

## STAFF PAPER

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Project	Amendments to IFRS 17		
Paper topic	Scope exclusion from IFRS 17 for some credit card contracts		
CONTACT(S)	Liz Figgie	efiggie@ifrs.org	+44 (0)20 7246 6410
	Roberta Ravelli	rravelli@ifrs.org	+44 (0)20 7246 6935

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**Purpose of the paper**

1. This paper discusses staff analysis and recommendations about the amendment proposed in the Exposure Draft *Amendments to IFRS 17* relating to a scope exclusion from IFRS 17 *Insurance Contracts* for some credit card contracts that meet the definition of an insurance contract. This paper follows the tentative decision of the International Accounting Standards Board (Board), at its November 2019 meeting, to consider further the feedback from outreach and comment letters on this proposed amendment.

**Summary of staff recommendations**

2. The staff recommend the Board confirm the proposed scope exclusion from IFRS 17, with some changes, as follows:

An entity is required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. If the entity provides the insurance coverage to the customer as part of the contractual terms of such a credit card contract, the entity is required to:

- (a) separate that insurance coverage component and apply IFRS 17 to it; and
  - (b) apply other applicable IFRS Standards, such as IFRS 9 *Financial Instruments*, to the other components of the credit card contract.
3. The staff also recommend the Board extend the amendment described in paragraph 2 of this paper to other contracts that provide credit or payment arrangements that are similar to such credit card contracts if those similar contracts meet the definition of an insurance contract and the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

### **Structure of the paper**

4. This paper provides:
- (a) an overview of the proposals in the Exposure Draft;
  - (b) a summary of the feedback; and
  - (c) the staff analysis, recommendations and questions for Board members.
5. The appendix to this paper includes relevant extracts of the Basis for Conclusions on the Exposure Draft.

### **Proposals in the Exposure Draft**

6. The Exposure Draft proposed that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Exposure Draft proposed a corresponding amendment to IFRS 9 to include such credit card contracts (that are financial instruments) within the scope of IFRS 9.

## Feedback

7. Of the respondents who commented on the proposal for credit card contracts discussed in paragraph 6 of this paper, many respondents generally agreed with the Board’s proposal and rationale. However, some of those respondents asked the Board to clarify or reconsider particular aspects of the proposal. The comments from those respondents are discussed in paragraphs 9–14 of this paper.
8. A small number of respondents disagreed with the Board’s proposal. These respondents expressed the following views:
  - (a) an entity should be required to apply IFRS 17 to all credit card contracts that meet the definition of an insurance contract in order to appropriately reflect the insurance feature in those contracts; or
  - (b) an entity should be permitted a choice to apply either IFRS 17 or IFRS 9 to the credit card contracts described in the proposal (for example, in order to ensure consistency with choices available in IFRS 17 for fixed-fee service contracts and financial guarantee contracts).

### ***Applying IFRS 9 to some credit card contracts that meet the definition of an insurance contract***

9. Some respondents expressed concerns that, applying the proposed amendment, an entity likely would be required to measure the credit card contract at fair value through profit or loss (FVPL) applying IFRS 9. Those respondents noted that if an entity provides the insurance coverage as part of the contractual terms of the credit card (rather than only as a result of law or regulation), the entity must include those insurance coverage-related cash flows in its assessment of the contractual cash flows characteristics of the financial asset. Specifically, the entity would include such cash flows in its assessment of whether the contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI

test).<sup>1</sup> Those respondents noted that such credit card contracts likely would ‘fail’ the SPPI test and, therefore, would be required to be measured at FVPL. Some of those respondents expressed the view that measuring such credit card contracts at FVPL would not be appropriate and provided suggestions to avoid this outcome, including:

- (a) amending the SPPI test in IFRS 9—for example, to specify that the cash flows relating to the insurance coverage would be disregarded for the purposes of the SPPI test. They said this accounting would be comparable to the accounting for credit card contracts that provide insurance coverage only as a result of law or regulation.<sup>2</sup>
- (b) amending the proposal to account separately for the insurance coverage component of the credit card contract applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

10. A small number of respondents suggested the Board clarify whether the proposed amendment would require an entity to apply IFRS 9 to the credit card contract in its entirety, or whether other IFRS Standards might also apply—for example, IFRS 15 *Revenue from Contracts with Customers* might apply to an obligation to provide access to airport lounges. Similarly, a small number of respondents expressed the view that the Board should not prescribe which IFRS Standards apply to a credit card contract once it is excluded from the scope of IFRS 17. Those respondents said this would ensure that any obligations bundled with the insurance coverage component and the financial instrument component (that form the credit card contract) are accounted for applying the applicable IFRS Standard.
11. Another respondent noted that a credit card contract may be viewed as a combination of a financial asset (ie a drawn down loan financial asset) and an undrawn loan commitment, as explained in paragraphs BC5.256 and BC5.261 of the Basis for Conclusions on

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<sup>1</sup> Paragraphs 4.1.1(b), 4.1.2(b) and 4.1.2A(b) of IFRS 9.

<sup>2</sup> As explained in paragraph BC4.191 of the Basis for Conclusions on IFRS 9, IFRS 9 requires the holder of a financial asset to analyse the contractual terms to determine whether the asset gives rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The holder would not consider the payments that arise only as a result of regulation as cash flows in its analysis because that regulation and the related payments are not contractual terms of the financial instrument (see paragraph B4.1.13 of IFRS 9, Instrument E).

IFRS 9, as well as other components that are within the scope of other IFRS Standards such as IFRS 15. This respondent expressed the view that if the contractual terms of such a credit card contract include cash flows related to an insurance coverage obligation, then it is unclear whether those insurance coverage-related cash flows would be considered to be part of the financial asset (and would result in the financial asset being measured at FVPL as discussed in paragraph 9 of this paper) or part of something else. This respondent said that if these insurance coverage cash flows are not considered to be part of the financial asset, then they might be considered to be part of any undrawn loan commitment. In that case, such cash flows would effectively be excluded from the scope of IFRS 9 in cases where only the impairment requirements of IFRS 9 are applied to the loan commitment.<sup>3</sup> The impairment requirements in IFRS 9 would not capture the effect of the insurance coverage because it is not a cash shortfall—ie the insurance coverage would relieve the customer from its payment obligation such that the amount would no longer be contractually due. In this case, the insurance coverage would effectively be excluded from the measurement requirements in IFRS 9 because only expected credit losses are measured. Furthermore, the respondent said that if these insurance coverage-related cash flows are not considered to be part of the financial asset and the credit card contract does not have an undrawn loan commitment component (for example, the credit card might be fully drawn), then the cash flows might be considered to be a financial liability within the scope of IFRS 9. In this case, the respondent said it is unclear how the measurement requirements in IFRS 9 would be meaningfully applied to that financial liability.

### ***Scope of the proposals***

12. Some respondents—including banks and auditors / accounting firms—generally agreed with the Board’s proposal to exclude particular credit card contracts from the scope of IFRS 17 but suggested that the Board extend this proposal to other ‘similar’ contracts that

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<sup>3</sup> Only some loan commitments are within the scope of IFRS 9 (paragraph 2.3). For many loan commitments, only the impairment (and derecognition) requirements apply (paragraph 2.1(g)). The Board decided to require an entity to apply the impairment requirements to these loan commitments to enable a consistent expected credit loss model to be applied to drawn and undrawn loans.

meet the definition of an insurance contract. These respondents provided examples of such contracts, including debit cards, charge cards, consumer financing contracts, current and deposit accounts and overdraft facilities.

13. In addition, some respondents expressed the view that the proposal should limit the type of insurance coverage that is captured by the proposal—for example, the proposed exclusion from the scope of IFRS 17 should apply only to credit card contracts with insurance coverage that relates to indemnity for losses arising from the use of the credit card.
14. Some of these respondents provided drafting suggestions for how the Board could amend the scope of the proposal, for example:
  - (a) credit card, debit card, charge cards, overdraft facilities and other similar contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer (see IFRS 9). In such contracts, the entity typically extends short-term credit to the customer, with the insurance component being a de minimis component of the contract's value.
  - (b) credit card or other contracts with similar features that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer (see IFRS 9).
  - (c) credit card contracts, and other contracts to provide credit or payment arrangements for the purchase of goods or non-insurance services, that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer and the insurance coverage relates only to indemnity for losses arising from use of the arrangement (for example, for defective goods and services purchased using the credit or payment services provided under the contract).

- (d) credit cards, debit cards and charge cards (or credit cards and similar instruments).

## Staff analysis and recommendations

15. As discussed in paragraph 7 of this paper, many of the respondents that commented on the proposal for credit card contracts discussed in paragraph 6 of this paper generally agreed with the Board’s proposal. That proposal would require that an entity exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer—ie these respondents generally agreed that entities should not apply IFRS 17 to such credit card contracts in their entirety.
16. In addition, the staff think the Board does not need to consider further the concerns and suggestions from respondents discussed in paragraph 8 of this paper. The Board considered these matters when developing the Exposure Draft and the staff have not identified points the Board did not consider previously. Specifically, as explained in paragraphs BC14–BC15 of the Basis for Conclusions on the Exposure Draft:
  - (a) the Board considered whether an entity should apply IFRS 17 to the credit card contracts discussed in paragraph 6 of this paper. IFRS 9 and IFRS 17 both have requirements that can address credit risk and insurance risk, which are prominent features of such credit card contracts. IFRS 9 is more focused on credit risk and IFRS 17 is more focused on insurance risk. The Board noted there is a balance between the usefulness of the information about such contracts that would be provided by applying IFRS 9 and the usefulness of the information about such contracts that would be provided by applying IFRS 17.
  - (b) when an entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer, the Board concluded that IFRS 9 would provide more useful

information about those contracts. In contrast, when the entity does reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer, the Board concluded that IFRS 17 would provide more useful information about those contracts.

- (c) hence, the Board decided that the Standard to be applied should not be a matter of choice. Furthermore, the Board has not been made aware of entities applying insurance contract accounting practices today to credit card contracts for which the entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer.
17. However, the staff think the Board should consider further some of the concerns and suggestions from respondents discussed in paragraphs 9–14 of this paper.
18. Accordingly, the staff have analysed the following two matters:
- (a) whether applying IFRS 9 to the credit card contracts within the scope of the proposal provides useful information in all cases; and
  - (b) whether the proposal should be extended to ‘similar’ contracts and, if so, which ones.

***Applying IFRS 9 to some credit card contracts that meet the definition of an insurance contract***

19. The staff note that, as a consequence of the focus in IFRS 9 on contractual cash flows, applying the proposed amendment, if an entity provides the insurance coverage as part of the contractual terms of the credit card contract, the entity must include those insurance coverage-related cash flows when it applies the SPPI test to a financial asset (ie the funded loan arising on the use of the credit card). If a financial asset ‘fails’ the SPPI test as a result of those cash flows, the entity must measure it at FVPL. In contrast, if the entity provides the insurance coverage only as a result of law or regulation, the entity would not consider those cash flows when it applies the SPPI test to a financial asset. The



Board acknowledged those outcomes when developing the Exposure Draft and the staff have not identified points the Board did not consider previously.

20. However, the staff acknowledge the respondent’s observation discussed in paragraph 11 of this paper that a credit card contract may be viewed as a combination of a financial asset (ie a drawn down loan that would be subject to the SPPI test) and a loan commitment (ie an undrawn amount). The staff agree with the respondent that only the impairment (and derecognition) requirements in IFRS 9 apply to many loan commitments. The impairment requirements in IFRS 9 would not capture the effect of the insurance coverage because such an effect is not cash shortfall—ie the insurance coverage relieves the customer from its repayment obligation such that the amount is no longer contractually due. Therefore, in this case, the measurement of an undrawn loan commitment would exclude the insurance component. The staff also agree that, in some cases, the insurance coverage-related cash flows might be considered to be a financial liability within the scope of IFRS 9 (for example, when the obligation for the insurance coverage exists after the customer has repaid its credit card balance) and the measurement requirements in IFRS 9 may not provide useful information about this liability.
21. Accordingly, the staff think that IFRS 9 may not provide useful information about some of the financial instruments that would be newly within its scope applying the proposal in the Exposure Draft (or, more specifically, IFRS 9 may not provide useful information about a credit card contract if it is undrawn or has been repaid). The staff have considered the following possible approaches to amend the proposal in the Exposure Draft to address these concerns:
- (a) Approach A—Require an entity to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. If the insurance coverage is provided to the customer as part of the contractual terms of such a credit card contract, the entity would be required to measure the credit card contract—in its entirety—at FVPL applying IFRS 9.

- (b) Approach B—Require an entity to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. If the entity provides the insurance coverage to the customer as part of the contractual terms of such a credit card contract, the entity would be required to separate that component and apply IFRS 17 to it. The entity would be required to apply other applicable IFRS Standards, such as IFRS 9, to the other components of the credit card contract.
22. This paper does not consider an approach that would amend the SPPI test in IFRS 9 (for example, to specify that the contractual cash flows relating to the insurance coverage would be disregarded for the purpose of that test) as discussed in paragraph 9 of this paper. The staff note that the SPPI test is a principle-based assessment with an objective to identify financial instruments with ‘simple’ cash flows that represent solely principal and interest (ie that are consistent with a ‘basic lending arrangement’) for which the effective interest method provides useful information. The staff think the SPPI test would appropriately identify that insurance coverage-related contractual cash flows are inconsistent with a basic lending arrangement—ie such cash flows are not simple cash flows that represent only principal and interest. Accordingly, the staff think that amortised cost measurement would not provide useful information for such credit card contracts in their entirety. In addition, the staff observe that the suggestion to amend the SPPI test would not address the concern discussed in paragraph 11 of this paper that, in some cases, the insurance coverage related cash flows might be considered to be a financial liability within the scope of IFRS 9. That is because the SPPI test applies only to financial assets.
23. This paper also does not consider an approach that would separate the insurance coverage component and apply IAS 37 (rather than IFRS 17) to it as discussed in paragraph 9 of this paper. That is because we think IFRS 17, which was developed specifically for insurance contracts, is the most applicable IFRS Standard for the insurance coverage components discussed in this paper.

*Approach A—Require an entity to measure some credit card contracts in their entirety at FVPL applying IFRS 9*

24. Approach A would require an entity to measure a credit card contract in its entirety at FVPL if the entity provides the insurance coverage to the customer as part of the contractual terms of such a credit card contract. This approach would be in contrast to the existing requirements in IFRS 9, which would account separately for a loan commitment (to the extent the credit card is unutilised), a financial asset (to the extent the credit card has been used) and a financial liability (to the extent a financial obligation remains after the financial asset has been repaid).<sup>4</sup>
25. The staff think the advantage of this approach would be that the entity would reflect the effect of the insurance coverage in the measurement of the credit card contract as soon as the contract is initially recognised and until it is derecognised (rather than only when the loan is drawn and the SPPI test is applied to that financial asset). This would address the concern discussed in paragraph 20 of this paper that, applying the proposal, only the impairment requirements in IFRS 9 would apply to many loan commitments (unutilised credit card limits) and those requirements would not capture the effect of the insurance coverage in the measurement of such loan commitments. Similarly it would address the concern that, applying the proposal, in some cases the insurance coverage-related cash flows might be considered to be a financial liability within the scope of IFRS 9 (for example, when the obligation for the insurance coverage exists after the customer has repaid its credit card balance) and the measurement requirements in IFRS 9 may not provide useful information about this liability.
26. However, this approach would override the requirements in IFRS 9 that otherwise would apply to these financial instruments. More specifically, as discussed in paragraph 24 of this paper, IFRS 9 would account separately for a loan commitment (to the extent the credit card is unutilised), a financial asset (to the extent the credit card has been used) and a financial liability (to the extent that an financial obligation remains after the financial

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<sup>4</sup> For example, as discussed in paragraph 20 of this paper, this may be the case if there is an obligation to reimburse the credit card holder in the event that an item purchased with the credit card is defective after the holder repays the credit card balance.

asset has been repaid), whereas Approach A would account for ‘the credit card contract’ as a single item—and require FVPL measurement for it. Approach A would increase complexity in the accounting for financial instruments and reduce comparability in the accounting for credit card contracts; for example, it would increase the number of different accounting treatments in IFRS 9 for loan commitments. In addition, the staff think there is risk of unintended consequences of overriding the recognition and measurement requirements in IFRS 9. Furthermore, this approach would measure more items at FVPL compared to the proposal in the Exposure Draft, which would exacerbate:

- (a) the differences between credit card contracts that provide the insurance coverage as part of the contractual terms of the credit card and credit card contracts that provide the insurance coverage only as a result of law or regulation; and
- (b) the concerns from respondents discussed in paragraph 9 of this paper.

*Approach B—Require an entity to account separately for the insurance coverage component and the other components in some credit card contracts*

- 27. Approach B would require an entity to separate some credit card contracts into insurance and non-insurance components. More specifically, if the entity provides the insurance coverage to the customer as part of the contractual terms of such a credit card contract, Approach B would require the entity to separate that component and apply IFRS 17 to it. The entity would be required to apply other applicable IFRS Standards, such as IFRS 9, to the other components of the credit card contract.
- 28. The staff acknowledge that this approach would introduce separation requirements to contracts that would otherwise be accounted in their entirety applying IFRS 9 (or applying IFRS 17 if the Board had not proposed the scope exclusion discussed in this paper) and such separation adds complexity to the accounting for the credit card contracts within the scope of the proposal.

29. However, the staff note that requiring an entity to account for the insurance coverage component in a credit card contract applying IFRS 17 and the other components of such credit card contracts applying other applicable IFRS Standards would achieve the objective of the Exposure Draft—ie to address concerns that, for some entities that currently apply accounting policies consistent with IFRS 9 or IAS 39 *Financial Instruments: Recognition and Measurement* to some credit card contracts that meet the definition of an insurance contract, the costs of applying IFRS 17 to those credit card contracts in their entirety would exceed the benefits.
30. In addition, the staff note that this approach would address respondents’ concerns that the measurement requirements in IFRS 9 would not provide useful information about some of the financial instruments that would be newly within its scope applying the proposal in the Exposure Draft. The staff think applying IFRS 9 to the financial instrument component—and IFRS 17 to the insurance coverage component—would result in useful information without requiring any changes to the underlying measurement requirements in either Standard.
31. Finally, Approach B would improve comparability between credit card contracts that provide insurance coverage as part of the contractual terms of the credit card contract and credit card contracts that provide insurance coverage as a result of law or regulation (see paragraph 19 of this paper). In both cases, the effect of the insurance coverage would be accounted for separately from the credit card—ie in both cases, the insurance coverage would be excluded from the scope of IFRS 9. The accounting applying Approach B would also be consistent with circumstances in which the credit card and insurance coverage are two separate contracts.

*Staff recommendation*

32. On balance, the staff recommend Approach B. As explained previously in this paper, the staff think this approach achieves the objective of the proposal in the Exposure Draft, while addressing respondents’ concerns about the usefulness of the information that would be provided if entities were required to apply IFRS 9 to such credit card contracts in their entirety. In addition, it results in accounting for the credit card component that is

consistent with circumstances in which a credit card contract provides insurance coverage only as a result of law or regulation, and circumstances in which the credit card and insurance coverage are two separate contracts. Finally, it does not require the Board to reconsider, or override, any of the existing measurement requirements in IFRS 9.

**Question 1 for Board members**

Do you agree the Board should confirm the proposed scope exclusion from IFRS 17 for some credit card contracts that meet the definition of an insurance contract with some changes?

Specifically, an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. If the entity provides the insurance coverage to the customer as part of the contractual terms of such a credit card contract, the entity would be required to:

- (a) separate that insurance coverage component and apply IFRS 17 to it; and
- (b) apply other applicable IFRS Standards, such as IFRS 9, to the other components of the credit card contract.

### ***Extending the proposals to ‘similar’ contracts***

33. The Board developed the proposal for the credit card contracts discussed in paragraph 6 of this paper to address particular stakeholder concerns that, for some entities that apply accounting policies consistent with IFRS 9 or IAS 39 to credit card contracts that transfer significant insurance risk, the costs of applying IFRS 17 to such contracts might exceed the benefits of doing so (see paragraphs BC12–BC17 of the Basis for Conclusions on the Exposure Draft). As explained in paragraph BC17 of the Basis for Conclusions on the Exposure Draft, the Board considered whether it should limit the scope of the exclusion to credit card contracts with insurance coverage that the entity is obliged to provide (for example, because of law or regulation). However, the Board saw no reason to distinguish between credit card contracts depending on whether the entity is obliged, or chooses, to provide insurance coverage.
34. The staff agree with respondents’ suggestions that the Board consider extending the proposal to ‘similar’ contracts such as debit cards, charge cards, consumer financing contracts, current and deposit accounts and overdraft facilities. The staff think the Board’s rationale for proposing the scope exclusion from IFRS 17 for particular credit card contracts is relevant to, and arguably equally compelling for, other contracts that meet the definition of an insurance contract as long as the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.
35. Accordingly, the staff recommend the Board extend the scope of the amendment discussed in this paper to other contracts that provide credit or payment arrangements that are similar to credit card contracts if those similar contracts meet the definition of an insurance contract and the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The staff acknowledge that it is difficult to precisely describe what would be considered ‘similar’ to a credit card contract and indeed that population may change over time as payment arrangements evolve. However, the staff think that risk is mitigated by the fact that the population of the scope exclusion is limited by the requirement that the

entity must not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.<sup>5</sup> In addition, the staff think the risk is further mitigated by the staff recommendation discussed in the previous section of this paper for the accounting for such contracts—ie to apply IFRS 17 to the insurance coverage component and to apply other applicable IFRS Standards to the other components of the contract.

36. Finally, as discussed in paragraph 13 of this paper, the staff note that some respondents expressed the view that the Board should limit the type of insurance coverage that is captured by the proposal—for example, the scope exclusion from IFRS 17 should apply only to contracts with insurance coverage that relates to indemnity for losses arising from the use of the credit card. When developing the Exposure Draft, the Board acknowledged that the proposal might capture credit card contracts with insurance coverage other than, or in addition to, coverage for supplier failure and observed that the considerations for the proposal would also be relevant to those contracts. The staff have not identified points the Board did not consider previously on this matter and therefore do not recommend a change in this regard.

**Question 2 for Board members**

Do you agree the Board should extend the amendment to other contracts that provide credit or payment arrangements that are similar to credit card contracts if those similar contracts meet the definition of an insurance contract and the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer?

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<sup>5</sup> For the avoidance of doubt, the staff’s intention is that reinsurance contracts would not be captured by this amendment.



## Appendix A—relevant extracts of the Basis for Conclusions on the Exposure Draft

### *Rationale for changing the requirements*

- BC12 The definition of an insurance contract in IFRS 17 is unchanged from IFRS 4, and so the contracts described in paragraph BC9 already meet the definition of an insurance contract applying IFRS 4. However, IFRS 4 permits an entity to separate from a host insurance contract some non-insurance components and apply other IFRS Standards to the non-insurance components. IFRS 4 also allows a wide range of accounting practices for components that are not separated. As a result, some entities may be applying IFRS 9 or IAS 39 *Financial Instruments: Recognition and Measurement*, or an accounting policy similar to the requirements in those Standards, to such contracts. IFRS 17 is more restrictive on the separation of non-insurance components and is more specific in its requirements for accounting for all aspects of insurance contracts in their entirety. The Board was persuaded that for some entities that apply accounting policies consistent with IFRS 9 or IAS 39 to some credit card contracts and loan contracts that transfer significant insurance risk, the costs of applying IFRS 17 might exceed the benefits of changing to applying IFRS 17, as described in paragraphs BC13–BC22.

### *Proposed amendment to exclude from the scope of IFRS 17 specified credit card contracts that meet the definition of an insurance contract (paragraph 7(h))*

- BC13 Some credit card contracts meet the definition of an insurance contract because the entity issuing the contracts provides insurance coverage as part of the overall package of benefits provided to the customer. An entity might provide such insurance coverage either because it is obliged to do so (for example, because of law or regulation), or because it chooses to do so (for example, as a fixed-price 'add-on'). If the entity acts as an agent in providing insurance coverage under such a contract, the contract is not an insurance contract issued by the entity. However, if the entity provides insurance coverage as a principal, the contract is an insurance contract issued by the entity.
- BC14 The Board considered whether an entity should apply IFRS 17 to such insurance contracts. IFRS 9 and IFRS 17 both have requirements that can address credit risk and insurance risk, which are prominent features of such credit cards. IFRS 9 is more focused on credit risk and IFRS 17 is more focused on insurance risk. The Board noted there is a balance between the usefulness of the information about such contracts that would be provided by applying IFRS 9 and the usefulness of the information about such contracts that would be provided by applying IFRS 17.

- BC15 When an entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer, the Board concluded that IFRS 9 would provide more useful information about those contracts. When the entity does reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer, the Board concluded that IFRS 17 would provide more useful information about those contracts. Hence, the Board decided that the Standard to be applied should not be a matter of choice. Furthermore, the Board has not been made aware of entities applying insurance contract accounting practices today to credit card contracts for which the entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer.
- BC16 Accordingly, the Board proposes a specific scope exclusion to reduce the operational burden for entities issuing credit card contracts for which the entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer. Doing so would address specific stakeholder concerns that some entities will need to implement and manage processes and systems for IFRS 17 only because they issue such credit card contracts. Excluding such contracts from the scope of IFRS 17 for these reasons would be similar to the rationale for providing the existing scope exclusion in paragraph 8 of IFRS 17 for fixed-fee service contracts. One of the criteria for the scope exclusion in paragraph 8 of IFRS 17 is that the entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer.
- BC17 The Board considered whether it should limit the scope of the exclusion to credit card contracts with insurance coverage that the entity is obliged to provide (for example, because of law or regulation). However, the Board saw no reason to distinguish between the credit card contracts described in paragraph BC13 depending on whether the entity is obliged, or chooses, to provide insurance coverage.