

Snapshot: *Amendments to IFRS 17*

This Snapshot provides an overview of the targeted amendments to IFRS 17 proposed by the International Accounting Standards Board (Board) and included in the Exposure Draft *Amendments to IFRS 17*.

The Board's objective: To make targeted amendments to the requirements in IFRS 17 *Insurance Contracts*. The amendments aim to ease implementation of the Standard by reducing implementation costs and making it easier for companies¹ to explain the results of applying IFRS 17 to investors and others.

Although narrow in scope, the targeted amendments address many of the concerns and challenges raised by stakeholders.

Project stage: The Board is inviting comments on the proposed targeted amendments to IFRS 17 set out in the Exposure Draft.

Next steps: The Board will consider comments received during the comment period when developing any final amendments to IFRS 17. The Board aims to issue the final amendments in mid-2020.

Comment deadline: 25 September 2019

¹ In this document, the term 'company' refers to an entity that prepares financial statements using IFRS Standards. The term 'insurer' or 'insurance company' refers to an entity that issues insurance contracts as defined in IFRS 17.

Background to the Exposure Draft

The Board issued IFRS 17 on 18 May 2017.

IFRS 17 introduces consistent accounting requirements to address inadequacies in IFRS 4, which allows companies to use a wide range of different insurance accounting practices.

IFRS 17, as originally issued, would replace the accounting requirements in IFRS 4 *Insurance Contracts* on 1 January 2021.

The Board recognises that IFRS 17 introduces fundamental changes to existing insurance accounting practices and that implementing the new accounting requirements involves significant operational costs, including system development costs.

Consequently, since IFRS 17 was issued, the Board has been carrying out activities to support and monitor companies' progress in implementing IFRS 17.

These activities include establishing the Transition Resource Group for IFRS 17 to discuss implementation questions and meeting with companies affected by the changes introduced by IFRS 17, as well as with auditors, investors and regulators.

The activities have enabled insurers to better understand the new requirements and to prepare for the application of IFRS 17. They have also helped the Board to understand the concerns and challenges that some companies have identified while implementing the Standard.

The Board considered the concerns and challenges raised and decided to propose targeted amendments to IFRS 17 to assist companies implementing the Standard, without unduly disrupting implementation or diminishing the usefulness of the improvements introduced by IFRS 17.

To maintain the usefulness of the improvements introduced by IFRS 17, the Board decided that it would propose amendments to IFRS 17 only if these amendments would not change the fundamental principles of the Standard because that would result in a significant loss of useful information for investors relative to that which would otherwise result from applying IFRS 17 as originally issued.

The Board expects that the proposed targeted amendments will ease implementation of the Standard by:

- reducing implementation costs for companies; and
- making it easier for companies to explain the results of applying IFRS 17 to investors and others.

The following pages discuss the proposed targeted amendments to IFRS 17.

Proposed targeted amendments

The Board proposes the following targeted amendments to IFRS 17.

Many terms used in this document are specific to insurance contracts. See the glossary on page 18 for definitions of those terms.

- 1 Deferral of the effective date from 2021 to 2022
- 2 Additional scope exclusions
- 3 Allocation of acquisition costs to expected contract renewals
- 4 Attribution of profit to service relating to investment activities
- 5 Extension of the risk mitigation option
- 6 Reduced accounting mismatches for reinsurance
- 7 Simplified balance sheet presentation
- 8 Additional transition reliefs

1 Deferral of the effective date from 2021 to 2022

Companies are currently required to apply IFRS 17 from 1 January 2021. The Board considered the challenges facing companies in applying IFRS 17 for the first time when it decided to provide a period of over three and a half years to implement the Standard (May 2017–January 2021).

Companies are required to apply IFRS 9 *Financial Instruments* from 1 January 2018. However, IFRS 4 allows some insurers² to defer the application of IFRS 9 until the earlier of:

- the application of IFRS 17; and
- 1 January 2021.

Companies that elect to defer applying IFRS 9 continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* and are required to make additional disclosures to enable investors to make comparisons with companies applying IFRS 9.

Proposed amendment

The Board proposes to amend:

- the mandatory effective date of IFRS 17—companies would be required to apply IFRS 17 from 1 January 2022; and
- the expiry date in IFRS 4 for the temporary exemption from applying IFRS 9—all insurers using IFRS Standards would be required to apply IFRS 9 from 1 January 2022.

Why defer the effective date of IFRS 17 from 2021 to 2022?

The Board proposes to defer the effective date of IFRS 17 by one year to balance the following needs:

- to provide certainty about the effective date of IFRS 17. The Board thinks such certainty should minimise disruption created by its decision to consider amendments to IFRS 17.
- to require IFRS 17 implementation as soon as possible. IFRS 17 is urgently needed to address inadequacies in existing insurance accounting practices.

- to limit the increase in workload and costs for companies at an advanced stage of implementation. Some stakeholders expressed the view that the Board should defer the effective date of IFRS 17 by two or three years to allow additional time for implementation. However, other stakeholders expressed concerns that deferring the effective date of IFRS 17 for more than one year could increase costs, without a corresponding benefit.

Why extend the delay in the implementation of IFRS 9 for some insurers?

The Board proposes to further delay the implementation of IFRS 9 for some insurers to continue to enable them to first apply IFRS 17 and IFRS 9 at the same time. Applying IFRS 9 at the same time as IFRS 17 would reduce IFRS 9 implementation costs and accounting mismatches for those insurers, without unduly delaying the provision of improved information from insurers through the application of IFRS 9.

² Companies whose activities are predominantly connected with insurance.

2 Additional scope exclusions

IFRS 17 applies to all insurance contracts with some specific exclusions.

IFRS 17 excludes from its scope some types of insurance contracts for which applying the Standard would impose costs on companies without corresponding benefits for investors (for example, product warranties provided by a manufacturer, some financial guarantee contracts and fixed-fee service contracts).

Proposed amendment

The Board proposes to exclude two additional types of insurance contracts from the scope of IFRS 17 so that a company would be:

- permitted to apply IFRS 9, instead of IFRS 17, to loan contracts that meet specified criteria; and
- required to apply IFRS 9, instead of IFRS 17, to credit card contracts that meet specified criteria.

Why exclude other insurance contracts from the scope of IFRS 17?

The Board proposes that some loan contracts and some credit card contracts that meet the definition of an insurance contract be accounted for by applying IFRS 9 to reduce implementation costs for some companies.

The proposed amendment addresses concerns that IFRS 17 imposes significant costs without a corresponding level of benefits on companies that do not issue contracts in the scope of IFRS 17, other than some loan contracts and some credit card contracts that IFRS 17 currently requires to be accounted for as insurance contracts.

Examples of insurance contracts that the proposed amendment would exclude from the scope of IFRS 17 include:

- loan contracts that combine a loan with an agreement from the company to compensate the borrower—by waiving some or all the payments due from the borrower under the contract—if a specified uncertain event occurs (for example, if the borrower dies); and
- credit card contracts that provide insurance coverage for purchases made using the credit cards.

Practical implications

The proposed amendment would enable companies to continue their existing accounting practices for some loan contracts and some credit card contracts that meet the definition of an insurance contract.

Accounting for such contracts in the same way as for other financial instruments is expected to provide relevant information to investors because it would be more consistent with the accounting for other contracts a company issues. Also, it means IFRS 17 implementation costs would not be imposed on companies that typically do not need to apply IFRS 17.

3 Allocation of acquisition costs to expected contract renewals

IFRS 17 requires a company to consider acquisition costs in determining the expected profit of insurance contracts. The company considers these costs by recognising them as an asset until the contracts are recognised or by including them in the cash flows expected to fulfil the insurance contracts.

In some cases, a company pays non-refundable commissions for new contracts it expects policyholders to renew in the future. Sometimes, the commission exceeds the premium for the initial contract, because the insurer expects this commission will be recovered from renewals. IFRS 17 currently requires such a commission to be attributed fully to the initial contract, causing the initial contract to be loss making (onerous), as illustrated in the simplified example in the following table.

| Cash flows | Year 1 (initial contract) | Year 2 (expected renewal) | Year 3 (expected renewal) |
|--|------------------------------|------------------------------|------------------------------|
| Premium | 100 | 100 | 100 |
| Claim | - | - | - |
| Commission | (150) | - | - |
| Expected (loss) / unearned profit | (50) | 100 | 100 |

Proposed amendment

The Board proposes to amend IFRS 17 so that a company would:

- allocate part of the acquisition costs—such as commissions paid to brokers—to related expected contract renewals;
- recognise those costs as an asset until the company recognises contract renewals;
- assess the recoverability of the asset at each reporting date; and
- provide information in the notes to the financial statements about:
 - changes in the asset during the reporting period; and
 - the expected timing of derecognition of the asset and inclusion of the acquisition costs in the measurement of the expected contract renewals.

The implications of the proposed amendment are illustrated in the simplified example in the following table.

| Cash flows | Year 1 (initial contract) | Year 2 (expected renewal) | Year 3 (expected renewal) |
|------------------------------------|------------------------------|------------------------------|------------------------------|
| Premium | 100 | 100 | 100 |
| Claim | - | - | - |
| Commission | (50) | (50) | (50) |
| Expected unearned profit | 50 | 50 | 50 |
| Asset for acquisition costs | (100) | | |

Why amend the accounting treatment of acquisition costs?

The Board proposes to amend the accounting treatment of acquisition costs to address concerns that IFRS 17 currently results in losses being recognised because of some acquisition costs that a company expects to recover through renewals.

The proposed requirement to assess the recoverability of the asset and provide information in the notes to the financial statements is expected to increase the ongoing costs of applying IFRS 17 for companies. However, on balance, the Board expects the additional costs to be justified given stakeholder feedback that the proposed amendment is expected to make it easier for companies to explain the results of applying IFRS 17 to investors and others.

Practical implications

The proposed allocation of part of the acquisition costs to expected contract renewals is expected to:

- avoid the presentation of some insurance contracts as loss making at initial recognition; and
- result in the presentation of a larger longer-lived asset for acquisition costs in the balance sheet.

4 Attribution of profit to service relating to investment activities

IFRS 17 specifies how to attribute the profit for insurance contract services. This attribution affects the timing of profit recognition.

For insurance contracts without direct participation features (ie contracts to which the general model applies) IFRS 17 requires a company to recognise in profit or loss for a group of contracts:

- expected profit for insurance contract services—the contractual service margin—as insurance coverage is provided over time; and
- expected losses as soon as the company determines that losses are expected (at inception or subsequently).

Immediate recognition of losses from insurance contracts and recognition of profits for insurance contract services as insurance coverage is provided is expected to provide important information about the way companies earn profit from insurance contracts and the profitability trends of companies issuing insurance contracts.

Proposed amendment

The Board proposes to amend IFRS 17 so that, for insurance contracts to which the general model applies, a company would:

- recognise the expected profit for insurance contract services in profit or loss as both insurance coverage and any service relating to investment activities (investment-return service) are provided over time;³ and
- provide information in the notes to the financial statements about:
 - the expected recognition in profit or loss of the remaining expected profit for insurance contract services at the end of the reporting period; and
 - the judgement the company uses to determine the profit generated by any service relating to investment activities, in addition to the insurance coverage.

Why amend the timing of profit recognition?

The Board proposes to amend the timing of profit recognition for insurance contracts to which the general model applies to address concerns that IFRS 17 currently does not necessarily reflect that:

- many contracts combine insurance coverage and service relating to investment activities; and
- the timing of provision of service relating to investment activities might differ from the timing of provision of insurance coverage.

The proposed amendment is expected to provide information about revenue and profit generated by the service relating to investment activities a company provides to policyholders.

The proposed amendment might disrupt implementation processes already under way and therefore increase costs, particularly for companies at an advanced stage of implementation. However, on balance, the Board expects the potential disruption to be justified given stakeholder feedback about the increased usefulness of information.

³ For insurance contracts with direct participation features (ie contracts to which the variable fee approach applies), the Board proposes to clarify that a company is required to recognise the expected profit for insurance contract services as both insurance coverage and service relating to investment activities (investment-related service) are provided over time.

Practical implications

The proposed amendment would change the timing of profit recognition for insurance contract services for some contracts. It would not affect the timing of profit recognition for insurance contracts that do not provide any services relating to investment activities (for example, many car insurance contracts).

The following illustration shows the implications of the proposed amendment for a 10-year contract with an investment component providing insurance coverage for the first six years.

IFRS 17

Recognition of profit considering insurance coverage only

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Insurance coverage | | | | | | | | | |
| Investment component | | | | | | | | | |
| Recognition of profit for insurance contract services | | | | | | | | | |

Proposed amendment

Recognition of profit considering both insurance coverage and investment-return service

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Insurance coverage | | | | | | | | | |
| Investment-return service ⁴ | | | | | | | | | |
| Recognition of profit for insurance contract services | | | | | | | | | |

⁴ Not all insurance contracts with an investment component provide investment-return service in addition to insurance coverage.

5 Extension of the risk mitigation option

Insurance contracts to which the variable fee approach applies

Some insurance contracts provide returns to policyholders based on the fair value of underlying items, such as equity shares. The company and its policyholders share those returns, which are affected by market-driven changes in the fair value of the underlying items. IFRS 17 has a specific approach—the ‘variable fee approach’—for accounting for some of those contracts, which IFRS 17 defines as ‘insurance contracts with direct participation features’.

The variable fee approach requires the company to reflect some changes in insurance contract liabilities caused by changes in market values by adjusting the unearned profit on the balance sheet, rather than recognising them in profit or loss.

This approach does not apply to reinsurance contracts.

Risk mitigation option

When a company uses derivatives to mitigate the financial risks of insurance contracts with direct participation features, IFRS 17 currently allows the company to choose to recognise changes in financial risks in profit or loss, instead of adjusting the unearned profit on the balance sheet as normally required by the variable fee approach. This is described as the ‘risk mitigation option’.

Proposed amendment

The Board proposes to amend IFRS 17 to permit a company to use the risk mitigation option when the company uses reinsurance contracts held to mitigate financial risks of insurance contracts with direct participation features.

Why extend the risk mitigation option?

The Board proposes to extend the use of the risk mitigation option to address stakeholder concerns. Some stakeholders noted that:

- reinsurance contracts may be used by a company (insurer) to transfer risks arising from the insurance contracts with direct participation features that it issues (underlying insurance contracts) to another company (reinsurer); and

- mismatches might arise for changes in financial risks recognised in profit or loss for assets for reinsurance contracts held, whereas changes in the underlying insurance contracts with direct participation features are recognised by adjusting the unearned profit on the balance sheet when applying the variable fee approach.

The proposed amendment is expected to reduce accounting mismatches and make the accounting for insurance contracts more understandable to investors.

Practical implications

The proposed amendment is relevant to companies that use reinsurance contracts held to mitigate financial risks of insurance contracts with direct participation features that they issue. Companies that use the risk mitigation option would recognise in profit or loss both changes in liabilities for underlying insurance contracts with direct participation features and changes in assets for reinsurance contracts held caused by changes in financial risks.

6 Reduced accounting mismatches for reinsurance

A company might purchase reinsurance contracts to transfer to another company (reinsurer) a portion of the risks assumed when issuing insurance contracts.

IFRS 17 requires a company to account for a reinsurance contract held separately from any underlying insurance contracts issued.

Loss-making insurance contracts issued

For insurance contracts that at initial recognition are expected to be loss making, IFRS 17 requires a company to recognise losses immediately in profit or loss.

Reinsurance contracts held

IFRS 17 currently requires a company to recognise any net cost or net gain from reinsurance contracts held in profit or loss over time as the company receives reinsurance coverage.

Example—IFRS 17

The effect of applying the requirements in IFRS 17 is explained using the following simplified example of proportionate reinsurance contracts held (ie a fixed percentage of claims is recovered).

| Insurance contracts issued | |
|---|-------------|
| Premiums | 100 |
| Claims | (150) |
| Expected loss (recognised immediately) | (50) |

| Proportionate reinsurance contracts held | |
|--|------------|
| Reinsurance premiums | (125) |
| Claims recovered from reinsurance | 120 |
| Net cost (recognised over time) | (5) |

A company recognises a loss of CU50 immediately for insurance contracts issued and a cost of CU5 over time for reinsurance contracts held as the company receives reinsurance coverage (assuming 80% of claims are recovered from reinsurance).⁵

Combining the insurance contracts issued and the reinsurance contracts held results in a total cost of CU55 for the company, of which a loss of CU50 is recognised immediately and a net cost of recovering a portion of claims through reinsurance is recognised over time.

Proposed amendment

The Board proposes to amend IFRS 17 so that a company that recognises losses on loss-making insurance contracts on initial recognition would at the same time also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts held:

- cover the claims of the insurance contracts on a proportionate basis (ie a fixed percentage of claims is recovered); and
- are entered into before or at the same time the loss-making insurance contracts are issued.

⁵ In this document amounts are denominated in 'currency units' (CU).

Example—Proposed amendment

Applying the proposed amendment, a company would immediately recognise in profit or loss the recovery through reinsurance of the fixed percentage of the loss and would recognise the adjusted net cost of reinsurance as the company receives reinsurance coverage.

However, the proposed amendment does not affect the accounting for insurance contracts issued.

| Insurance contracts issued | |
|---|-------------|
| Premiums | 100 |
| Claims | (150) |
| Expected loss (recognised immediately) | (50) |

| Proportionate reinsurance contracts held | |
|--|-----------------|
| Reinsurance premiums | (125) |
| Claims recovered from reinsurance | 120 |
| of which: | |
| - recovery of loss | 40 ⁶ |
| - remaining claims | 80 |
| Net cost | (5) |
| of which: | |
| - gain recognised immediately | 40 |
| - adjusted net cost recognised over time | (45) |

Why amend the accounting for some reinsurance contracts held?

The Board proposes to amend the accounting for some reinsurance contracts held to address concerns that IFRS 17 requires a company to recognise losses on insurance contracts at initial recognition, when the company has a right to recover a fixed percentage of those losses through reinsurance.

The proposed amendment is expected to reduce accounting mismatches and make the accounting for reinsurance contracts held more understandable to investors.

The proposed amendment might disrupt implementation processes already under way and therefore increase costs, particularly for companies at an advanced stage of implementation. However, on balance, the Board expects any potential disruption to be justified given stakeholder feedback that the proposed amendment is expected to make it easier for companies to explain the results of applying IFRS 17 to investors and others.

Practical implications

The proposed amendment is expected to result in losses from insurance contracts issued and the recoveries of those losses from proportionate reinsurance contracts held to be recognised in the same period.

⁶ The gain on reinsurance contracts held of CU40 recognised immediately is determined as equal to the expected loss of the underlying insurance contracts issued multiplied by the fixed percentage of claims the insurer has a right to recover from the reinsurer (CU50 x 80% = CU40).

7 Simplified balance sheet presentation

IFRS 17 currently requires a company to present separately on the balance sheet groups of insurance contracts that are assets from groups of insurance contracts that are liabilities.

A group of insurance contracts is an asset or a liability depending on the net cash flows—such as premiums to be received and claims to be paid—for each group of insurance contracts. Identifying those net cash flows for each group of insurance contracts typically requires integrating independent systems, such as cash management systems and actuarial systems at a level of a group of contracts.

Proposed amendment

The Board proposes to amend IFRS 17 to require a company to present insurance contract assets and insurance contract liabilities on the balance sheet using portfolios of insurance contracts rather than groups of insurance contracts.

Why amend the level at which insurance contracts are presented on the balance sheet?

The Board proposes requiring companies to present on the balance sheet portfolios of insurance contracts rather than groups of insurance contracts to reduce IFRS 17 implementation costs for many companies. The proposed amendment means a company would no longer need to incur costs to integrate independent systems solely for the purposes of presenting insurance contracts on the balance sheet.

Offsetting groups in the balance sheet would result in a loss of useful information for investors. However, the Board regards the loss of information as acceptable when balanced against the cost relief for companies.

Practical implications

The proposed amendment is expected to reduce the size of insurance contract assets presented on the balance sheet. Many groups of insurance contracts are expected to move between asset and liability positions (depending on the timing of collection of premiums), whereas most portfolios of insurance contracts are expected to be consistently in a liability position.

8 Additional transition reliefs

When a company first applies IFRS 17, it is required to account for its insurance contracts as if IFRS 17 had always been applied. However, when it is impracticable to do so, the company can measure the unearned profit of insurance contracts using alternative approaches—a modified retrospective approach or a fair value transition approach. These approaches allow the company to benefit from the use of the transition reliefs.

During its discussions about possible amendments to IFRS 17 the Board noted that the specified modifications in the modified retrospective approach do not prohibit a company from making estimates when applying such modifications.

Proposed amendment

The Board proposes to add three simplifications to IFRS 17 for the benefit of companies when applying the Standard for the first time.

1 | Business combinations—In some circumstances a company would be permitted to account for liabilities for claims settlement acquired in a business combination as a liability for incurred claims, rather than as a liability for remaining coverage.

2 | Risk mitigation from the transition date—A company that designates risk mitigation relationships before the date of transition to IFRS 17 would be permitted to apply the risk mitigation option to those relationships from the date of transition to IFRS 17.

continued ...

3 | Risk mitigation and fair value transition approach—A company would be permitted to use the fair value transition approach to measure a group of insurance contracts at transition that would otherwise be accounted for retrospectively. This approach would be permitted if the company:

- chooses to apply the risk mitigation option to the group of insurance contracts prospectively from the date of transition to IFRS 17; and
- has used derivatives or reinsurance contracts held to mitigate financial risks arising from the group of insurance contracts before the date of transition to IFRS 17.

Why add other transition reliefs to IFRS 17?

The Board proposes to add simplifications to the modified retrospective approach and the fair value transition approach for the benefit of companies applying the Standard for the first time to address concerns that the transition requirements in IFRS 17 are costly and burdensome to apply.

The Board expects those simplifications will ease implementation and reduce its costs. The proposed amendment is expected to introduce additional optionality and therefore increase the costs of analysis for investors. However, the Board expects that the disclosures required by IFRS 17 at transition will mitigate those costs.

Practical implications

Companies that apply the proposed transition relief for contracts acquired in a business combination before the date of transition to IFRS 17 are expected to report lower revenue and expenses. Liabilities for incurred claims do not give rise to revenue and expenses for the expected claims.

Companies that apply the two proposed transition reliefs regarding the use of the risk mitigation option would reflect:

- in comparative information, the effects of risk mitigation when first applying IFRS 17; and
- consistently, in equity at transition and in future profitability, the effects of risk mitigation activities in place before the date of transition to IFRS 17.

Why does the Board not propose any other changes?

IFRS 17 is urgently needed to address inadequacies in existing insurance accounting practices.

The Board acknowledges that changing IFRS 17 shortly after its issuance, and before its effective date, creates uncertainty for stakeholders and risks disrupting implementation already under way.

However, the Board concluded that the potential costs of proposing targeted amendments to IFRS 17 could be justified if those amendments would provide meaningful support to companies implementing the Standard—by reducing implementation costs and making it easier for companies to explain the results of applying IFRS 17 to investors and others—and would not result in a significant loss of useful information for investors relative to that which would otherwise result from applying IFRS 17 as originally issued.

Although narrow in scope, the proposed targeted amendments would resolve many of the concerns and challenges raised by stakeholders.

The Basis for Conclusions on the Exposure Draft explains the Board’s rationale for proposing some and rejecting other amendments suggested by stakeholders. The Board decided not to propose some suggested amendments because these amendments could:

- change the fundamental principles of the Standard resulting in a significant loss of useful information for investors relative to that which would otherwise result from applying IFRS 17 as originally issued;
- unduly disrupt implementation already under way; or
- further delay the effective date of IFRS 17.

Examples of amendments suggested by stakeholders that did not meet the criteria set by the Board include:

- **Contract boundary of reinsurance contracts held**—Excluding from reinsurance contracts held cash flows relating to underlying contracts not yet issued would conflict with the fundamental principle in IFRS 17 that all future cash flows are reflected in the measurement of an insurance contract.
- **Unit of account**—Suggested amendments could result in a significant loss of information about trends in a company’s profitability and delayed recognition of losses on loss-making contracts and profit on profitable contracts.⁷
- **Reducing optionality for the presentation of insurance finance income or expenses**—Requiring, rather than permitting, insurance finance income or expenses to be presented either entirely in profit or loss or partly in other comprehensive income to improve comparability could unduly disrupt implementation already under way.

⁷ More information about the unit of account in IFRS 17 and how it will highlight the development of insurers’ profitability over time is included in this article: https://www.ifrs.org/-/media/feature/resources-for/investors/investor_perspectives/investor-perspective-apr-2018.pdf.

What next?

The deadline for comments on the proposed targeted amendments is 25 September 2019.

The Exposure Draft includes questions on the proposed targeted amendments. Respondents may choose to answer all or just selected questions.

Consistent with its usual approach, the Board is requesting comments only on matters addressed in the Exposure Draft.

Comment letters will be posted on the IFRS Foundation website, unless confidentiality is specifically requested.

During the comment period, the Board will also seek additional feedback on the proposed targeted amendments.

The Board will consider all feedback on the proposed targeted amendments and will discuss responses to them in public meetings.

The Board plans to issue the final amendments to IFRS 17 in mid-2020.

Stay informed

To stay up to date with the latest developments on IFRS 17 and to sign up for email alerts, please visit the IFRS Foundation on www.ifrs.org.

IFRS 17 expected timeline

| 18 May 2017 | 26 June 2019 | 25 September 2019 | Mid-2020 | January 2022 |
|----------------|---|---|--|--|
| IFRS 17 issued | Exposure Draft of proposed amendments to IFRS 17 issued | Deadline for comments on proposed amendments to IFRS 17 | Expected finalisation of amendments to IFRS 17 | Effective date (IFRS 17 including proposed amendments) |

Support for IFRS 17 implementation



Glossary

The following list of some key terms used in this document is for educational purposes only. Terms defined in IFRS 17 are included in Appendix A of the Standard.

Contractual service margin

The component of the asset or liability for a group of insurance contracts representing the unearned profit the company will recognise in profit or loss as the company provides services under insurance contracts in the group.

Date of transition to IFRS 17

The beginning of the annual reporting period immediately before the date of initial application of IFRS 17.

Fair value transition approach and modified retrospective approach

Methods a company can use when first applying IFRS 17 to determine the contractual service margin for insurance contracts issued prior to the first application of IFRS 17.

General model and variable fee approach

The accounting model in IFRS 17. The general model is modified for insurance contracts with direct participation features—the modifications for those contracts are referred to as the variable fee approach.

Group of insurance contracts

A set of insurance contracts resulting from the division of a portfolio of insurance contracts following criteria specified in IFRS 17.

Insurance contract services

Insurance coverage, investment-related service and investment-return service.

Investment component

The amounts an insurance contract requires the company to repay to a policyholder in all circumstances, regardless of whether an insured event occurs.

Investment-related service

Service of managing underlying items (for example, equity shares) on behalf of the policyholder. This service is provided by insurance contracts with direct participation features (ie contracts to which the variable fee approach applies).

Investment-return service

Service of generating an investment return to the policyholder. This service might be provided by insurance contracts without direct participation features (ie contracts to which the general model applies).

Liability for remaining coverage

An insurer's obligation to provide insurance contract services.

Liability for incurred claims

An insurer's obligation to pay claims for events that have already occurred.

Portfolio of insurance contracts

Insurance contracts that are subject to similar risks and managed together. Different product lines (for example, annuities and car insurance) are expected to be in different portfolios.

Proportionate reinsurance contract held

A reinsurance contract held that provides a company (insurer) with the right to recover from another company (reinsurer) a fixed percentage of all claims incurred on a group of insurance contracts it issued.

Other information

This Snapshot has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views expressed in this document are those of the staff who prepared it and are not necessarily the views or the opinions of the Board and should not be considered authoritative in any way. The content of this Snapshot does not constitute any advice.

Official pronouncements of the Board are available in electronic format to eIFRS subscribers. Publications are available from the IFRS Foundation website at www.ifrs.org.

Other relevant documents

Exposure Draft *Amendments to IFRS 17*—specifies the proposed amendments to IFRS 17.

Basis for Conclusions on the Exposure Draft—summarises the Board’s considerations in developing the proposed amendments.



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