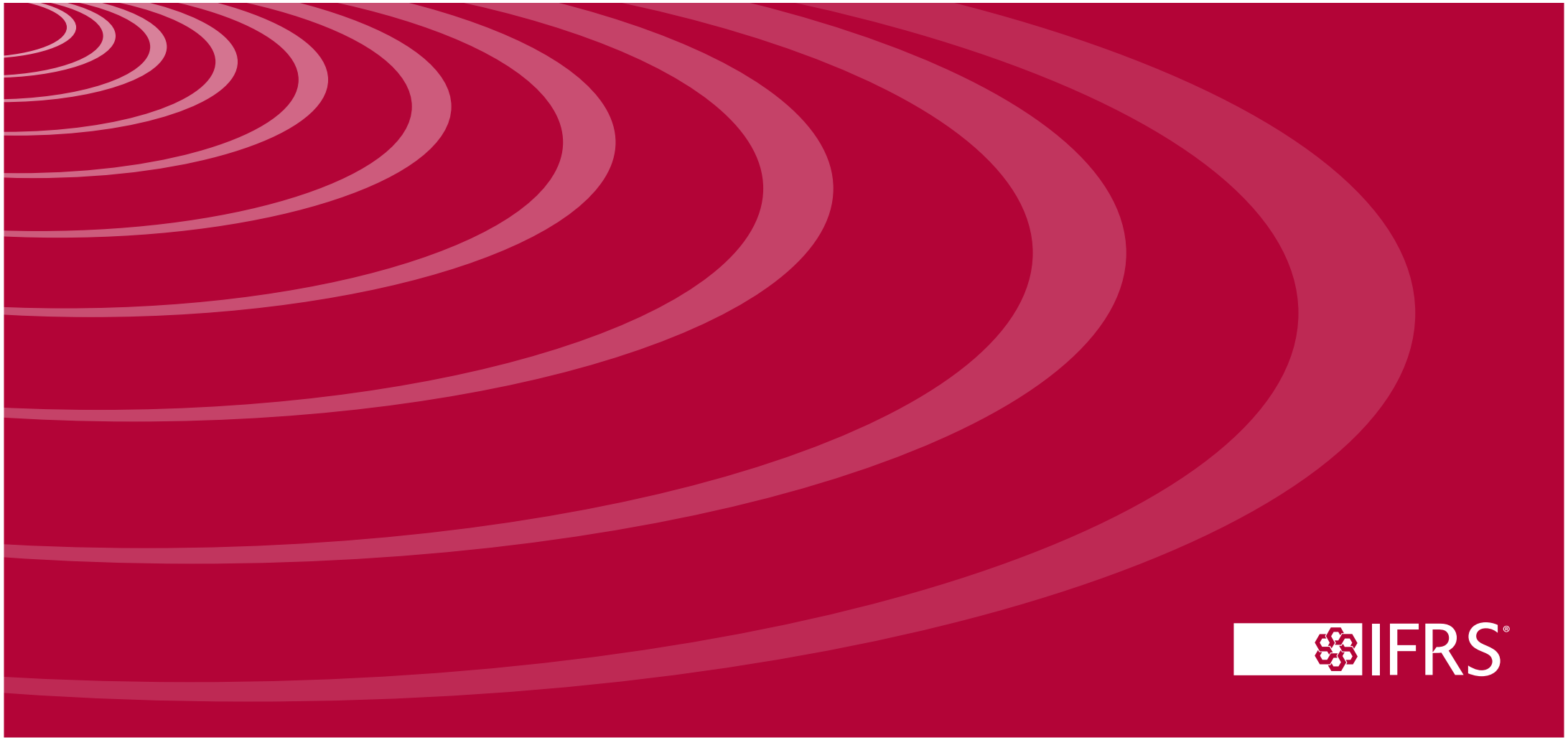
May 2017

IFRS® Standards
Feedback Statement

IFRS 17 *Insurance Contracts*



Introduction

The International Accounting Standards Board (the Board) issued IFRS 17 *Insurance Contracts* in May 2017. IFRS 17 sets out the requirements that a company[1] should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds.

IFRS 17 is effective from 1 January 2021. A company can choose to apply IFRS 17 before that date but only if it also applies IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

IFRS 17 replaces an interim Standard—IFRS 4 *Insurance Contracts*.

IFRS 17 introduces a fundamental change to existing insurance accounting practices for some companies. Many concepts in IFRS 17 are new to many companies given that IFRS 4 focuses only on enhanced disclosures and does not prescribe the measurement of insurance contracts.

Consequently, the Board proceeded cautiously with the development of a comprehensive framework for accounting for insurance contracts, going well beyond its already extensive due process requirements.

The Board sought feedback at each stage of the project and considered that feedback when revising the proposed requirements.

This document summarises the feedback on the proposals that preceded IFRS 17 as well as how the Board responded to that feedback.

Changes since the most recent public consultation

Appendix A to the Basis for Conclusions on IFRS 17 summarises the main differences between the most recent public consultation on the proposed IFRS Standard for insurance contracts published in June 2013[2] and IFRS 17 issued in May 2017.

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.
2 2013 Exposure Draft—*Insurance Contracts*.

Consultation, fieldwork and testing

The Board has undertaken three public consultations on its insurance contracts proposals and held hundreds of meetings, round-table discussions and other outreach.

The consultations included extensive discussions with users and preparers of financial statements, actuaries, regulators, standard-setters and accounting firms worldwide.

In addition, the Board also considered information from:

(a) the work performed by its predecessor organisation—the International Accounting Standards Committee—in a project on insurance contracts between 1997 and 2001;[3] and

(b) its Insurance Working Group, established to help the Board analyse accounting issues relating to insurance contracts.[4]

The Board concluded that the application of IFRS 17 will have significant operational implications. These include the costs companies incur to develop systems that can reflect the varied complex risks from different types of insurance contracts.

The outreach included four rounds of fieldwork and testing by preparers as well as workshops discussing the costs and benefits of the proposals.

The fourth round of fieldwork and testing supplemented a December 2016 external editorial review of a draft of IFRS 17 by a selected group of reviewers that specialised in reading technical requirements. This external editorial review assessed whether the draft of IFRS 17 clearly described and explained the decisions made by the Board and aimed to confirm that there were no internal inconsistencies or inconsistencies with other IFRS Standards.

In addition, the Board conducted discussions with many users of financial statements to gather information about the usefulness of the information about insurance contracts that IFRS 17 will provide those users.

Extensive consultation

- 2007 Discussion Paper—*Preliminary Views on Insurance Contracts* (the 2007 Discussion Paper).
- 2010 Exposure Draft—*Insurance Contracts* (the 2010 Exposure Draft).
- 2013 Exposure Draft—*Insurance Contracts* (the 2013 Exposure Draft).
- More than 600 comment letters received and analysed.
- Meetings with the Board's advisory bodies, including the Insurance Working Group.
- Over 900 meetings with individual and groups of investors, analysts, preparers, actuaries, regulators, standard-setters, accounting firms and others, including:
  - round-table meetings and discussion forums in 18 countries in 2010 and 2013; and
  - 44 discussions with 159 users of financial statements conducted between June and December 2013.

3 The International Accounting Standards Committee began an insurance contracts project in 1997. It published an *Issues Paper* in 1999 and concluded its work in 2001 by developing a report to the Board in the form of a *Draft Statement of Principles*. The Board was constituted in 2001, and it included a project on insurance contracts in its initial work plan.

4 The Insurance Working Group brought together a wide range of perspectives. Its members included senior financial executives involved in financial reporting.

Feedback statement

The Board received significant feedback from comment letters and outreach on the three public consultations on its insurance contracts proposals published over the course of the project.

The feedback demonstrated that many stakeholders support the need for a comprehensive IFRS Standard on insurance contracts. They also support using current assumptions about cash flows, discount rates and risks to measure insurance contracts. These features of IFRS 17 have remained largely unchanged throughout the project. In contrast, feedback on some other aspects of the project has been mixed and offered recommendations for revision.

Over the course of the project, many stakeholders expressed concerns about the cost and complexity of applying some of the new requirements. However, some of the revisions and refinements recommended by stakeholders are more costly and complex than the original proposals. To the extent that those revisions and refinements add useful information to the development of IFRS 17 the Board has modified its original proposals.

The following pages outline the significant matters raised and how the Board responded:

1—Measurement of insurance contracts

Project proposals	Feedback	The Board's response
1.1—Core measurement approach The 2007 Discussion Paper and the 2010 and 2013 Exposure Drafts proposed that the measurement of insurance contracts would be done on the basis of current estimates of future cash flows, adjusted for the timing and risk of those cash flows (sometimes referred to as the 'building block approach'). In the 2007 Discussion Paper, the Board proposed that a company would use inputs consistent with current exit value to measure its insurance contracts, using the 'building block approach'. However, the Board was persuaded by the feedback on the 2007 Discussion Paper that insurers generally fulfil their insurance contracts directly over time by making payments to policyholders rather than by transferring those contracts. Consequently, the 2010 and 2013 Exposure Drafts replaced the exit value notion with an approach that considers the cash flows that arise as a company fulfils the contracts.	Stakeholders generally supported the core principles of the measurement approach for insurance contracts. Nonetheless, some stakeholders expressed concerns about specific aspects of the proposals for the determination of future cash flows (for example, the contract boundary), the discount rate and the risk adjustment. The following pages include further information on the feedback on these specific aspects.	The Board confirmed the core measurement approach proposed in the 2010 and 2013 Exposure Drafts and took a number of steps to address the feedback on the determination of the inputs for the measurement of insurance contracts. The following pages include further information about the steps taken by the Board. The Board also developed a simplified approach to measure some simpler insurance contracts (see 5.3—Premium allocation approach).

Project proposals	Feedback	The Board's response
1.2—Contract boundary The 2010 and 2013 Exposure Drafts proposed that the cash flows used to measure insurance contracts would be those (and only those) within the contract boundary—ie the point at which an insurer either would no longer be required to provide insurance coverage or could reassess the risk and the price of an insurance contract. The cash flows of an insurance contract would be outside the contract boundary when the insurer has the right or practical ability to reprice the contract to fully reflect either: (a) its risk—proposed in the 2010 Exposure Draft; or (b) the risk of the portfolio that includes the contract—added in the 2013 Exposure Draft in response to concerns about contracts for which the pricing is assessed at the portfolio level (for example, the insurer may reprice all contracts within a portfolio, except those for individual policyholders).	Most stakeholders agreed with the proposed contract boundary principle. Many stakeholders supported the revised proposal in the 2013 Exposure Draft so that a substantive obligation to provide insurance coverage would end when an insurer has the right or practical ability to reassess the risk and set a new price either at the portfolio level or at the individual contract level. Some stakeholders requested additional guidance regarding payments determined at the discretion of an insurer (ie whether those cash outflows would be included within the contract boundary).	The Board confirmed the revised proposal in the 2013 Exposure Draft and decided to provide additional guidance on the definition of contract boundary. In particular, the application guidance of IFRS 17 specifies the cash flows that are included within the contract boundary and those that are excluded.

Project proposals	Feedback	The Board's response
1.3—Cash flows to policyholders of other contracts The 2010 and 2013 Exposure Drafts proposed that the cash flows used to measure insurance contracts would include all those that relate directly to fulfilling the insurance contracts.	Many stakeholders noted that, in some cases, cash flows of a group of contracts may be affected by cash flows of other groups of contracts as specified in the terms of the contracts. Many stakeholders requested the Board to clarify the interaction between this factor—sometimes referred to as 'mutualisation between contracts'—and the requirements to measure groups of contracts.	The Board decided to: (a) clarify in IFRS 17 that this factor is considered in the measurement of the fulfilment cash flows; and (b) include additional application guidance in IFRS 17 on the different practical approaches that can be taken to determine the fulfilment cash flows of groups of contracts that affect or are affected by cash flows to policyholders of other contracts.
1.4—Acquisition cash flows The 2010 and 2013 Exposure Drafts proposed that the cash flows used to measure insurance contracts would include acquisition cash flows. The 2013 Exposure Draft proposed that a company would consider acquisition cash flows that can be directly attributed to the portfolio containing the contract rather than only those that are incremental at the contract level, as proposed in the 2010 Exposure Draft.	Stakeholders generally supported the proposed inclusion of acquisition cash flows in the measurement of insurance contracts. They also generally supported that those cash flows include those directly attributed to the portfolio of those insurance contracts. Some stakeholders requested clarification on whether overhead costs and taxes would be included in the cash flows used to measure insurance contracts.	The Board confirmed the proposal in the 2013 Exposure Draft about the inclusion of acquisition cash flows directly attributed to a portfolio of insurance contracts in the cash flows used to measure those insurance contracts. IFRS 17 clarifies that overhead costs and taxes that relate directly to the fulfilment of the insurance contracts should be included in the cash flows used to measure a group of insurance contracts.

Project proposals	Feedback	The Board's response
1.5—Discounting The 2010 and 2013 Exposure Drafts proposed that the present value of future cash flows would be calculated using current discount rates that reflect only the characteristics of those cash flows and that do not consider an insurer's own credit risk. The 2010 Exposure Draft proposed that the discount rate would be the risk-free rate, adjusted for liquidity. In response to concerns about the difficulty of directly reflecting the inherent illiquidity of insurance contracts in the discount rates, the Board revised its proposal to provide additional guidance for determining discount rates consistent with observable market prices. In response to concerns about a lack of clarity on what would happen if cash flows of insurance contracts depend on asset returns, the 2013 Exposure Draft clarified that when the characteristics of the insurance contracts depend on the characteristics of the underlying items, the discount rates should also reflect those characteristics.	Many stakeholders supported the discounting of future cash flows. Nonetheless, some stakeholders questioned the benefit of discounting short-term insurance contracts. Throughout the project, stakeholders expressed different views on the determination of discount rates that better reflect the characteristics of the insurance contracts. Some methods suggested by insurers include: (a) using a rate based on the return on assets held to back insurance contracts; (b) using a reference rate such as a high quality corporate bond rate; and (c) permitting insurers to select a rate, with note disclosures provided for the benefit of users of financial statements. Some stakeholders also suggested the use of discount rates that are locked-in at initial recognition of the contracts and not subsequently updated. Some stakeholders requested additional guidance on how to determine the rates used to discount long-term obligations over periods of time in which there are few or no observable market interest rates.	The Board confirmed the revised proposals in the 2013 Exposure Draft about the discounting of future cash flows. The Board concluded that using discount rates that reflect the characteristics of the insurance contracts best reflects the economics of the insurance contracts and provides the most useful information to users of financial statements. The Board also made a number of clarifications to the accompanying guidance to make its intentions clear and to reduce the risk of inconsistent application. For example, the application guidance in IFRS 17 specifies that when observable market rates for an instrument with the same characteristics are not available, or observable market rates for similar instruments are available but do not separately identify the factors that distinguish the instrument from the group of insurance contracts, a company shall estimate the appropriate rates using an estimation technique. To reduce costs for issuers of short-term insurance contracts, the Board decided to include in IFRS 17 a simplified measurement approach for short-term insurance contracts—referred to as the 'premium allocation approach'. When applying that approach, a company is permitted to not discount cash flows for claims that are expected to be settled within one year.

Project proposals	Feedback	The Board's response
1.6—Risk adjustment for non-financial risk The 2010 Exposure Draft proposed that the measurement of insurance contracts would consider an explicit risk adjustment determined using three prescribed techniques at the level of a portfolio of insurance contracts. The 2013 Exposure Draft removed the limitation of techniques used to determine the risk adjustment and proposed that: (a) the objective of the risk adjustment should be to reflect 'the compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfils the insurance contract'; and (b) an insurer should disclose the confidence level to which the risk adjustment corresponds to addressing concerns about comparability and subjectivity.	Stakeholders generally supported the inclusion of an explicit risk adjustment in the measurement of insurance contracts. However, stakeholders expressed differing views on the determination of the risk adjustment. Many stakeholders supported a principle-based approach rather than limiting the number of techniques. A few stakeholders supported limiting the number of approaches to improve comparability between insurers. In addition, many stakeholders indicated that the risk adjustment should reflect the effect of diversification between portfolios and therefore that it should be determined at a higher level, rather than at a portfolio level. Most insurers did not support the proposal that if a company uses a technique other than a confidence level technique for determining the risk adjustment, it should disclose a translation of the result of that technique into a confidence level. Some stakeholders questioned whether the risk adjustment for financial reporting could differ from that used for regulatory purposes.	The Board confirmed the revised proposal in the 2013 Exposure Draft so that IFRS 17 specifies the objective of the risk adjustment rather than prescribing the techniques for and the level of the determination of the risk adjustment. IFRS 17 requires a company to reflect, in the measurement of all insurance contracts, an explicit risk adjustment and to disclose how the company determined this amount. IFRS 17 defines the risk adjustment for non-financial risk as the compensation a company requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the company fulfils insurance contracts. If the company uses a technique other than the confidence-level technique for determining the risk adjustment, the company is required to disclose a translation of the result of that technique into a confidence level. The Board concluded that this information will allow users of financial statements to see how the company's own assessment of its risk aversion compares to that of other companies. The Board noted that, when applying IFRS 17, a company may elect to align the risk adjustment with that required by a regulatory framework (for example, with the Risk Margin required by Solvency II).

2—Performance of insurance contracts

Project proposals	Feedback	The Board's response
2.1—Profit at initial recognition The 2007 Discussion Paper considered whether to permit the recognition of profit when a contract is initially recognised. To reflect suggestions made by many stakeholders, the 2010 and 2013 Exposure Drafts proposed that a company would not recognise any gain (ie unearned profit) at initial recognition. Instead, at initial recognition, the company would recognise the unearned profit of the insurance contracts on the balance sheet as a component of the insurance contract liability (referred to as the 'residual margin' in the 2010 Exposure Draft and the 'contractual service margin' in the 2013 Exposure Draft). The unearned profit would then be recognised in profit or loss over the insurance coverage period.	Stakeholders had mixed views on the recognition of profit arising from insurance contracts. Although some stakeholders supported the recognition of unearned profit in profit or loss at initial recognition, most stakeholders agreed with the proposals in the 2010 and 2013 Exposure Drafts that a company should not recognise any unearned profit in profit or loss at initial recognition. Stakeholders also expressed differing views on how the unearned profit should be recognised in profit or loss after initial recognition. A few stakeholders suggested that the unearned profit should be allocated over the coverage and settlement periods, and not merely over the coverage period. Many stakeholders asked for further guidance on the determination of the pattern of recognition of the unearned profit in profit or loss.	The Board confirmed the general approach proposed in the 2010 and 2013 Exposure Drafts that a company should not recognise any gain (ie unearned profit) at initial recognition and that it should recognise a contractual service margin as a component of the insurance contract liability on the balance sheet instead. In response to concerns about the subjectivity in determining the pattern of recognition of profit, the Board made a number of clarifications on the way a company should recognise the contractual service margin in profit or loss. IFRS 17 requires the contractual service margin to be recognised over the coverage period in a pattern that reflects the provision of insurance coverage. To achieve this, the contractual service margin for a group of contracts is allocated over the coverage period on the basis of the coverage units, reflecting the expected duration and quantity of benefits provided by the contracts in the group.

Project proposals	Feedback	The Board's response
2.2—Level of aggregation The 2010 Exposure Draft proposed that the unearned profit of the insurance contracts (residual margin) would be determined at a level that aggregates insurance contracts into a portfolio of contracts and, within a portfolio, by a similar date of inception of the contract and by a similar coverage period. The 2013 Exposure Draft proposed that, in general, a company would measure insurance contracts on a portfolio basis unless a different level of aggregation is needed to meet the objectives of measuring different components of the insurance contracts. The 2013 Exposure Draft proposed that a portfolio of insurance contracts would include insurance contracts that: provide coverage for similar risks and that are priced similarly relative to the risk taken on; and that are managed together in a single pool.	Many stakeholders noted the operational implications of having a large number of groups of contracts and the effects of grouping on profitability. Many stakeholders expressed concerns about the level of judgement needed to identify insurance contracts with similar profitability to be aggregated. Many insurers were concerned that aggregating insurance contracts into groups based on similar profitability would result in having more groups of insurance contracts than those insurers currently have for measurement purposes, resulting in higher operational costs. Some stakeholders were concerned that the proposed level of aggregation does not appropriately reflect the nature of insurance and the way that insurance risks and insurance business are managed. Some stakeholders asked the Board to clarify whether companies would be permitted to add contracts with a different profitability level to an existing portfolio of contracts.	The Board concluded that grouping contracts is necessary to ensure timely recognition of losses when they arise and relevant and timely allocation of profit (contractual service margin), including the development of the profitability over time. In principle, to achieve its objective of reporting profits and losses in appropriate periods, groups should be based on notions of similar profitability. However, in determining the requirements on grouping contracts, the Board sought to balance this principle with the provision of cost relief to companies applying IFRS 17. As a result, IFRS 17 requires a company to identify portfolios of insurance contracts and to divide each portfolio into: (a) a group of contracts that are onerous at initial recognition, if any; (b) a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and (c) a group of remaining contracts, if any. To provide trend information on the changes in profitability of contracts written in different periods and to reduce complexity for insurers in determining groups, IFRS 17 requires a company to include in the same group only contracts issued in the same year. The Board considered alternative suggestions that would result in greater aggregation of contracts, but concluded that those suggestions would generally have made the recognition of profit or loss less transparent.

Project proposals	Feedback	The Board's response
2.3—Recognition of losses The 2010 and 2013 Exposure Drafts proposed that a company would recognise immediately in profit or loss losses related to onerous contracts.	Most stakeholders agreed with the proposals in the 2010 and 2013 Exposure Drafts that any losses at initial recognition should be recognised in profit or loss. Some stakeholders requested the Board to clarify when a company would recognise onerous contracts and how the company would test whether a contract is onerous. Many insurers expressed concerns about the costs of tracking individual loss-making contracts rather than groups of loss-making contracts.	The Board confirmed its view that a company should recognise losses in profit or loss when expected. At initial recognition, IFRS 17 requires a company to identify onerous contracts and to recognise losses on those contracts immediately in profit or loss. Subsequently, IFRS 17 requires the company to regularly update the fulfilment cash flows and to: (a) recognise in profit or loss additional losses for groups of onerous contracts; and (b) adjust the contractual service margin for other groups of contracts. If the contractual service margin for those groups of contracts is reduced to zero, any further negative changes for additional expected outflows are recognised in profit or loss. The Board noted the interaction between the principle for the recognition of losses and the grouping of contracts. When insurance contracts are aggregated into groups, some losses on contracts within a group that individually become onerous might be offset by gains on other contracts (within the group). The requirements for the level of aggregation are discussed in 2.2—Level of aggregation.

Project proposals	Feedback	The Board's response
2.4—Insurance revenue The 2010 Exposure Draft proposed that a company would present in profit or loss the following drivers of profitability for an insurer: (a) insurance contract margin for long-term insurance contracts; and (b) revenue and expenses for short-term insurance contracts. In response to the feedback, the 2013 Exposure Draft proposed that, for all insurance contracts, companies would present insurance revenue and expenses on a basis consistent with the principles of revenue and expenses in other IFRS Standards. In particular, the amount of insurance revenue presented in profit or loss would depict the provision of insurance services under the contracts for the period.	Many stakeholders, including users of financial statements, disagreed with the proposal in the 2010 Exposure Draft. In their view, the proposed margin for long-term insurance contracts would eliminate existing important information from profit or loss, such as premiums (which provide a measure of the new business), benefit payments and claims expenses. Those stakeholders thought that a measure of gross performance, similar to the revenue provided for short-term insurance contracts, would be useful for all contracts. Many stakeholders agreed with the Board's view in the 2013 Exposure Draft that a presentation of insurance revenue at an amount that depicts the insurance services provided in the period would increase comparability among industries and would help non-specialist investors when making their asset allocation decisions for insurance companies. However, some stakeholders disagreed with the proposal in the 2013 Exposure Draft. Those stakeholders did not view comparability between insurance and other industries as a priority because they believed that analysts typically compare insurers with insurers. Some insurers proposed that their existing premiums income, which has differences between jurisdictions, should continue to be presented as a measure of revenue in profit or loss.	The Board confirmed its view included in the 2013 Exposure Draft that insurance revenue should represent the consideration that a company expects to be entitled to in exchange for services provided under those contracts in the period. Accordingly, IFRS 17 requires a company to report as insurance revenue the consideration for services on an earned basis. This is comparable to revenue recognition for other industries. As a result, when applying IFRS 17, insurance revenue will exclude deposit components which represent policyholders' investments, which are not a consideration for insurance services. IFRS 17 requires premiums received to be disclosed in the notes to the financial statements. This measure will therefore continue to be available when companies apply IFRS 17. IFRS 17 prohibits the presentation of premiums in the statement of comprehensive income as a measure of insurance revenue if the amount of premiums is inconsistent with the amount of insurance revenue determined in applying IFRS 17.

Project proposals	Feedback	The Board's response
2.5—Accretion of interest on the contractual service margin The 2010 and the 2013 Exposure Drafts proposed that, at initial recognition, a company would account for the unearned profit on a discounted basis that reflects the timing of cash flows. As time passes, the effect of the time value of money diminishes. A company would reflect this reduction in the statement of comprehensive income as insurance finance expenses, using the discount rate at the initial recognition of the contracts (ie locked-in interest rates).	Many stakeholders agreed with the principle that the effect of the passage of time on the contractual service margin should be reflected in the statement of comprehensive income, but they were concerned that the costs would not exceed the benefits of information provided to users of insurers' financial statements. Some stakeholders expressed the view that the operational burden could be reduced if a company were to use a current, rather than the locked-in, interest rate for accretion. Other stakeholders agreed with the Board's view that a locked-in rate would be conceptually correct because the interest accretion should reflect only the time difference between the initial recognition of the contract and the time when the service is provided, rather than reflecting the current price that a company would charge for the service at the reporting date. Some stakeholders also noted that the use of a locked-in rate would prevent volatility in the investment result in some circumstances.	The Board confirmed the proposals in the 2010 and 2013 Exposure Drafts that, for insurance contracts without direct participation features, a company should use the locked-in rate at initial recognition of the contracts for accreting interest on the contractual service margin because doing so provides a faithful representation of the revenue earned as service is provided. The Board concluded that both locked-in rates and current rates for the accretion of interest on the contractual service margin have complexities. The Board developed a specific approach for insurance contracts with direct participation features for which the contractual service margin at initial recognition is updated to reflect changes in the amount of the variable fee, including those related to changes in discount rates and other financial variables (see 3.3—Insurance contracts with direct participation features).

3—Volatility

Project proposals	Feedback	The Board's response
3.1—Changes in estimates The 2010 Exposure Draft proposed that the unearned profit (residual margin) would not be subsequently adjusted for any changes in estimates. All changes in estimates would therefore be recognised in profit or loss when they occur. In response to the feedback, the 2013 Exposure Draft proposed that the unearned profit (contractual service margin) would be required to be adjusted for changes in estimates of the cash flows that relate to future service.	Many stakeholders were concerned that the proposal in the 2010 Exposure Draft would result in what they view as artificial volatility for companies issuing insurance contracts. Many stakeholders stated that unless the contractual service margin is adjusted to reflect changes in estimates of the cash flows, there would not be a faithful representation of the remaining profitability of the group of insurance contracts and counterintuitive effects would result in periods after the change in estimate. Accordingly, those stakeholders supported the proposal in the 2013 Exposure Draft that the contractual service margin should be adjusted to reflect changes in estimates of the cash flows that relate to future service. Many stakeholders thought that changes in the risk adjustment that relate to future service should also adjust the contractual service margin. A few stakeholders expressed concerns about the cost and complexity of distinguishing changes in estimates of the cash flows that relate to past and future service.	The Board confirmed the proposal in the 2013 Exposure Draft. The Board noted that the approach proposed in the 2010 Exposure Draft would not require companies to adjust the contractual service margin and would therefore be less costly for companies to apply. However, the Board concluded from the feedback that adjusting the contractual service margin for changes in estimates (including those that relate to the risk adjustment) better represents the remaining profitability of a group of insurance contracts. Accordingly, IFRS 17 requires a company to adjust the contractual service margin for changes in estimates of the cash flows and the risk adjustment that relate to future service. When applying IFRS 17, a company will therefore recognise in profit or loss only changes in estimates of the cash flows that relate to current and past service.

Project proposals	Feedback	The Board's response
3.2—Effect of changes in discount rates The 2007 Discussion Paper and the 2010 Exposure Draft proposed that all income and expenses from insurance contracts would be recognised in profit or loss. In response to concerns about the effect of market fluctuations on the insurance service result, the 2013 Exposure Draft proposed that the effect of changes in discount rates would be recognised in other comprehensive income, rather than in profit or loss.	Many stakeholders expressed the view that recognising changes in insurance obligations arising from market fluctuations (for example, changes in discount rates) in profit or loss would obscure a company's insurance service performance. Many users of financial statements agreed that a presentation of the effect of changes in discount rates in other comprehensive income would provide useful information. However, some insurers expressed concerns about the complexity and operational burden imposed by a disaggregation of the effect of changes related to market variables between profit or loss and other comprehensive income. In addition, many stakeholders were concerned about the possible accounting mismatches that could occur if changes in discount rates for insurance contracts are presented in other comprehensive income and changes in fair value of financial assets backing insurance contracts are not presented in other comprehensive income.	The Board further simplified its proposal in the 2013 Exposure Draft. The Board concluded that a company is permitted to choose to present the effects of changes in discount rates and other financial variables either in profit or loss or disaggregated between profit or loss and other comprehensive income. This choice is made on a portfolio-by-portfolio basis. On the basis of the feedback, the Board concluded that permitting, but not requiring, a presentation of the effect of some changes in other comprehensive income provides substantial cost relief for companies that consider it too complex to disaggregate the effects of changes in discount rates and other financial variables between profit or loss and other comprehensive income. The Board also concluded that this relief does not significantly reduce the improvements introduced by IFRS 17 because the amount of total comprehensive income would be comparable between companies exercising different options. The Board noted that the flexibility in the presentation of the effects of changes in discount rates provided by IFRS 17 will allow a company to align the accounting treatment of each portfolio of insurance contracts with the accounting treatment of the assets that back that portfolio and, therefore, will help the company to reduce accounting mismatches.

Project proposals	Feedback	The Board's response
3.3—Insurance contracts with direct participation features In response to concerns about the accounting mismatches that would be reported if a company reports changes in insurance contract liabilities on a current value basis while the assets are not measured at fair value through profit or loss, the 2013 Exposure Draft proposed a measurement and presentation exception for some contracts with participation features—referred to as 'the mirroring exception'. For those contracts a company would measure and present cash flows that vary directly with underlying items on the basis used to measure and present the cash flows of the underlying items. In addition, the 2013 Exposure Draft proposed that, when the mirroring exception applies, a company would recognise changes in financial options and guarantees embedded in insurance contracts immediately in profit or loss.	Many stakeholders disagreed with the mirroring exception proposed in the 2013 Exposure Draft. Those stakeholders suggested that the Board should consider developing different solutions to address accounting mismatches that could be applied more generally. Most of those stakeholders were concerned about the complexity of identifying the cash flows that the mirroring exception would apply to and that the liability could be measured on a cost basis. In addition, some stakeholders thought that the scope of the mirroring exception would be too narrow and therefore that accounting mismatches would be avoided for only some contracts with participation features. Many stakeholders thought that there should be consistent treatment of the financial options and guarantees embedded in all insurance contracts, though there was a diverse range of views about what that treatment should be.	The Board rejected the mirroring exception. Instead, the Board developed a specific approach for some insurance contracts with participation features, referred to as the 'variable fee approach'. This approach applies to contracts that may be regarded as creating an obligation to pay policyholders an amount that is equal to the fair value of the underlying items, less a variable fee for service. When applying the variable fee approach, a company updates the contractual service margin to reflect changes in the amount of the variable fee, including those related to changes in discount rates and other financial variables. An option is available to the company to manage accounting mismatches in profit or loss when the company chooses to use derivatives to mitigate some financial risks. If contracts with direct participation features contain complex features, such as minimum payments guaranteed to the policyholder, and the company chooses to use derivatives to mitigate some financial risks created by those features, the company may elect to recognise changes in those financial risks in profit or loss instead of adjusting the contractual service margin. This partially offsets the effect of fair value changes of the relevant derivatives recognised in profit or loss in applying IFRS 9 and contributes to the reduction of potential accounting mismatches.

4—Transition to IFRS 17

Project proposals	Feedback	The Board's response
4.1—Transition approaches The 2010 Exposure Draft proposed that when a company applies the new accounting requirements for insurance contracts for the first time, the residual margin for contracts in force at transition would be set to zero (ie any unearned profit would be recognised immediately in retained earnings). The 2013 Exposure Draft proposed a modified retrospective approach for determining the contractual service margin of contracts in force at the transition date, using either: (a) a full retrospective application, if possible; or (b) a simplified retrospective application with required disclosures	Feedback from stakeholders to the proposals in the 2010 Exposure Draft indicated that the lack of residual margin for contracts in force at the date of transition would impair comparability between contracts written before and after the date of transition. Those stakeholders recommended that the Board develop approaches to estimate a residual margin on transition, even though such approaches are likely to be costly. However, insurers informed the Board that they only expected to be able to apply the proposed new requirements fully retrospectively for a small proportion of their existing contracts. This was mainly because of the lack of information about contracts written before the date of expected first application of the new requirements. In addition, in response to the Board's testing of alternative transition approaches, some insurers suggested that the Board provide further simplifications to alternative transition approaches that would be applied to contracts for which a full retrospective application would not be possible.	The Board decided that a retrospective application of IFRS 17 provides the most useful information by allowing comparison between contracts written before and after the date of transition. Consequently, where possible, a retrospective application of IFRS 17 is required. If a full retrospective application is impracticable, the Board confirmed that a company can apply alternative transition methods to determine the contractual service margin for groups of contracts in force at the date of transition. The Board decided to provide additional cost relief to insurers, in particular, by permitting a company to choose between: (a) a modified retrospective approach, that aims to approximate the outcome of a retrospective application of IFRS 17 if reasonable and supportable information is available; and (b) a fair value approach. When a company first applies IFRS 17, it will make this choice on a group-by-group basis.

Project proposals	Feedback	The Board's response
4.2—IFRS 9 reassessment when first applying IFRS 17 Investing activities are important for insurance companies. When using IFRS Standards, an insurer is required to account for insurance contracts issued applying IFRS 4 or IFRS 17 and financial assets held applying IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9. The 2013 Exposure Draft proposed transition relief for the designation and redesignation of financial assets. The proposed transition relief would: (a) apply when a company initially applies the new insurance contracts accounting requirements; and (b) allow the company to use options available in IAS 39 and IFRS 9 at initial recognition of financial assets (and at initial application of IFRS 9).	Although many stakeholders would have preferred an alignment of the effective dates of IFRS 9 and IFRS 17 for all companies, most stakeholders noted that: (a) the classifications and designations of financial assets made on initial application of IFRS 9 might not be the same as those that a company would have made if it initially applied IFRS 17 and IFRS 9 at the same time; and (b) a company's business model for managing financial assets might be different at the time IFRS 17 is applied. Accordingly, those stakeholders suggested that an insurance company that applies IFRS 9 before IFRS 17 should be permitted to: (a) redesignate the accounting treatments for financial assets held; and (b) reassess the business model in which the insurance company holds the financial assets.	The Board decided to amend IFRS 4 to enable some insurance companies to defer the application of IFRS 9 until IFRS 17 is effective.[5] Those companies can therefore choose to first apply IFRS 9 and IFRS 17 at the same time. The Board also decided to address some concerns expressed by stakeholders about companies applying IFRS 9 before IFRS 17, by permitting, but not requiring, companies that have applied IFRS 9 before IFRS 17 to reassess the business model classifications of their financial assets on the basis of facts and circumstances that exist when first applying IFRS 17. The Board also confirmed that, when first applying IFRS 17, insurers can use and reassess options usually only available on first application of IFRS 9 or on initial recognition of financial assets.

5 Refer to Amendments to IFRS 4 issued by the Board in September 2016—Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*.

Project proposals	Feedback	The Board's response
4.3—Comparative information The 2010 and 2013 Exposure Drafts proposed that, on initial application of the new insurance contracts Standard, a company would restate comparative information for insurance contracts in all periods presented.	Some stakeholders expressed concerns for companies that first apply IFRS 17 and IFRS 9 at the same time. Those companies would be required to restate their comparatives for insurance contracts when first applying IFRS 17, even though they are not required to restate their comparatives for financial assets and financial liabilities when they first apply IFRS 9. Those stakeholders were concerned that the financial statements could distort users' understanding of those companies' economic circumstances and transactions both in prior periods and the current period. This is because the comparative period might show accounting mismatches between insurance contracts and related financial assets, and the net financial position and profit reported by those companies in the comparative period would not be comparable to that reported in the current reporting period. They were also concerned that the time available to prepare to apply IFRS 17 is in effect reduced by the need to restate comparative information.	The Board confirmed that on first application of IFRS 17, a company is required to restate comparative information about insurance contracts. IFRS 17 permits, but does not require, a company to present adjusted comparative information applying IFRS 17 for any earlier periods presented. The Board concluded that not restating comparative information about insurance contracts reduces the usefulness of financial statements on initial application of IFRS 17 and hinders the assessment of the effects of applying IFRS 17 for the first time. The Board considered the disadvantages of non-aligned accounting for financial assets and insurance contracts in the comparative period, but concluded that a company can avoid accounting mismatches as it is permitted, but not required, to restate comparative information applying IFRS 9 if it is possible without hindsight (either when the company applies IFRS 9 and IFRS 17 for the first time in the same annual period or it has previously applied IFRS 9 and chooses to apply transition reliefs for financial assets).

Project proposals	Feedback	The Board's response
4.4—Effective date The 2013 Exposure Draft proposed to allow approximately three years between the date of publication of the final insurance contracts Standard and its mandatory effective date.	Many stakeholders agreed with the proposed three-year implementation period while expressing concerns about the possibility that companies would not be able to apply IFRS 17 at the same time as applying IFRS 9.	The Board decided that a company is required to apply IFRS 17 for annual periods beginning on or after 1 January 2021. This allows approximately three and a half years from the issuance of IFRS 17 to its mandatory effective date. A company is permitted to apply IFRS 17 before 1 January 2021, provided that the company also applies IFRS 9 and IFRS 15. As mentioned above (see 4.1—Transition approaches and 4.2—IFRS 9 reassessment when first applying IFRS 17), IFRS 17 includes several transition reliefs to assist a company in applying IFRS 17 for the first time. The Board also amended IFRS 4 in September 2016 to address the temporary accounting consequences of the different effective dates of IFRS 9 and IFRS 17. IFRS 4 as amended in September 2016 permits: (a) companies whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021; and (b) all issuers of insurance contracts to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before IFRS 17. The Board will also support the implementation of IFRS 17 in a variety of ways.

5—Other topics

Project proposals	Feedback	The Board's response
5.1—Scope of IFRS 17 The 2010 Exposure Draft proposed that a company would apply insurance contracts accounting to most insurance contracts issued and reinsurance contracts held, as well as to some contracts that have features similar to insurance contracts issued. The 2013 Exposure Draft simplified the scope of the proposals by: (a) providing guidance on which fixed-fee service contracts would be excluded from the scope of the new requirements; (b) excluding from the scope of the new requirements only investment contracts with discretionary participation features issued by companies that do not issue insurance contracts; and (c) carrying forward an existing option in IFRS 4 that allows a company, depending on its previous accounting policies, to choose to account for some financial guarantee contracts by applying the requirements for financial instruments or for insurance contracts.	Many stakeholders expressed concerns about the application of insurance contracts accounting to financial guarantee contracts and to fixed-fee service contracts that meet the definition of an insurance contract. Some stakeholders expressed the view that requiring IFRS 17 to be applied to these contracts would have imposed costs for non-insurance companies. Other stakeholders objected that excluding these contracts from the scope of IFRS 17 would have created disruption to insurance companies using insurance contracts accounting for other contracts they issue. Consequently, those stakeholders suggested permitting, but not requiring, a company to account for these contracts in the same way as either other financial instruments or other contracts with customers.	The Board further simplified the proposals in the 2013 Exposure Draft by enabling a company to choose to apply either IFRS 17 or IFRS 15 to some fixed-fee service contracts. IFRS 17 applies to contracts that are: (a) insurance contracts issued; (b) reinsurance contracts held; and (c) investment contracts with discretionary participation features issued by a company that also issues insurance contracts. However, some insurance contracts issued are accounted for applying other IFRS Standards. A company: (a) does not apply IFRS 17 to product warranties issued by a manufacturer, dealer or retailer; and (b) is not required to apply IFRS 17 to some financial guarantee contracts and some fixed-fee service contacts.

Project proposals	Feedback	The Board's response
5.2—Non-insurance components Insurance contracts often contain both insurance and non-insurance components. For example, an insurer may charge a single premium for a contract that has significant insurance risk but also contains asset management services. The 2010 Exposure Draft proposed that, under some circumstances, a company would separate the non-insurance components of insurance contracts and would account for them applying other IFRS Standards. In response to concerns about the lack of clarity about the separation of non-insurance components, the 2013 Exposure Draft provided additional guidance on separating embedded derivatives, goods, non-insurance services and deposits from insurance contracts. In addition, the 2013 Exposure Draft proposed to prohibit separating components from insurance contracts if the specified criteria are not met.	Stakeholders expressed mixed views on the accounting for non-insurance components of insurance contracts. There were geographical differences in the feedback, possibly due to different product design among jurisdictions. Most users of financial statements supported the principle that non-insurance components should be accounted for separately from insurance contracts. Some insurers and auditors supported the separation of deposits so that they can be measured at amortised cost to match assets measured at amortised cost when applying IFRS 9. Some other stakeholders questioned whether the benefits of separating non-insurance components justify the costs for insurers, in particular when the non-insurance components are measured at fair value if accounted for separately (rather than at current value if included in the measurement of the insurance contract as a whole). Some of those stakeholders suggested to limit the separation to contracts with components managed separately by the insurer.	The Board confirmed the proposal for accounting for non-insurance components in the 2013 Exposure Draft. Under some circumstances, IFRS 17 requires a company to: (a) separate the non-insurance components (for example, embedded derivatives) from an insurance contract if a separate contract with the same features would be within the scope of another IFRS Standard; and (b) account for those non-insurance components applying that other IFRS Standard, such as IFRS 9 for derivatives and deposits or IFRS 15 for goods and non-insurance services. To avoid arbitrary separation of non-insurance components, IFRS 17 prohibits the separation of those components if the separation criteria are not met.

Project proposals	Feedback	The Board's response
5.3—Premium allocation approach The 2010 Exposure Draft proposed a simplified measurement approach—referred to as the 'premium allocation approach'—that would be required for contracts with a coverage period of approximately one year. The 2013 Exposure Draft proposed to: (a) permit, rather than require, a company to apply the premium allocation approach to eligible contracts; and (b) extend its possible application to contracts for which a company does not expect significant changes in estimates before the claims are incurred. The proposed approach would: (a) provide a simplified way of measuring the liability for remaining coverage; and (b) require a company to measure the liability for incurred claims using the proposed general accounting model, except that the company would not be required to discount the liability for incurred claims if it expects the claims to be settled in one year or less.	Stakeholders generally supported the proposed premium allocation approach as a simplification of the proposed general requirements. Some stakeholders recommended that all non-life insurance contracts should be eligible for that approach and that the simplification should result in an outcome similar to that of existing accounting practices for non-life insurance contracts. Those stakeholders noted that some non-life insurance contracts have a coverage period of more than one year. Many regulators supported the proposed premium allocation approach, provided that such an approach would be less onerous for preparers without compromising the integrity of the reported information. Most insurers agreed with the revised proposal in the 2013 Exposure Draft that the premium allocation approach should be permitted, rather than required. Those insurers noted that a company might consider it less onerous to apply the same approach to all the insurance contracts it issued.	The Board confirmed the proposal in the 2013 Exposure Draft for the premium allocation approach. IFRS 17 permits a company to use this approach to measure some simpler insurance contracts (ie contracts for which the company does not expect significant changes in estimates before the claims are incurred, or for which the coverage period is less than one year). Although the outcome of the simplified approach is similar to the outcome of the general accounting model in IFRS 17, the simplified approach does not require a company to: (a) measure the unearned profit of the contract (contractual service margin) explicitly; (b) discount cash flows and measure risk at initial recognition (but only when claims are incurred); or (c) discount the claims incurred if those claims are expected to be settled within one year. When a company applies the simplified approach, it is expected to incur fewer costs without creating significant issues of comparability between contracts. A company may, however, choose to apply the general accounting model in IFRS 17 (for example, if the company considers it less costly to apply the same accounting to all contracts).

Project proposals	Feedback	The Board's response
5.4—Reinsurance contracts held Insurers typically manage some risks assumed in issuing insurance contracts by transferring a portion of the risk on those underlying insurance contracts to another insurance company, by entering into reinsurance contracts. The 2010 and 2013 Exposure Drafts proposed that reinsurance contracts held by a company would be accounted for as separate contracts measured using a similar approach and consistent assumptions to that used to measure insurance contracts issued by the company. The 2010 Exposure Draft proposed that, on purchasing reinsurance coverage, the company would recognise in profit or loss: (a) net gains at contract inception; and (b) the net cost over the coverage period of the reinsurance contract. In response to concerns about the recognition of net gains at contract inception, the 2013 Exposure Draft proposed that a company would recognise both net gains and net costs of purchasing reinsurance coverage over the coverage period, except for the net cost that arises from reinsurance coverage that relates to events that occurred in previous periods.	Some stakeholders expressed concerns that for reinsurance contracts held a recognition of net gains at contract inception, as proposed in the 2010 Exposure Draft, might result in companies entering transactions to achieve an accounting result. Other stakeholders supported the recognition of net gains and losses at contract inception. Some stakeholders thought that the net gain or cost of reinsurance should be determined by reference to the amount charged for the underlying contract, rather than by reference to the expected cash flows arising from the reinsurance contract.	The Board confirmed the proposed principle that a company should account for reinsurance contracts held as separate contracts using an approach consistent with that for the underlying insurance contracts. Accordingly, reinsurance contracts are measured with reference to the expected cash flows of the underlying insurance contracts. IFRS 17 requires a company to account for reinsurance contracts held using the general accounting model, with some modifications. In particular, IFRS 17 requires a company to: (a) initially measure the reinsurance contract profit by reference to the reinsurance premium paid; and (b) recognise any net gain or loss at initial recognition as a contractual service margin, unless the net cost of purchasing reinsurance relates to past events, in which case the company is required to recognise the net cost immediately in profit or loss.

Project proposals	Feedback	The Board's response
5.5—Disclosures The 2010 and 2013 Exposure Drafts proposed a number of disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of future cash flows that arise from insurance contracts. The proposed disclosure requirements would provide the following type of information: (a) explanation of the amounts recognised on the balance sheet and in the statement of comprehensive income; (b) significant judgements when applying IFRS 17; and (c) nature and extent of risks that arise from issuing insurance contracts. The explanation of recognised amounts would include: (a) detailed reconciliations between the carrying amounts of insurance contracts at the beginning and end of the reporting period; (b) an analysis of the insurance revenue, the insurance finance income or expenses and the new business; and (c) information about the recognition of the remaining contractual service margin in profit or loss.	Most users of financial statements consulted by the Board emphasised the importance of disclosures for their analysis of insurers' financial position and performance, in particular when companies use options (for example, when first applying IFRS 17). However, some insurers expressed the view that the proposed disclosures would be excessively detailed and onerous to apply. In particular, insurers thought that it would be onerous to apply the requirement to provide detailed reconciliations and to provide information separately for groups of contracts in an asset position from groups of contracts in a liability position.	The Board confirmed the objective of the disclosure requirements proposed in the 2010 and 2013 Exposure Drafts. The Board also confirmed the proposed disclosures considered most useful by users of financial statements. The Board noted that: (a) the disclosures providing further explanation of recognised amounts are designed to improve the understanding of the amounts recognised in a company's financial statements applying the new accounting model in IFRS 17 and make them easier to understand and to facilitate comparisons; and (b) many of the disclosures about significant judgements and the nature and extent of risks arising from insurance contracts are similar to the requirements in IFRS 4. IFRS 17 also requires some disclosures about the effects of decisions made when first applying IFRS 17. To provide cost relief to insurers, the Board decided not to carry forward in IFRS 17 some of the proposed disclosures providing limited additional information to users of financial statements (for example, a reconciliation between insurance revenue and premiums received in the period that was proposed in the 2013 Exposure Draft).

Important information

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Other relevant documents

IFRS 17 *Insurance Contracts*—specifies the requirements for the accounting for insurance contracts.

Basis for Conclusions on IFRS 17—summarises the Board's considerations in developing the requirements in IFRS 17.

Illustrative Examples on IFRS 17—illustrate aspects of IFRS 17 but provide no interpretative guidance.

Effects Analysis on IFRS 17—describes the likely costs and benefits of IFRS 17.

Project Summary of IFRS 17—provides an overview of the project to develop IFRS 17.

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