uncertain future event covered by an insurance contract that creates insurance risk.’
  
37. For the contracts in the submission, no insured event exists in the periods before the date the policyholder becomes eligible to receive annuity payments. Before that date, a policyholder may survive and as a result have a level of income that is adversely affected by their survival. But the policyholder’s survival in that period creates no right for the policyholder to make a valid claim for income in the period.
  
38. Insured events exist after the date the policyholder becomes eligible to receive annuity payments. If the policyholder survives in a period after that date, they have the right to make a valid claim for income in the period. Survival in one period does not however

give them the right to make a valid claim for income in future periods. Such rights exist only after the policyholder survives in the future periods.

39. One respondent, the Autorité des Normes Comptables (ANC), says the insured event in a period can be regarded as the survival of the policyholder beyond the period (ie, survival up to the end of the period), and that the valid claim for the period is the total future annuity payments until the policyholder's death. Payments in subsequent periods would not be a new claim but a partial settlement of the one claim that occurs continuously over the coverage period that starts at the beginning of the contract and ends at the policyholder's death.
40. However, we think such an analysis is not compatible with the characterisation of the contract providing continuous insurance coverage for the ongoing survival of the policyholder. It is not possible to say one insured event continues over all periods. Either there is an insured event in the period—creating a right for the policyholder to make a valid claim—or there is not an insured event in the period because future insured events still have to occur in order for the policyholder to have such a right.<sup>3</sup> It is also not possible to say there is an insured event in each period *and also* regard the claim for each of those events to be all future payments.
41. Others say the benefit provided in the period is the benefit that would be lost to the policyholder in the event of death. They say this approach effectively tries to remove the complexity in the analysis by converting the multiple survival events into a single insurance event—death—and thinks of the benefits in that context. However, the insured event is not death because the policyholder's death does not give the policyholder a right to make a valid claim. Further, the benefits lost on death represent the *total quantity of the benefits* of the insurance coverage for survival; it does not represent the benefits provided in any one period of insurance coverage.
42. Accordingly, in our view, the reasons given in paragraph 30 for Method 2 do not provide support that would suggest Method 2 meets the principle and requirements in paragraph B119 of IFRS 17.

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<sup>3</sup> Having a right to make a valid claim does not mean the policyholder is necessarily able to make the claim immediately. Some insurance contracts might require submission of claims only at a later date. The important factor is that there are no future uncertain events that need to occur for the policyholder to be able to make a valid claim.

43. Nor do we agree that the determination of service *in the context of the requirements of paragraph B119 of IFRS 17* is not a matter for the Committee. In particular, we think it is clear from the requirements in IFRS 17 that the transfer of risk does not form part of the determination of the benefits provided in the context of recognising an amount of the contractual service margin in profit or loss. We also note that, in responding to submissions on the recognition of revenue, the Committee has in the past considered how to determine the services being transferred to customers in the context of the requirements in IFRS 15 *Revenue from Contracts with Customers*.
44. In considering comments from those who disagree with the link drawn in the tentative agenda decision between the determination of the insurance coverage period and the definitions of the liability for incurred claims and the liability for remaining coverage, we note that any IFRS Accounting Standard should be read as a whole; individual requirements should not be read in isolation. However, in fact, our analysis relies on (i) the separation of the risk adjustment from the requirements relating to the recognition of the contractual service margin; and (ii) the resulting focus on the benefit of the potential claims. In our view, our analysis of (i) is supported by the requirements in IFRS 17 for the recognition and measurement of a separate risk adjustment (together with the explanations in the Basis for Conclusions in paragraphs BC279(a) (see paragraph 26 of this paper) and paragraphs BC140 and BC141 (see paragraph 34 of this paper)) and our analysis of (ii) is supported by the definitions of ‘insurance contract services’ and ‘insured event’. We are proposing to amend the tentative agenda decision accordingly.
45. In considering the comment set out in paragraph 33, we understand this to say there is an amount of compensation charged for risk in addition to the amount measured in the risk adjustment applying the requirements in IFRS 17. Because that compensation is related to the risk transferred, some say its effect on the contractual service margin should be recognised in profit or loss in a pattern that reflects the release of the risk adjustment. However, IFRS 17 does not attribute amounts of the contractual service margin to components such as the risk adjustment or, for example, insurance acquisition cash flows for the purpose of determining recognition in profit or loss. Further as discussed above, the transfer of risk does not affect the recognition of the contractual service margin.

**Other comments**

46. The following table summarises respondents’ comments on other aspects of the Committee’s technical analysis together with our analysis of these comments:

<b>Respondents’ comments</b>	<b>Staff analysis and suggestions</b>
<p>Some say Method 1 would result in a divergence from the economics and pricing of the insurance contracts, whereas Method 2 would not.</p>	<p>The requirements of IFRS 17 do not link the recognition of the contractual service margin with the fair value of the contract or its pricing. Recognising profit when a service is provided will not necessarily reflect a change in fair value, and doing so was not the objective of the IASB when developing the requirements in IFRS 17.</p>
<p>Some said Method 1 would be complex to apply and require substantial judgement, resulting in likely diversity in practice. For example, in a contract that provides both an investment-return service and insurance coverage the entity would need to determine how to weight the two services to determine the total number of coverage units provided by the contract. This would not be the case if Method 2 could be applied to both insurance coverage and investment return services. (See paragraphs 57-60 for further comments on consistency of application.)</p>	<p>We acknowledge judgement is required to determine the coverage units when a contract provides more than one service, and that the use of Method 2 for both insurance coverage and an investment return service would reduce complexity. However, that fact does not change our view that Method 2 would fail to meet the requirements in IFRS 17 for insurance coverage. We note that IFRS 17 requires disclosure about the assumptions on which the recognition of the contractual service margin is based, and of the expected timing of that recognition. (See paragraphs 70-72 for further analysis on consistency of application.)</p>

<p>Some said the application of Method 1 to other products would result in counterintuitive outcomes, for example pure endowment policies, stop loss contracts, retroactive reinsurance contracts and some credit insurance contracts.</p>	<p>The tentative agenda decision explains the application of paragraph B119 of IFRS 17 to the annuity contracts in the submission and, indeed, to insurance coverage for survival in any contract. The tentative agenda decision does not <i>directly</i> apply to other contracts. Nonetheless, we understand that, if finalised, the agenda decision may provide insights that might change an entity’s understanding of the requirements on the recognition of the contractual service margin in profit or loss (for example, that the transfer of risk is not considered when determining the benefits provided as required by paragraph B119). This might result in entities determining that they need to change their accounting policy for contracts beyond the contracts in the submission.</p> <p>This is consistent with the expectation set out in paragraph 8.6 of the <i>Due Process Handbook</i> that explanatory material in agenda decision may ‘provide insights that might change an entity’s understanding of the principles and requirements IFRS [Accounting] Standards’. Entities would determine whether and to what extent the explanatory material is applicable—or provides insights into the application of IFRS 17—to contracts beyond those in the submission.</p>
<p>Some say the tentative agenda decision should be clear that it does not apply to other fact patterns.</p>	<p>In our view, the scope of the agenda decision is clear. The tentative agenda decision sets out the terms of the contracts the Committee considered and notes that the conclusion applies to insurance coverage for survival, regardless of other services</p>

	<p>provided. This approach—to describe the transaction or fact pattern considered but not the transactions or fact patterns not considered—is consistent with the approach taken in other agenda decisions.</p>
<p>Some say the wording in the tentative agenda decision relating to the risk adjustment for non-financial risk does not exactly reflect its definition in IFRS 17.</p>	<p>We propose to amend the wording in the tentative agenda decision so that it mirrors the definition of the risk adjustment for non-financial risk in IFRS 17.</p>
<p>Some say Method 1 highlights flaws in the requirements in IFRS 17 relating to the identification of an investment-return service. In particular they say, even for contracts that do not meet the criteria in IFRS 17 regarding an investment-return service, it is clear the contractual service margin includes a profit margin for the management of the assets associated with the annuity liability. In their view, an entity should recognise that amount as the asset management activity is performed, which is not possible applying Method 1.</p>	<p>IFRS 17 does not permit an amount of the contractual service margin to be attributed to an investment-return service unless specified criteria are met. As discussed in this paper, the recognition of the contractual service margin for contracts that provide only the service of insurance coverage must be based on the benefits provided by the insurance coverage.</p>
<p>Some say in US GAAP there is precedence for using the present value of expected payments to amortise a similar liability—the deferred profit liability (CIA).</p>	<p>US GAAP does not have the same requirements as IFRS 17 in this respect. Our analysis focusses only on the requirements in IFRS 17.</p>

<p>Legal &amp; General says the terms and conditions of reinsurance contracts often do not align with the underlying annuity contracts. It says applying Method 1 to deferred annuity contracts could create an accounting mismatch between the allocation of the contractual service margin on the underlying annuity contracts and that of the contractual service margin on the reinsurance contracts held.</p>	<p>The submitted fact pattern did not include reinsurance contracts held. We nonetheless note that the IASB acknowledged in paragraph BC298 of the Basis for Conclusions on IFRS 17 that separate accounting for reinsurance contracts and their underlying insurance contracts might create mismatches that some regard as purely accounting. However, the IASB concluded that accounting for a reinsurance contract held separately from the underlying insurance contracts gives a faithful representation of the entity’s rights and obligations and the related income and expenses from both contracts.</p>
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**Staff conclusion**

47. Based on our analysis in paragraphs 17–46 of this paper, we continue to agree with the Committee’s technical analysis and conclusions in the tentative agenda decision, subject to some amendments to the wording described in paragraph 49. Accordingly, we agree with the Committee’s analysis that for the annuity contracts described in the submission:
- (a) determining the quantity of the benefits using a method based on the amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period.
  - (b) determining the quantity of the benefits using a method based on the present value of expected future annuity payments (Method 2) does not meet that principle.

48. The reasons for this conclusion on Method 2 are that its determination of the benefits provided by the contract either:
- (a) includes the transfer of risk as a benefit—which conflicts with the requirements to account for the transfer of risk separately from the contractual service margin; or
  - (b) includes claims that depend on the occurrence of future insured events in the benefit provided in each period—which conflicts with the assessment of the insured event(s) being the ongoing survival of the policyholder in each period.
49. The amendments we propose to the wording of the tentative agenda decision are:
- (a) to replace the references to the definitions of the liability for remaining coverage and the liability for incurred claims with references to the definitions of insurance coverage and an insured event; and
  - (b) to expand the explanation that transfer of insurance risk is not part of the benefits provided to policyholders considered in paragraph B119.
50. We also continue to think that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contracts as described in the submission to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

**Question 1 for the Committee**

1. Does the Committee agree with the conclusions set out in paragraphs 47-50 of this paper?

## Consequences of finalising the agenda decision

51. Almost all respondents comment on the possible consequences of publishing an agenda decision less than a year before IFRS 17 is in effect.
52. Respondents say, if the agenda decision is finalised, it may:
  - (a) cause operational and financial reporting complexity (see paragraphs 54–78); and
  - (b) take time to implement any change (see paragraphs 79–83).
53. The UK Endorsement Board (UKEB), nonetheless, encourages the Committee to finalise the agenda decision:

Whilst we acknowledge concerns expressed by some regarding the risk of disruption to implementation processes this close to the standard’s effective date, we note that, despite extensive debate, the insurance industry had been unable to find a consensus on this issue. Finalising an agenda decision that clarifies the application of IFRS 17 would remove an element of potential diversity in practice and enable insurers and auditors to move towards initial application of IFRS 17 with greater certainty in respect of this specific issue.

## ***Operational and financial reporting complexity***

### *Respondents’ comments*

#### **Disruption to IFRS 17 implementation and need for stability**

54. Many respondents say finalising an agenda decision on IFRS 17 so close to its effective date—annual reporting periods beginning on or after 1 January 2023—would be disruptive to entities’ implementation activities. For example, the European Insurance CFO Forum and Insurance Europe says:

Implementation projects are well advanced and so are the discussions with auditors on the interpretation and application of the principles in IFRS 17. Changes to accounting methodologies resulting from IFRS IC decisions may require time-consuming and complex adaptations of IT tools and

processes that have already been implemented. These changes may also impact the analysis and understanding of results and timely communication to investors. Any changes at this late stage therefore come with the significant risk of being highly disruptive. Instead, a period of stability is needed until the standard has been implemented and sufficient practical experience and market practices have emerged.

55. The German Insurance Association (GDV) notes the need to avoid an unfortunate situation of punishing entities that are well advanced in their IFRS 17 implementation activities. The Canadian Accounting Standards Board (AcSB) says, due to the quarterly reporting regime in Canada, there are Canadian entities preparing to release financial results, including comparatives, applying IFRS 17 early in 2023 as part of their Q1 2023 financial reporting—and a few entities are considering earlier release of quarterly comparatives to allow investors to better understand the effects of IFRS 17.
56. Some respondents suggest that there should be a period of stability for IFRS 17 at this time and cite as support both the status of the work of the TRG for IFRS 17 and decisions of the IASB<sup>4</sup> with respect to amendments to IFRS 17 published in June 2020. In their view, it is inconsistent with those IASB decisions for the Committee to now publish an agenda decision so close to the effective date of IFRS 17. For example, the Spanish Association of Insurers and Reinsurers (UNESPA) says:

Preparers are in need for a period of calm exactly at this stage. We note that the IFRS 17 Transition Resource Group has not addressed issues since April 2019 which has allowed preparers the much-needed stability in preparing for implementation....In this context it is important to remember that when the amendments of IFRS 17 published in June of 2020 were prepared, constituents (including UNESPA) demanded changes to IFRS 17 which were disregarded by the IASB. The IASB decided that amendments would only be justified if those amendments would not unduly disrupt implementation already under way as implementation should be the focus.

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<sup>4</sup> The [IASB Update October 2018](#) reported the IASB’s tentative decision that any amendments ‘would not unduly disrupt implementation already under way’.

## Potential for reduced comparability and increased complexity

57. A few respondents say the tentative agenda decision, if finalised, may reduce comparability in financial reporting and increase diversity in application of IFRS 17— in particular when accounting for complex long-term contracts. For example, the ICAEW says:
- Some of our members believe that Method 2 would yield less diversity in application, particularly for deferred annuities, as they believe it allows insurers to use the same profile of coverage units for the insurance and investment return services and that this profile would be related to the economics of the contract and result in improved decision useful information for users. They believe that Method 1 will create diversity in practice that would be undesirable and have the potential to result in notable comparability issues for users.
58. A few respondents, including the ABI, say applying Method 1 will create operational complexity, for example in accounting for different services provided under a complex contract and for deferred annuity contracts. Legal & General describes how, in their view, application of Method 1 would affect reporting results for immediate annuities as compared to deferred annuities and says ‘the operation of deferred annuities is more complex due to the range of contractual terms in different jurisdictions’. A few respondents, including Rothesay, point to particular complexities in accounting for bulk purchase annuity contracts, which include a variety of benefits beyond those offered under a simple immediate annuity.
59. One respondent, Legal & General, says ‘whilst it appears that diversity in practice is being reduced by selection of a single approach, in reality, the judgements which will need to be made (and cannot be faithfully linked to economics) will lead to an increase in diversity in practice and less comparable results’. This respondent also says the agenda decision ‘will increase the application of non-GAAP measures and the reliance on other financial metrics’.
60. The Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS), however, says a decision to allow Method 2 may result in diversity and

reduced comparability not only for annuity contracts but also for other types of insurance contracts.

### Suggestions for next steps

61. Some respondents suggest that, to avoid potential disruption to entities' IFRS 17 implementation efforts and reduced comparability in financial reporting, the Committee or the IASB take alternative actions, other than finalising the agenda decision. For example:
- (a) The GDV says its preference would be to 'pause the Interpretations Committee's activities on IFRS 17-related submissions to the greatest possible extent'.
  - (b) Some respondents suggest that entity-specific application questions raised about principles in IFRS 17 be dealt with in the future Post-Implementation Review (PIR) of IFRS 17.
  - (c) A few respondents suggest the Committee or the IASB engage in standard-setting to resolve the questions raised in the submission. For example, the AcSB says 'we think standard-setting activity would be more beneficial to ensure clarity and consistent application going forward....In the case of this complex standard, future standard-setting activity would also alleviate the risk that entities are currently short in time to consider the impact of new information provided through any agenda decision'.
  - (d) The ANC says 'standard-setting could be disruptive' at this stage and instead suggests an additional due process step. The ANC views the approach adopted by the IASB in dealing with application questions on IFRS Accounting Standards not yet effective as different from the approach adopted by the Committee: 'We fail to see the rationale for having a differing approach for application questions on IFRS Standards not yet effective—ie setting the 'not disrupt implementation already under way' as a constraint applying to the TRG or the Board but not to the Committee....Accordingly, we encourage the Committee to report this point to the Board and the Trustees of the IFRS Foundation for further consideration in the context of the next DPH's [(Due Process Handbook's)] revision.'

62. A few respondents agree (or do not disagree) with the Committee finalising the agenda decision but suggest additional process activities:
- (a) Due process: Mazars suggests that the IASB do more to reflect on the timing and effect of agenda decisions as part of its due process. The Accounting Standards Committee of Germany (DRSC) says ‘we kindly ask the IFRS IC to carefully consider which steps it undertakes in responding to a submission that affects IFRS requirements right before initial application’.
  - (b) PIR of IFRS 17: The CAA and TAS say ‘though we do agree with the board’s [Committee’s] decision, the possible differences in economic and profitability patterns arising from the impact of both methods are a major cause for concern which may require to be looked at more closely in the future post-implementation [review]’. The UKEB recommends the PIR includes ‘a broader review of revenue recognition under IFRS 17, addressing the recognition of insurance coverage and the related issues...in greater depth’. The ICAEW says that concerns expressed by some of its members about the application of Method 1 should be ‘considered carefully during the finalisation of the agenda decision and during the eventual post-implementation review of IFRS 17’.
63. A few respondents make process suggestions for the Committee to consider if it decides to continue to address IFRS 17-related submissions. For example, the GDV says, ‘Should the IASB and the Interpretations Committee continue to deal with the IFRS-17 related submissions in due course as they arrive, we would like to respectfully ask to follow an even more careful and flexible approach when analysing and deciding on requests submitted... [and]... we like to encourage an appropriate involvement of the TRG for IFRS 17 in the consultation and outreach process...’ (emphasis omitted). EFRAG ‘also emphasises the importance of the outreach that the IFRS IC undertakes before any Tentative Agenda Decisions, in particular considering that common practices are still emerging with the implementation at this stage’.

### *Staff analysis*

#### **Disruption to IFRS 17 implementation and need for stability**

64. On issuing a major new IFRS Accounting Standard, the IASB is active in supporting implementation of the Standard. This was the case on issuing IFRS 9, IFRS 15,

IFRS 16 *Leases* and IFRS 17. With respect to IFRS 17, in the period from 2017-2019 the IASB—supported by the IFRS 17 TRG—published extensive educational materials and other information to support implementation. It is in this period immediately after issuing an Accounting Standard that the IFRS Foundation can be most helpful to stakeholders and, at that time, there is no significant risk of disrupting implementation.

65. However, as an Accounting Standard gets closer to its effective date, the IFRS Foundation becomes less active and, indeed, when a Standard is close to its effective date (as IFRS 17 now is), neither the IASB nor the Committee proactively seek to become involved in implementation questions. This is reflected in the IASB’s statement about undue disruption to implementation when it developed the amendments to IFRS 17 issued in 2020 and the fact that the IFRS 17 TRG has not been convened since 2019.
66. Nonetheless, the Committee’s process is *always* available to stakeholders to assist in understanding and applying the principles and requirements in IFRS Accounting Standards—both before and after those principles and requirements are in effect—with the objective of supporting their consistent application. Paragraph 5.13 of the Due Process Handbook encourages stakeholders to submit application questions to the Committee when they view it as important that the IASB or the Committee address the matter.
67. With respect to the current matter on annuity contracts, stakeholders had spent considerable time discussing the topic before submitting it to the Committee to try to reach a consensus on how to read and apply IFRS 17 with respect to the insurance coverage provided under the annuity contracts; despite their best efforts, they were unable to do so. A TRG discussion on the topic of profit recognition (determining the quantity of the benefits provided in identifying coverage units) had not been sufficient to help those stakeholders in their implementation. Consequently, in at least some of the jurisdictions affected, implementation has already been disrupted. Although agenda decisions can result in costs for entities that determine that they need to

change their accounting, we think the agenda decision on annuity contracts, if finalised, would provide clarity that will help to move implementation efforts forward.

68. Because of the potential disruption to implementation, some respondents have suggested that the Committee not respond to questions submitted when a new Accounting Standard or amendment is close to its effective date and possibly for some time thereafter. In considering these comments, we note that:
- (a) the Committee’s process has been designed to be available to stakeholders at all times—for this reason, the Committee would fail to adhere to its due process should it decide not to discuss a question submitted to it that meets the submission criteria.
  - (b) the process has been designed to support one of the IFRS Foundation’s most important strategic themes, which is to support consistent application of IFRS Accounting Standards. The *Due Process Handbook* states that ‘the objective of including...explanatory material [in an agenda decision] is to improve the consistency of application of IFRS [Accounting] Standards’. The process would be unable to effectively achieve that objective if it were designed to be unavailable to stakeholders for particular periods of time.
  - (c) the submission addresses a fundamental aspect of IFRS 17—profit recognition. If stakeholders’ understanding of the principle and requirements on profit recognition is different, there is the potential for inconsistent application of IFRS 17 not only to annuity contracts but also to other insurance contracts.
  - (d) being cognisant of the time that might be needed to implement any change that results from an agenda decision, entities are expected to be entitled to sufficient time (see paragraphs 81–83).
69. We also note that the Committee is dealing with questions submitted on IFRS 17 in the same way that it dealt with questions submitted on IFRS 9, IFRS 15 and IFRS 16. The Committee published agenda decisions with explanatory material within twelve months before or after the effective date of those Accounting Standards:

<b>Agenda decision</b>	<b>Publication date</b>
<i>IFRS 9 Financial Instruments</i> (effective date 1 January 2018)	
Centrally cleared client derivatives	June 2017
Financial assets eligible for the election to present changes in fair value in other comprehensive income	September 2017
Presentation of interest revenue for particular financial instruments	March 2018
<i>IFRS 15 Revenue from Contracts with Customers</i> (effective date 1 January 2018)	
Revenue recognition in a real estate contract that includes the transfer of land	March 2018
Revenue recognition in a real estate contract	March 2018
Right to payment for performance completed to date	March 2018
<i>IFRS 16 Leases</i> (effective date 1 January 2019)	
Subsurface rights	June 2019
Lessee's Incremental Borrowing Rate	September 2019
Lease Term and Useful Life of Leasehold Improvements	November 2019

### Potential for reduced comparability and increased complexity

70. We are of the view that clarifying how to read and apply paragraph B119 of IFRS 17—in a situation in which stakeholders have had differing views about how to read and apply the requirements in that paragraph—will result in greater consistency in application, and not the opposite.
71. We acknowledge the concern of some respondents that applying Method 1 (rather than Method 2) to some long-term contracts that provide other insurance contract services would introduce the need for more judgement in weighting the services for the purpose of identifying coverage units. However, we see benefits in clarifying how to read and apply the requirements in paragraph B119 beyond the contracts considered in the submission. As noted by respondents, paragraph B119 addresses a fundamental aspect of IFRS 17—profit recognition—based on a principle that is aligned with the principle in IFRS 15 for recognising revenue on transferring services to customers. We therefore think the agenda decision, if finalised, could result in

greater consistency in application between the revenue recognised by entities that provide insurance contract services and those that provide other services to customers. If the Committee did not respond to the question submitted, there is a risk that the differing views on how to read and apply paragraph B119 would remain and become embedded in practice.

72. We think clarifying how to read particular requirements in IFRS 17 should not ultimately increase the complexity of applying IFRS 17. However, we understand that the application of IFRS 17 to long-term insurance contracts that provide policyholders with a number of different services can be complex.

### Suggestions for next steps

73. Paragraphs 64–68 of this paper discuss the role of the Committee in supporting consistent application of IFRS Accounting Standards. In those paragraphs, we considered some of the respondents’ suggestions to take an action on the current matter other than by finalising the agenda decision.
74. As outlined in paragraphs 61(b) and 62(b), some respondents—including some who support the Committee finalising the agenda decision and some who do not—suggest that the IASB address any application questions that arise in this period as part of the PIR of IFRS 17.
75. Paragraph 5.13 of the *Due Process Handbook* explains that the IASB and the Committee: ‘work together in supporting the consistent application of IFRS [Accounting] Standards. They do so by, among other things...publishing agenda decisions to address application questions.’ Paragraph 1.3 of the *Due Process Handbook* also requires the Committee to assist the IASB in improving financial reporting through: ‘timely assessment, discussion and resolution of financial reporting issues identified to it within the IFRS framework.’
76. On the topic of the transfer of insurance coverage in annuity contracts, the submission identified doubt—and differing views—about how to read and apply the requirements in IFRS 17. The PIR of IFRS 17 is therefore not the appropriate avenue to resolve this matter on a timely basis.
77. The IASB’s work on the PIR of IFRS 17—when it begins—will identify whether the topic of profit recognition is one for the IASB’s consideration as part of that review.

We have taken note of the topics that respondents suggest for consideration by the IASB in the PIR.

78. We agree with respondents who encourage the Committee to involve in its work members of the IFRS 17 TRG or otherwise leverage the expertise and experience of those involved in implementing IFRS 17. The IFRS 17 TRG and other stakeholders give the Committee access to additional expertise and experience when needed.<sup>5</sup> The submission on annuity contracts included quite some detail about the implementation of IFRS 17 from both the UK insurance industry and their auditors. That detail discussed not only annuity contracts but also potential implications for other contracts.

### ***Time to implement any change***

#### *Respondents' comments*

79. Because entities are currently in a crucial phase of their IFRS 17 implementation, some respondents say affected entities may be unable to implement any potential accounting policy change that would result from the agenda decision, if finalised, by IFRS 17's effective date. For example, EFRAG says, 'significant changes to the current implementation of IFRS 17 would...require a reasonable period of time to adopt these changes, which could go beyond that what can usually be expected following an Agenda Decision, given the current implementation phase'. The DRSC says 'we suggest that the IFRS IC thoroughly discusses, and potentially clarifies, how the principle "sufficient time" to implement applies in the respective context'.
80. In contrast, Mazars says 'we do not believe the IFRS Foundation should deal with these issues [concerns about sufficient time for implementation] by holding off responding to questions'.

#### *Staff analysis*

81. Paragraph 8.6 of the *Due Process Handbook* states that 'it is expected that an entity would be entitled to sufficient time to [determine whether it needs to change an

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<sup>5</sup> For example, the Committee has obtained input from members of the IFRS 17 TRG on the submission discussed in Agenda Paper 6 *Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)* for the June 2022 meeting.

accounting policy as a result of an agenda decision] and implement any necessary accounting policy change (for example, an entity may need to obtain new information or adapt its systems to implement a change). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances.' An [article](#) is available on the IASB's website to help stakeholders determine how much time might be sufficient.

82. If the Committee were to publish an agenda decision in the second half of 2022 that results in an entity determining that it needs to change or adapt how it is implementing IFRS 17, we would expect that such an entity would not be expected to implement the change by 1 January 2023 in the light of the extensive IFRS 17 implementation activities that are currently ongoing.
83. Nonetheless, we think the Committee dealing with known application questions before the effective date provides affected entities with potential options that would not be available should the Committee delay dealing with those questions for a period of time. If the Committee deals with questions submitted as efficiently as is possible such that an agenda decision is published in 2022, the nature of the change might be such that an affected entity might choose to implement it within its first financial statements that comply with IFRS 17, even if the nature of the change and the entity's specific circumstances would suggest that the entity would be entitled to more time to implement the change.

### **Staff recommendation**

84. Based on our analysis, we recommend finalising the agenda decision with changes to the tentative agenda decision as suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

**Questions 2 and 3 for the Committee**

2. Does the Committee agree with our recommendation set out in paragraph 84 of this paper?

3. Do Committee members have any comments on the wording of the agenda decision in Appendix A?

**Appendix A—proposed wording of the final agenda decision**

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

**Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts)**

The Committee received a request about a group of annuity contracts. The request asked how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

**Fact pattern**

The request described a group of annuity contracts under which the policyholder of each contract:

- a. pays the premium upfront and has no right to cancel the contract or seek a refund;
- b. receives a periodic payment from the start of the annuity period for as long as the policyholder survives (for example, a fixed amount of CU100 for each year that the policyholder survives); and
- c. receives no other services under the contract (for example, no other types of insurance coverage or investment-return service).

The fact pattern referred to groups of contracts for which the annuity period starts immediately after contract inception ('immediate annuity') and also those for which the annuity period starts on a specified date after contract inception ('deferred annuity')—for example, a contract entered into in 2022 for which the annuity period starts in 2042.

**Applicable requirements in IFRS 17**

Paragraph 44(e) of IFRS 17 requires an entity to adjust the carrying amount of the contractual service margin for the amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by allocating the contractual service margin over the current and remaining coverage period applying paragraph B119 of IFRS 17.

Paragraph B119 of IFRS 17 states that an entity recognises in profit or loss in each period an amount of the contractual service margin to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount is determined by:

- a. identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.
- b. allocating the contractual service margin at the end of the period equally to each coverage unit provided in the current period and expected to be provided in the future.
- c. recognising in profit or loss the amount allocated to coverage units provided in the period.

The definition of insurance contract services in Appendix A to IFRS 17 describes insurance coverage as ‘coverage for an insured event’. An insured event is defined as ‘an uncertain future event covered by an insurance contract that creates insurance risk’.

**Methods for applying the requirements to the fact pattern**

The request sets out two methods of determining, for each contract in the group, the quantity of the benefits of insurance coverage provided in the current period and expected to be provided in the future.

***Method 1***

<b>Current period</b>	<b>Expected to be provided in the future</b>
Determined based on the annuity payment the policyholder is able to validly claim in the current period.	Determined based on the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).

**Method 2**

<b>Current period</b>	<b>Expected to be provided in the future</b>
Determined based on the total of: i. the annuity payment the policyholder is able to validly claim in the current period, and ii. the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).	Determined based on the present value of the balances of the expected future annuity payments as at the beginning of each future period, until the end of the coverage period.

**Applying paragraph B119 of IFRS 17**

Applying paragraph B119(a) of IFRS 17, an entity:

- a. identifies the insurance contract services to be provided under the group of contracts. In the fact pattern described in the request, insurance coverage for survival is the only insurance contract service provided under the group of contracts.
- b. considers the expected coverage period for each contract in the group. In the fact pattern described in the request, the expected coverage period would reflect the entity’s expectations of how long the policyholder will survive.
- c. considers the quantity of the benefits provided under each contract in the group.

IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in paragraph B119 of reflecting the insurance contract services provided in each period. In selecting a method that meets that principle, an entity considers (a) the benefits provided to the policyholder under a contract with respect to the insurance contract services provided,

and (b) when those benefits are provided. Different methods may achieve ~~the~~ that-principle depending on the facts and circumstances.

In the fact pattern described in the request, the terms of the annuity contract provide the policyholder with the right to claim a periodic amount (CU100 in the example) from the start of the annuity period for as long as the policyholder survives. Consequently, the Committee observed that:

- a. the benefits provided to the policyholder under the contract with respect to the insurance coverage for survival are the policyholder's right to claim a periodic amount for as long as they survive. The policyholder also benefits from transferring to the entity the risk related to the uncertainty about how long they will survive. However, IFRS 17 requires an entity to account for that insurance risk in the risk adjustment for non-financial risk, separately from the contractual service margin.
- b. the benefits of being able to claim a periodic amount are provided to the policyholder in each year of the policyholder's survival from the start of the annuity period:
  - i. the policyholder has no right to claim an amount for surviving in periods before the start of the annuity period. The entity accepts insurance risk from inception of the contract but provides no benefits to the policyholder in the form of amounts that can be claimed until the annuity period starts. Paragraphs BC140-BC141 of the Basis of Conclusions on IFRS 17 explain that an entity can accept insurance risk before it is obliged to perform an insurance coverage service.
  - ii. survival in one year does not provide the policyholder with the right to claim amounts that compensate the policyholder for surviving in future years; that is, the policyholder's right to claim amounts in future years is contingent on the policyholder surviving in those future years.

~~The definitions of the liability for incurred claims and the liability for remaining coverage in Appendix A to IFRS 17 describe insurance coverage as 'an entity's obligation to investigate and pay valid claims for insured events' In addition, paragraphs BC140 and BC141 of the Basis for Conclusions on IFRS 17 explain that an entity can accept insurance risk before it is obliged to perform the insurance coverage service. Therefore, in determining the quantity of the benefits of insurance coverage provided under a contract,~~

~~an entity considers (a) the periods in which it has an obligation to pay a valid claim if an insured event occurs; and (b) the amount of the claim if a valid claim is made.~~

~~The Committee observed that, under the contractual terms of the annuity contracts described in the request, an entity is obliged to pay a periodic amount (CU100 in the example) from the start of the annuity period for each year of the policyholder's survival (the insured event). Survival in one year does not oblige the entity to pay amounts that compensate the policyholder for surviving in future years; that is, claim amounts payable to the policyholder in future years are contingent on the policyholder surviving in those future years.~~

### **The Committee's conclusion**

The Committee concluded that, in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, a method based on:

- a. the amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period by:
  - i. assigning a quantity of the benefits only to periods in which for which the entity has an obligation to investigate and pay valid claims for the an insured event (survival of the policyholder) can occur, resulting in a policyholder having a right to make a valid claim; and
  - ii. aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim if an insured event occurs in that each period.
- b. the present value of expected future annuity payments (Method 2) does not meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period because it would:
  - i. assign a quantity of the benefits to periods in which for which the entity has no obligation to investigate and pay valid claims for the no insured event occurs (for example, to the deferral period of a deferred annuity contract); and
  - ii. misrepresent the quantity of the benefits provided in a period by considering amounts the policyholder is able to claim and benefit from only in future periods.

The request asked only about the recognition of the contractual service margin in profit or loss. For the annuity contracts described in the request, the entity accepts insurance risk related to the uncertainty about how long the policyholder will survive. The Committee noted that the entity would apply other requirements in IFRS 17 to recognise in profit or loss—separately from the contractual service margin—the risk adjustment for non-financial risk.<sup>7</sup> ~~The risk adjustment for non-financial risk represents representing the entity's compensation~~ the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from insurance risk and other non-financial risks. The Committee did not discuss these other requirements.

Under a group of annuity contracts, an entity could provide other insurance contract services to policyholders in addition to insurance coverage for survival—for example, insurance coverage for death in a deferral period or an investment-return service. The conclusion in this ~~draft~~ agenda decision applies to insurance coverage for survival, regardless of other services provided. If the contracts provide other insurance contract services, the entity would also need to consider the pattern of transfer of those services to the policyholder.

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contracts as described in the request to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period. Consequently, the Committee ~~decided~~ not to add a standard-setting project to the work plan.