

STAFF PAPER

February 2020

IASB® meeting

Project	Amendments to IFRS 17		
Paper topic	Contractual service margin attributable to investment services		
CONTACT(S)	Gustavo Olinda	golinda@ifrs.org	+44 (0) 20 7246 6481
	Anne McGeachin	amcgeachin@ifrs.org	+44 (0) 20 7246 6468

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Purpose of the paper

1. This paper discusses staff analysis and recommendations about the amendments proposed in the Exposure Draft *Amendments to IFRS 17* relating to the contractual service margin attributable to investment services. This paper considers:
 - (a) the identification of an investment-return service for insurance contracts without direct participation features (Question 3(a) in the Exposure Draft);
 - (b) disclosures about:
 - (i) when an entity expects to recognise in profit or loss the contractual service margin; and
 - (ii) significant judgements in determining the relative weighting of the benefits provided by insurance coverage and investment services (Question 3(c) in the Exposure Draft); and
 - (c) terminology in IFRS 17 *Insurance Contracts* (Question 10 in the Exposure Draft).
2. The International Accounting Standards Board (Board), at its December 2019 meeting, tentatively decided to finalise the proposal in the Exposure Draft to clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering both insurance coverage and investment-related service (Questions 3(b) in the Exposure Draft).

Summary of staff recommendations

3. The staff recommend the Board:
- (a) finalise the proposed amendment to IFRS 17 that would require an entity to identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage.
 - (b) confirm the specified criteria for when those contracts may provide an investment-return service in paragraph B119B of the Exposure Draft, but replace references to ‘positive investment return’ with ‘investment return’ in these criteria.
 - (c) require an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service.
 - (d) finalise the proposed amendments to IFRS 17 that would require an entity to disclose:
 - (i) quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period; and
 - (ii) the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.
 - (e) confirm the addition of the definition of ‘insurance contract services’ to Appendix A of IFRS 17, but not change other terminology used in the Standard (ie not replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’).

Structure of the paper

4. This paper covers the following topics:
 - (a) identification of an investment-return service (paragraphs 7–51 of this paper);
 - (b) disclosures (paragraphs 52–60 of this paper);
 - (c) terminology and definitions (paragraphs 61–72 of this paper); and
 - (d) other comments (paragraphs 73–74 of this paper).
5. This paper includes, for each topic:
 - (a) an overview of the proposals in the Exposure Draft;
 - (b) an overview of the feedback; and
 - (c) summary of specific feedback (if applicable), staff analysis, recommendations and questions for Board members.
6. Appendix A to this paper provides the staff analysis of other comments from respondents to the Exposure Draft.

Identification of an investment-return service (Question 3(a) in the Exposure Draft)

Proposals in the Exposure Draft

7. The Exposure Draft:
 - (a) proposed that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage.
 - (b) specified criteria for when those contracts may provide an investment-return service (paragraph B119B of the Exposure Draft). Those contracts may provide an investment-return service if, and only if:
 - (i) an investment component exists, or the policyholder has a right to withdraw an amount;

- (ii) the entity expects the investment component or amount the policyholder has a right to withdraw to include a positive investment return (a positive investment return could be below zero, for example, in a negative interest rate environment); and
- (iii) the entity expects to perform investment activity to generate that positive investment return.

Overview of the feedback

Overall support for the proposals

8. Almost all respondents who commented on Question 3(a) in the Exposure Draft agreed that an entity should identify coverage units considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Of those respondents, almost half did not provide any comments about the proposed specified criteria for when insurance contracts without direct participation features may provide an investment-return service.

Concerns and suggestions

9. However, some respondents expressed concerns about:
- (a) the specified criteria for when an insurance contract may provide an investment-return service (Topic I); and
 - (b) the operational complexity introduced by the proposals (Topic II).
- Some of these respondents suggested alternative approaches (Topic III).
10. Some respondents suggested the Board:
- (a) clarify the wording in the specified criteria (Topic IV); and
 - (b) provide further guidance (Topic V).
11. A small number of respondents expressed the view that insurance contracts with direct participation features may also provide an investment-return service (Topic VI).

Specific feedback and staff analysis

Topic I—Specified criteria for when an insurance contract may provide an investment-return service

Summary of specific feedback

12. Some respondents expressed the view that the criteria for when insurance contracts without direct participation features may provide an investment-return service (see paragraph 7(b) of this paper) are unduly restrictive. In their view, the criteria do not capture economically similar insurance contracts that they think provide both insurance coverage and investment-return service, but that cannot be surrendered or transferred. An example of such a contract is a deferred annuity contract in which the policyholder does not have the ability to withdraw cash or transfer the account balance to another insurance provider in the accumulation phase. In the view of those respondents, the entity is providing an investment-return service in the accumulation phase, even though the policyholder would have the right to benefit from the investment activity only if the policyholder lives to reach the annuity pay-out phase.
13. These respondents noted that, applying the proposals, no contractual service margin would be recognised in profit or loss during the accumulation phase for such deferred annuities. In their view, this does not reflect the fact that the policyholder expects to benefit from an investment return in the form of a higher insurance benefit (if the policyholder survives the accumulation phase) and the entity performs investment activity in the accumulation phase to generate that return. These respondents consider that an investment-return service is being provided to policyholders even when contracts do not have an investment component or do not provide the policyholder with a right to withdraw an amount, because the policyholder receives increased payments if the policyholder become entitled to them in the annuity pay-out phase.
14. Some of these respondents noted that, applying the proposals, contracts would be considered to provide an investment-return service only during particular phases of the life of a contract—for example, only during the accumulation phase of some deferred annuities.¹ In their view, such service is provided throughout the life of the

¹ This is because, during the pay-out phase, the policyholder may no longer have a right to withdraw an amount or an investment component may no longer exist.

contract, and not just in discrete periods—any benefits paid to the policyholder are higher than they would otherwise have been because of the investment activities that the entity performs throughout the contract duration.

15. These respondents also commented on the treatment of costs associated with investment activity (investment activity costs) in the measurement of insurance contract liabilities. They noted that for insurance contracts that do not meet the proposed criteria, or that meet the criteria only during part of the contract period, some or all of the related investment activity costs would not be treated as fulfilment cash flows, despite the fact that the entity will perform investment activities that benefit the policyholder throughout the contract period.²

Staff analysis

16. The staff continue to agree with the Board’s rationale for concluding that an investment-return service cannot exist if the contract does not include an investment component or the policyholder does not have a right to withdraw an amount. In the Basis for Conclusions on the Exposure Draft, the Board explained that, in these cases, the policyholder does not have a right to benefit from investment returns absent an insured event.
17. In the staff view, contracts that provide a right for the policyholder to benefit from an investment return are economically dissimilar from contracts without such a right. A policyholder holding that right receives an investment-return service as the entity generates investment returns. This is because these returns increase the amount that the policyholder has a right to receive irrespective of whether an insured event occurs (ie the entity continuously transfers an investment-return service to the policyholder).
18. If the policyholder does not have a right to benefit from investment returns, the receipt of any benefit from an entity’s investment activities is contingent upon an insured event occurring (for example, the policyholder surviving the accumulation phase of a deferred annuity). In the staff view, in such cases the policyholder receives an insurance coverage benefit that is *enhanced* by the investment activities performed by the entity, rather than a separate investment-return service. In this case, the entity

² The Exposure Draft proposed a change to paragraph B65 of IFRS 17 to include costs the entity will incur in providing an investment-return service as cash flows within the boundary of an insurance contract.

transfers any such benefits to the policyholder only during the period that it provides insurance coverage (ie as the policyholder receives the insurance coverage benefit). Therefore, the entity recognises the contractual service margin in profit or loss only during that period. This is consistent with the principle in IFRS 17 and IFRS 15 *Revenue from Contracts with Customers* of recognising revenue to depict the *transfer* of promised services to a customer, even when an entity is required to undertake activities to fulfil the contract before such a transfer occurs.³ Therefore, in the staff view, the requirements in IFRS 17 as originally issued already result in the recognition in profit or loss of the contractual service margin in a way that depicts the transfer of service to the policyholder of such contracts.

19. In the staff view, an entity should include the costs it will incur in providing an investment-return service as cash flows within the contract boundary if the entity concludes the contract provides such service. Therefore, the staff continue to agree with the Board’s proposals to include such costs as an example of cash flows within the boundary of an insurance contract.

20. However, if an entity promises to generate an investment return that the policyholder will benefit from via enhanced insurance coverage benefits (see paragraph 18 of this paper), the staff think that any associated investment activity costs would also relate directly to the fulfilment of that contract. Therefore, the staff recommend the Board require an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service. The staff note that entities would apply judgement in determining whether, and to what extent, they perform investment activities to enhance benefits from insurance coverage for the policyholder, or perform those activities for its own purposes, in a similar way to determining whether a contract provide an investment-return service.

³ Paragraph B49 of IFRS 15 describes as an example of this principle the accounting for a non-refundable upfront fee. It states that ‘[i]n many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer (see paragraph 25). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognised as revenue when those future goods or services are provided.’

Topic II—Operational complexity introduced by the proposals

Summary of specific feedback

21. Some respondents expressed concerns that the proposals would:
- (a) result in significant additional operational complexity and associated implementation costs; and
 - (b) require significant judgement because of the subjectivity involved in weighting multiple services and identifying an investment-return service.

In the view of those respondents, this would lead to diverse practices related to the recognition of the contractual service margin in profit or loss.

22. A small number of respondents noted that entities face similar operational complexity, regardless of the proposal relating to investment-return service, in identifying coverage units for insurance contracts that provide multiple insurance coverages.
23. A small number of respondents suggested the Board provide a practical expedient that would allow entities to allocate the contractual service margin over the current period and expected remaining coverage period based only on the passage of time. That practical expedient would be available only for contracts containing multiple insurance contract services and for which the entity cannot reliably determine the weighting of services, or when doing so is impracticable. Another respondent suggested an exemption from the proposed requirement to separate an investment-return service from other services when doing so is impracticable.
24. Furthermore, some of these respondents expressed the view that significant complexity arises when an investment-return service is considered to be provided only during part of the life of a contract (see paragraph 14 of this paper).

Staff analysis

25. The staff acknowledge that including an investment-return service in addition to insurance coverage in the determination of coverage units adds subjectivity and complexity to that determination. The Board acknowledged this when developing the Exposure Draft, but noted that entities are already required to make similar assessments for insurance contracts with direct participation features and for contracts

that provide more than one type of insurance coverage.⁴ Furthermore, the overall support for the proposals (see paragraph 8 of this paper) indicates that the benefits of the information provided by the proposals outweigh the costs associated with the complexity in making this determination.

26. An entity would be required to determine the relative weighting of benefits from insurance coverage and investment-return service considering the quantity of benefits provided by each service and the expected period of each service (that is, applying the coverage units requirement in paragraph B119 of IFRS 17). In some cases, an entity might conclude that using only the passage of time in making that determination provides an appropriate depiction of the transfer of insurance contract services in each period. However, because of the wide variety of insurance contracts entities issue, providing a practical expedient that would allow an entity to use only the passage of time when allocating the contractual service margin between periods, or providing an exemption from separating an investment-return service, could significantly distort that depiction. It would therefore not result in useful information for users of financial statements.
27. The staff note that the Board did not propose providing detailed requirements about how an entity determines the relative weighting of the benefits provided by the services in an insurance contract. Instead, an entity would apply judgement when determining coverage units considering its specific facts and circumstances and disclose the approach applied. The staff think this would provide better information to users of financial statements than allowing an entity to use only the passage of time or allowing entities not to separate an investment-return service. Therefore, the staff do not recommend providing a practical expedient or exemption in this regard.

Topic III—Alternative approaches suggested by respondents

Summary of specific feedback

28. Respondents that disagreed with the criteria in paragraph B119B of the Exposure Draft (see paragraph 7(b) of this paper) for the reasons discussed in paragraphs 12–15 and 21–24 of this paper suggested one of the following alternatives:

⁴ Paragraph BC62 of the Basis for Conclusions on the Exposure Draft.

- (a) most of these respondents suggested the Board remove the criterion in paragraph B119B(a) of the Exposure Draft (ie that either an investment component exists, or the policyholder has a right to withdraw an amount) and instead require only that the contract provides the policyholder with a positive expected investment return. Some of these respondents suggested that an entity should consider the presence of an investment component or right to withdraw an amount as evidence that there is an investment-return service, but not as a necessary condition.
- (b) some respondents suggested the Board adopt a principle-based approach for defining an investment-return service.

Staff analysis

- 29. For the reasons discussed in paragraph 16–18 of this paper, the staff think that the criterion in paragraph B119B(a) of the Exposure Draft is necessary to identify contracts that provide an investment-return service to policyholders. The staff also note that the Board considered developing a more general requirement to recognise the contractual service margin in profit or loss in each period based on all services provided by the contract, but rejected such an approach because it would likely result in even more subjectivity.

Topic IV—Clarification of the wording in the specified criteria

Summary of specific feedback

- 30. Some respondents suggested the Board clarify the wording in paragraph B119B of the Exposure Draft (see paragraph 7(b) of this paper). In particular, these respondents requested the Board clarify the meaning of ‘positive investment return’. For example, some respondents commented that:
 - (a) the word ‘positive’ means the return should be greater than something, but it is unclear what that something is; and
 - (b) it is unclear whether a positive investment return should be determined based on the entire duration of the contract and, if so, whether any profit (contractual service margin) should be allocated to periods with expected negative investment return.

31. Some of these respondents made the following suggestions:
- (a) if the purpose is to avoid the inclusion of specific contracts (for example, contracts that offer only to refund the premium paid by the policyholder), it might be more helpful to state such exclusions explicitly instead of referring to ‘positive investment return’; and
 - (b) it would be enough to simply require an ‘investment return’, without specifying that it be ‘positive’.
32. A small number of respondents also suggested the Board explicitly exclude any ‘incidental’ investment-return service from the definition of an investment-return service. Similarly, one respondent suggested the Board exclude an investment-return service that is only intended to facilitate the insurance contract. Other respondents recommended clarifying that an entity needs to perform the investment activity for the policyholder. They noted that all insurance entities are expected to perform investment activity, whether they provide an investment-return service or not.

Staff analysis

33. The feedback indicates that requiring an entity to expect a ‘positive’ investment return raised several practical questions. These practical questions may lead to diverse interpretations of the requirements and could, in some cases, result in insurance contracts that provide an investment-return service not meeting the criteria.
34. As noted by some respondents, the Board proposed to require a ‘positive’ investment return in part to exclude situations in which an entity is simply required to refund premiums paid in advance for future service, or when an entity acts only as a custodian.⁵
35. In the light of the feedback, the staff agree with respondents that expressed the view that the word ‘positive’ is unnecessary. The criteria in paragraph B119B of the Exposure Draft set out the minimum requirements for an investment-return service to be present, but still requires an entity to exercise judgement in determining whether the contract provides such service. An entity considers the specific facts and circumstances and the economic substance of the contract in reaching its conclusion.

⁵ Paragraph BC59 of the Basis for Conclusions on the Exposure Draft.

36. In that context, the staff think that referring only to ‘investment return’ (rather than ‘positive investment return’) that is generated through investment activity is enough for entities to appropriately apply their judgement and determine whether the contract provides an investment-return service (provided the other criteria in paragraph B119B of the Exposure Draft are also met). For example, it would be evident that, in the situations described in paragraph 34 of this paper, the contracts do not provide an investment-return service. Therefore, the staff think that removing the word ‘positive’ would avoid unnecessary complexity and potential for confusion.
37. For the same reasons described in paragraph 35 of this paper, the staff think it would be unnecessary to explicitly exclude contracts that include only an ‘incidental’ investment-return service, or to specify that investment activities include only those performed for the policyholder. The staff think an entity can reach an appropriate conclusion about whether a contract provides an investment-return service in those circumstances.

Topic V—Application guidance, illustrative examples or educational materials

Summary of specific feedback

38. Some respondents asked the Board to provide further application guidance, illustrative examples or educational materials (guidance) on:
- (a) determining coverage units and relative weighting for contracts that provide multiple services—these respondents said that, considering the additional complexity and judgement required in making that determination, the Board should provide additional guidance to help entities apply the requirements consistently; and
 - (b) distinguishing between investment-return service and investment-related service—these respondents suggest the Board clearly define and explain the difference between the two services.
39. One respondent suggested the Board uses the guidance included in Agenda Paper 2E *Recognition of the contractual service margin in profit or loss in the general model* of the January 2019 Board meeting to provide additional clarity on the definition of investment-return service. That paper described the investment-return service as ‘providing the policyholder with access to an investment return that would not

otherwise be available to the policyholder because of the amounts invested, liquidity, complexity and expertise’.

Staff analysis

40. The staff think the Board should not provide additional guidance on how an entity determines the coverage units and relative weighting of contracts with multiple services, for the following reasons:
- (a) while illustrative examples could be helpful in explaining one way of applying the requirements, they could also raise practical questions or risk being read as prescribing one specific approach of applying the requirements—for this reason, members of the Transition Resource Group for IFRS 17 have said in the past that illustrative examples have the potential to disrupt the implementation of IFRS 17. Furthermore, illustrative examples can address only specific and simplified scenarios, and therefore can provide only limited benefits.
 - (b) insurance contracts to which the proposals apply take a wide range of forms—the Board have specifically decided not to set out detailed requirements regarding how an entity determines the coverage units and the relative weighting of services to allow entities to develop appropriate approaches based on their specific facts and circumstances.
41. The staff note that the proposed definition of insurance contract services describes insurance coverage, investment-return service and investment-related service. That definition describes:
- (a) investment-return service as ‘for insurance contracts without direct participation features, the generation of an investment return for the policyholder’; and
 - (b) investment-related service as ‘for insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder’.
42. The descriptions above explain:
- (a) the nature of each service; and

- (b) that an entity provides each service only in a specific type of insurance contract (ie contracts with or without participation features).

The staff think that these descriptions clarify the fundamental difference between the two types of services: namely, that each apply to a different type of insurance contract, for which different measurement requirements apply.

43. The staff think the detailed description of an investment-return service in paragraph 39 of this paper could be helpful in the context of explaining the Board’s conclusion that contracts without direct participation features could provide a service that is distinct from the insurance coverage service. Therefore, the staff think that the Board could include the explanation as part of the Basis for Conclusions on IFRS 17.

Topic VI—Investment-return service in other types of insurance contracts

Summary of specific feedback

44. A small number of respondents expressed the view that insurance contracts with direct participation features may provide an investment-return service, in addition to an investment-related service and insurance coverage. In their view, the Board should not limit investment-return services to contracts without direct participation features.
45. One of these respondents commented that there are some insurance contracts that meet the requirements to apply the variable fee approach but that do not provide an investment-related service for their entire duration. This would be the case, for example, for an insurance contract with direct participation features that converts, based on guaranteed terms within the contract boundary, into a fixed annuity. The respondent noted that such a contract would provide an investment-related service in the accumulation phase, but would no longer do so in the pay-out phase. In the respondent’s view, that contract may provide an investment-return service in its pay-out phase.

Staff analysis

46. For an investment-return service to exist, there must be an investment component or a right for the policyholder to withdraw an amount. If such features exist in an insurance contract with direct participation features, they will inform the identification

of the underlying items. Hence any investment service arising from such features will form part of the investment-related service.

47. The staff also note that, if investment activities an entity performs during the pay-out phase enhance the insurance coverage benefits provided, the entity would reflect such enhanced benefits in determining the weighting of insurance coverage benefits relative to investment-related service benefits in the contract. This would have a similar effect as identifying and allocating benefits to a separate investment-return service provided during the pay-out phase.
48. Furthermore, in explaining the rationale for proposing to change the requirements regarding investment-return service, the Board noted that recognising the contractual service margin in profit or loss considering both the insurance coverage and an investment-return service would provide useful information. In particular, it would provide useful information for contracts that have an insurance coverage period that differs from the period in which the policyholder benefits from the investment-return service.⁶ For such contracts, there could be a significant mismatch between the timing of recognition of the contractual service margin in profit or loss and the timing of the insurance contract services provided by the contract absent the proposed change in the requirements.
49. In the example described in paragraph 45 of this paper, an entity would recognise the contractual service margin in profit or loss not only during the accumulation phase (for an investment-related service), but also during the pay-out phase (for insurance coverage). This is therefore different from the main situation the Board aimed to address in proposing the amendments.
50. The staff think that changing the requirements to require an entity to identify whether insurance contracts with direct participation features provide an investment-return service in addition to an investment-related service would add significant complexity and implementation costs while providing only limited benefits. Therefore, the staff recommend the Board confirm its proposals that an entity provides an investment-return service only for insurance contracts without direct participation features.

⁶ Paragraph BC56 of the Basis for Conclusions on the Exposure Draft.

Staff recommendation

51. Based on the analysis in paragraphs 12–50 of this paper, the staff recommend the Board:
- (a) finalise the proposed amendment to IFRS 17 that would require an entity to identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage;
 - (b) confirm the specified criteria for when those contracts may provide an investment-return service in paragraph B119B of the Exposure Draft, but replace references to ‘positive investment return’ with ‘investment return’ in these criteria; and
 - (c) require an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service.

Question 1 for Board members

Do you agree the Board should:

- (a) finalise the proposed amendment to IFRS 17 that would require an entity to identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage;
- (b) confirm the specified criteria for when those contracts may provide an investment-return service in paragraph B119B of the Exposure Draft, but replace references to ‘positive investment return’ with ‘investment return’ in these criteria; and
- (c) require an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent the entity perform such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service?

Disclosures (Question 3(c) in the Exposure Draft)

Proposals in the Exposure Draft

52. The Exposure Draft proposed that an entity disclose:
- (a) quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period; and
 - (b) the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Overview of the feedback

53. Respondents generally supported the additional disclosures proposed in the Exposure Draft.
54. A small number of respondents expressed concerns about the proposed requirement to provide quantitative information about the expected recognition in profit or loss of the contractual service margin remaining at the end of a reporting period. Those respondents suggested the Board continue to allow entities to provide only qualitative information. They think that qualitative information:
- (a) could be sufficient to achieve the Board's objective;
 - (b) would reduce the costs of applying IFRS 17; and
 - (c) would avoid the risk of providing commercially sensitive information in some circumstances.
55. However, other respondents noted that entities will need to determine the release pattern of the contractual service margin for their own purposes, and therefore entities are able to provide this quantitative information without undue cost or effort.
56. A small number of respondents also noted that there is no similar requirement to provide quantitative disclosure about future performance for other industries. For example, entities operating in the banking industry are not required to disclose quantitative information about when they expect to recognise net interest margin.

Staff analysis

57. The Board proposed the disclosure requirements described in paragraph 52 of this paper in the light of the subjectivity involved in determining coverage units and weighting multiple services. In this context, the staff continue to agree with the Board's proposal that disclosure of the approach used in making that determination, combined with quantitative information about when an entity expects to recognise the contractual service margin in profit or loss, is necessary to allow users of financial statements to understand the effect that approach has on the expected pattern of service provision and revenue recognition in future periods. Therefore, the staff think requiring quantitative disclosures is justified in the context of the significant judgements required in applying the proposed requirements of IFRS 17.
58. The staff agree with those respondents who noted that providing the quantitative information required by the proposed disclosures will not result in undue cost or effort because often an entity will generate that information for its own business purposes. The staff also note that the proposed disclosure requirements do not establish detailed time bands an entity uses in making such disclosures. This makes it easier for entities to leverage already available information in meeting that requirement in a way that provides useful information to users of financial statements.
59. Finally, the staff note that the vast majority of respondents did not express concerns that the disclosure of quantitative information would require entities to disclose commercially sensitive information. Therefore, the staff recommend that the Board confirm its proposals in this regard.

Staff recommendation

60. The staff recommend the Board finalise the proposed amendments to IFRS 17 that would require an entity to disclose:
- (a) quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period; and

- (b) the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Question 2 for Board members

Do you agree the Board should finalise the proposed amendments to IFRS 17 that would require an entity to disclose:

- (a) quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period; and
- (b) the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service?

Terminology and definition of ‘insurance contract services’ (Question 10 in the Exposure Draft)

Proposals in the Exposure Draft

61. The Exposure Draft proposed to add to Appendix A of IFRS 17 the following definition of ‘insurance contract services’:

The following services that an entity provides to a policyholder of an insurance contract:

- (a) coverage for an insured event (insurance coverage);
- (b) for insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return service); and
- (c) for insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service).

62. In the light of the proposed amendments in the Exposure Draft, the Board also asked respondents whether it would be helpful to change some of the terminology used in IFRS 17. Specifically, the Board asked whether it would be helpful to replace

‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’ (terminology used in IFRS 17).

Overview of the feedback

63. The majority of respondents who commented on Question 10 in the Exposure Draft agreed with adding the defined term ‘insurance contract services’ to Appendix A of IFRS 17. They also expressed the view that it would be helpful to change the terminology used in IFRS 17 to reflect that definition.
64. However, the remainder of respondents who commented expressed concerns that widespread changes throughout the Standard, at this stage, might cause unintended consequences and might disrupt implementation under way, although they understood the rationale for the possible changes. In addition, those respondents noted that the terminology used in IFRS 17 as originally issued is now well understood and has been widely used throughout educational materials published by the Board, national standard-setters, auditors and others.
65. A small number of respondents expressed the view that the definition of ‘insurance contract services’ and some of the consequential amendments proposed in the Exposure Draft would have unintended consequences. For example, some of these respondents said:
 - (a) the definition, together with the proposed amendments related to investment-return service, would, for some insurance contracts providing this service, amend the coverage period compared to IFRS 17 as originally issued. This is because the definition of ‘coverage period’ in IFRS 17 as originally issued referred only to ‘coverage for insured events’, while the proposed definition refers to insurance contract services (ie also includes investment services). Those respondents noted that such an amendment might have implications on the implementation of other requirements of IFRS 17, for example, the requirements for the identification of cash flows within the boundary of an insurance contract applying paragraph 34 of IFRS 17.

- (b) some of the proposed consequential amendments replace the term ‘services’ with the new term ‘insurance contract service’.⁷ However, some respondents say this change would limit the scope of services covered by the amended requirements. This is because the definition of insurance contract services provides an exhaustive list of such services (see paragraph 61 of this paper) that does not capture, for example, non-distinct services.⁸
66. Some of these respondents recommended the Board not make consequential amendments to some paragraphs in the Standard or revise the definition of investment contract services.
67. A small number of respondents also commented on the proposed consequential amendments to the definitions of ‘liability for incurred claims’ and ‘liability for remaining coverage’.

Staff analysis

68. The staff acknowledge that changing the terminology used in IFRS 17 would risk causing unintended consequences. The staff also acknowledge that, despite increasing the consistency with the requirements in IFRS 17 after the amendments, changing the terminology at this stage may cause some disruption to the implementation of the Standard.
69. Having considered the concerns raised by respondents, the staff think that, on balance, the Board should not change the terminology used in IFRS 17 by replacing ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’. Although changing that terminology would be an improvement to IFRS 17, such change is not required as a direct consequence of the proposed amendments. Furthermore, the staff think there is a possibility of disruption to implementation. Thus, on balance, the staff concluded the potential costs of changing the terminology would outweigh the benefits.

⁷ For example, the Board proposed the following amendment to paragraph 83 of IFRS 17: ‘... Insurance revenue shall depict the provision of ~~coverage and other services~~ insurance contract services arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services ...’.

⁸ Non-distinct services are those services that are not separated from the insurance contract and are, therefore, accounted for applying IFRS 17.

70. The staff recommend the Board confirm the addition of the definition of ‘insurance contract services’ to Appendix A of IFRS 17. The staff think that adding such a definition is necessary and consistent with the other proposed amendments discussed in this paper. However, the staff have considered the potential unintended consequences, described in paragraph 65 of this paper, of some of the consequential amendments proposed in the Exposure Draft:
- (a) with respect to the comment in paragraph 65(a) of this paper, the staff think the coverage period of a contract should cover the period over which the entity provides all the services identified in the insurance contract, not only insurance coverage. The contract boundary of such contracts should include all fulfilment cash flows arising during that period. An entity applies all other requirements in IFRS 17 as appropriate considering all insurance contract services provided by the contract. In the staff view, these do not represent unintended consequences.
 - (b) with respect to the comment in paragraph 65(b) of this paper, the staff acknowledge that the consequential amendments to replace ‘service’ with ‘insurance contract services’ in the context of recognition of revenue from insurance contracts (for example, the proposed amendment to paragraph 83 of IFRS 17) could cause unintended consequences. For example, the consequential amendments could be read as excluding revenue arising from the release of non-financial risk of a group of insurance contracts. Therefore, the staff will reconsider these consequential amendments when drafting the final amendments to IFRS 17.
71. The staff will also consider any further potential unintended consequence mentioned by respondents, as well as comments on the definitions of ‘liability for incurred claims’ and ‘liability for remaining coverage’, while drafting the final amendments to IFRS 17.

Staff recommendation

72. The staff recommend the Board confirm the addition of the definition of ‘insurance contract services’ to Appendix A of IFRS 17, but not change other terminology used in the Standard (ie not replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’).

Question 3 for Board members

Do you agree the Board should confirm the addition of the definition of ‘insurance contract services’ to Appendix A of IFRS 17, but not change other terminology used in the Standard (ie not replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’)?

Other comments

73. Appendix A to this paper includes other comments raised by a small number of respondents, together with the staff analysis. Based on that analysis, the staff do not recommend any changes to the proposals in the Exposure Draft.
74. A small number of respondents also requested some further small clarifications or made drafting suggestions. The staff will consider these during the drafting of the final amendments and will bring any identified issues for Board discussion if necessary.

Question 4 for Board members

Do you agree the Board should not change the proposals in the Exposure Draft in response to the other comments included in Appendix A to this paper?

Appendix A—Analysis of other comments

A1. The table below includes other comments raised by a small number of respondents, together with the staff analysis and recommendations.

Comments	Staff analysis and recommendations
<p>1. <i>The criteria in paragraph B119B of the Exposure Draft should be determinative</i></p> <p>One respondent expressed the view that the criteria in paragraph B119B of the Exposure Draft (see paragraph 7(b) of this paper) are both necessary and sufficient, and therefore should be determinative of whether a contract provides an investment-return service. In the respondent’s view, it is unclear what additional criteria would need to be assessed to conclude whether an investment-return service exists.</p>	<p><i>The staff recommend no change.</i></p> <p>When developing the Exposure Draft, the Board considered setting determinative criteria or an objective in identifying an investment-return service, but concluded it would not be possible to do so without adding undue complexity for users and preparers of financial statements and auditors in understanding and applying those criteria or objective.⁹ Therefore, the staff continue to agree with the Board’s approach of specifying criteria that are necessary for, but not determinative of, the existence of an investment-return service.</p>
<p>2. <i>Non-profit annuities</i></p> <p>A small number of respondents noted that some non-profit annuities include a guaranteed period in which the annuity would be paid irrespective of the survival of the insured party. They noted this contract would not meet the criteria in paragraph B119B of the Exposure Draft because such annuities do not explicitly include a positive investment return. One of these respondents therefore suggested removing criteria (b) and (c) of paragraph B119B of the Exposure Draft.</p>	<p><i>The staff recommend no change.</i></p> <p>The staff think that, for an investment-return service to exist, the policyholder needs to benefit from an investment return, which is generated by the entity’s investment activity. However, the staff note that such return does not need to be explicitly identified in the contract.</p>

⁹ See paragraphs 36–41 of Agenda Paper 2E for the January 2019 Board meeting.

Comments	Staff analysis and recommendations
<p>3. <i>Application of paragraph B119A of the Exposure Draft</i></p> <p>A small number of respondents requested the Board discuss the requirement in paragraph B119A of the Exposure Draft again prior to finalising the amendments. This paragraph states that the period of an investment-return or investment-related service ends at or before the date that all amounts due to current policyholders relating to those services have been paid, without considering payments to future policyholders. These respondents expressed concerns that such requirements would not reflect the economics of insurance contracts in which investment returns are shared among different generations of policyholders.</p>	<p><i>The staff recommend no change.</i></p> <p>The staff acknowledge the concerns of respondents that the requirements in paragraph B119A of the Exposure Draft might not reflect the fact that an investment-return service may be provided to future policyholders in addition to current ones. However, the Board concluded that the requirement in paragraph B119A of the Exposure Draft would be necessary to ensure that the recognition of the contractual service margin in profit or loss is not delayed indefinitely. The Board also considered the proposed requirement would allow entities to allocate the contractual service margin in a practical way and avoid making complex and potentially arbitrary allocations.</p>
<p>4. <i>Disclosure of approach to determine relative weighting does not provide useful information</i></p> <p>A small number of respondents disagreed with the proposal to require an entity to disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service. In their view, such disclosure would be complex and would not provide useful information for users of financial statements.</p>	<p><i>The staff recommend no change.</i></p> <p>The staff acknowledge that an entity may develop complex approaches to determine the relative weighting between the insurance contract services in a contract. However, the staff think that disclosure of such approaches and the significant judgements taken by an entity, together with other required disclosures, is necessary for users of financial statements to understand the basis on which an entity recognises the contractual service margin in profit or loss and, therefore, provides useful information for users of financial statements.</p>

Comments	Staff analysis and recommendations
<p>5. <i>Disclosure only provides partial picture for contracts with direct participation features</i></p> <p>One respondent expressed the view that, for contracts with direct participation features, the disclosures described in paragraph 52 of this paper would provide users of financial statements with only a partial picture of the future performance of an entity. This is because of the sensitivity of the contractual service margin of such contracts to changes in the market environment.</p>	<p><i>The staff recommend no change.</i></p> <p>The staff acknowledge that the proposed disclosures would not capture potential changes to the contractual service margin resulting from changes in the market environment. However, the disclosures would still provide useful information regarding the expected timing of revenue recognition for the contractual service margin remaining at the end of the reporting period. Furthermore, disclosures required by IFRS 7 <i>Financial Instruments: Disclosures</i> would, to some extent, complement the proposed disclosures with information about market risk on underlying items the entity holds and that are financial instruments.</p>