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IFRS® Standards

Amendments to IFRS 17

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CONTENTS

Amendments to IFRS 17 *Insurance Contracts*

Paragraphs 4 and 7 are amended, and paragraph 8A is added. New text is underlined and deleted text is struck through.

Scope

...

4 All references in IFRS 17 to insurance contracts also apply to:

(a) reinsurance contracts held, except:

(i) ...

(ii) as described in paragraphs 60–70A~~70~~.

(b) ...

...

7 An entity shall not apply IFRS 17 to:

...

(h) credit card contracts, or similar contracts that provide credit or payment arrangements, 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 and other applicable IFRS Standards). However, if, and only if, IFRS 9 requires an entity to separate an insurance coverage component (see paragraph 2.1(e)(iv) of IFRS 9) that is embedded in such a contract, the entity shall apply IFRS 17 to that component.

...

8A Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). An entity shall choose to apply either IFRS 17 or IFRS 9 to such contracts that it issues unless such contracts are excluded from the scope of IFRS 17 by paragraph 7. The entity shall make that choice for each *portfolio of insurance contracts*, and the choice for each portfolio is irrevocable.

Paragraphs 10–12 are amended. New text is underlined and deleted text is struck through.

Separating components from an insurance contract (paragraphs B31–B35)

10 An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an *investment component* or a ~~service~~ component for services other than *insurance contract services* (or both).

An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11 An entity shall:

(a) ...

(b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component unless it is an investment contract with discretionary participation features within the scope of IFRS 17 (see paragraph 3(c)).

12 After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer to a policyholder distinct goods or ~~non-insurance~~ services other than insurance contract services~~to a policyholder~~, applying paragraph 7 of IFRS 15. The entity shall account for such promises applying IFRS 15. In applying paragraph 7 of IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of IFRS 17 and, on initial recognition, shall:

(a) apply IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or ~~non-insurance~~ services other than insurance contract services; and

(b) attribute the cash outflows between the insurance component and any promised goods or ~~non-insurance~~ services other than insurance contract services, accounted for applying IFRS 15 so that:

...

...

Paragraphs 19 and 24 are amended. New text is underlined and deleted text is struck through.

Level of aggregation of insurance contracts

...

19 For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–54~~59~~), an entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

...

24 An entity shall apply the recognition and measurement requirements of IFRS 17 to the groups of contracts ~~issued~~ determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition and add contracts to the groups applying paragraph 28.~~, and~~ The entity shall not reassess the composition of the groups subsequently. To measure a group of contracts, an entity may estimate the fulfilment cash flows at a higher level of

aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.

Paragraph 27 is deleted and paragraph 28 is amended. Paragraphs 28A–28F and the heading above paragraph 28A are added. Paragraph 25 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Recognition

25 **An entity shall recognise a group of insurance contracts it issues from the earliest of the following:**

(a) **the beginning of the *coverage period* of the group of contracts;**

(b) **the date when the first payment from a policyholder in the group becomes due; and**

(c) **for a group of onerous contracts, when the group becomes onerous.**

...

27 [Deleted]~~An entity shall recognise an asset or liability for any *insurance acquisition cash flows* relating to a group of issued insurance contracts that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).~~

28 In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts that individually meet one of the criteria set out in paragraph 25~~issued by the end of the reporting period~~ and shall make estimates for the discount rates at the date of initial recognition (see paragraph B73) and the coverage units provided in the reporting period (see paragraph B119). An entity may include~~issue~~ more contracts in the group after the end of a reporting period, subject to paragraphs 14–22~~paragraph 22~~. An entity shall add a contract~~the contracts~~ to the group in the reporting period in which that contract meets one of the criteria set out in paragraph 25~~the contracts are issued~~. This may result in a change to the determination of the discount rates at the date of initial recognition applying paragraph B73. An entity shall apply the revised rates from the start of the reporting period in which ~~the~~ new contracts are added to the group.

Insurance acquisition cash flows (paragraphs B35A–B35D)

28A An entity shall allocate *insurance acquisition cash flows* to groups of insurance contracts using a systematic and rational method applying paragraphs B35A–B35B, unless it chooses to recognise them as expenses applying paragraph 59(a).

28B An entity not applying paragraph 59(a) shall recognise as an asset insurance acquisition cash flows paid (or insurance acquisition cash flows for which a liability has been recognised applying another IFRS Standard) before the related group of insurance contracts is recognised. An entity shall recognise such an asset for each related group of insurance contracts.

28C An entity shall derecognise an asset for insurance acquisition cash flows when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts applying paragraph 38(c)(i) or paragraph 55(a)(iii).

28D If paragraph 28 applies, an entity shall apply paragraphs 28B–28C in accordance with paragraph B35C.

28E At the end of each reporting period, an entity shall assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired (see paragraph B35D). If entity identifies an impairment loss, the entity shall adjust the carrying amount of the asset and recognise the impairment loss in profit or loss.

28F An entity shall recognise in profit or loss a reversal of some or all of an impairment loss previously recognised applying paragraph 28E and increase the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

Paragraph 29 and the heading above it are amended. New text is underlined and deleted text is struck through.

Measurement (paragraphs B36–B119F~~B119~~)

29 An entity shall apply paragraphs 30–52 to all groups of insurance contracts within the scope of IFRS 17, with the following exceptions:

(a) ...

(b) for groups of reinsurance contracts held, an entity shall apply paragraphs 32–46 as required by paragraphs 63–70A~~70~~. Paragraph~~Paragraphs~~ 45 (on *insurance contracts with direct participation features*) and paragraphs 47–52 (on onerous contracts) do not apply to groups of reinsurance contracts held.

...

The heading for paragraph 32 is amended. Paragraphs 34 and 38–39 are amended. New text is underlined and deleted text is struck through.

Measurement on initial recognition (paragraphs B36–B95F~~B95~~)

...

Estimates of future cash flows (paragraphs B36–B71)

...

34 Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services (see paragraphs B61–B71). A substantive obligation to provide insurance contract services ends when:

(a) ...

(b) both of the following criteria are satisfied:

(i) ...

(ii) the pricing of the premiums ~~for coverage~~ up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

...

Contractual service margin

38 **The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides insurance contract services in the future. An entity shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) or paragraph B123A (on insurance revenue relating to paragraph 38(c)(ii)) applies, results in no income or expenses arising from:**

(a) ...

(b) any cash flows arising from the contracts in the group at that date;

(c)~~(b)~~ the derecognition at the date of initial recognition of:

(i) any asset ~~or liability recognised~~ for insurance acquisition cash flows applying paragraph 28C~~27~~; and

(ii) any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.

~~(c) any cash flows arising from the contracts in the group at that date.~~

39 For insurance contracts acquired in a transfer of insurance contracts or in a business combination within the scope of IFRS 3, an entity shall apply paragraph 38 in accordance with paragraphs B93–B95F~~B95~~.

Paragraphs 44–45 and the heading above them are amended. New text is underlined and deleted text is struck through.

Contractual service margin (paragraphs B96–B119B~~B119~~)

...

44 For *insurance contracts without direct participation features*, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:

...

(e) the amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph B119.

45 For insurance contracts with direct participation features (see paragraphs B101–B118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:

(a) ...

(b) the change in the amount of the entity's share of the ~~change in the~~ fair value of the *underlying items* (see paragraph B104(b)(i)), except to the extent that:

(i) ...

(ii) the decrease in the amount of the entity's share of ~~a decrease in~~ the fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

(iii) the increase in the amount of the entity's share of ~~an increase in~~ the fair value of the underlying items reverses the amount in (ii).

...

(e) the amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period~~,~~ applying paragraph B119.

...

Paragraphs 47–48 and 50 are amended. New text is underlined and deleted text is struck through.

Onerous contracts

47 An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. Applying paragraph 16(a), an entity shall group such contracts separately from contracts that are not onerous. To the extent that paragraph 17 applies, an entity may identify the group of onerous contracts by measuring a set of contracts rather than individual contracts. An entity shall recognise a loss in profit or loss for the net outflow for the group of onerous contracts, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin of the group being zero.

48 A group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if the following amounts exceed the carrying amount of the contractual service margin:

(a) unfavourable changes relating to future service in the fulfilment cash flows allocated to the group, arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk~~relating to future service~~; and

(b) for a group of insurance contracts with direct participation features, the decrease in the amount of the entity's share of~~ a decrease in~~ the fair value of the underlying items.

Applying paragraphs 44(c)(i), 45(b)(ii) and 45(c)(ii), an entity shall recognise a loss in profit or loss to the extent of that excess.

...

50 After an entity has recognised a loss on an onerous group of insurance contracts, it shall allocate:

(a) ...

(b) solely to the loss component until that component is reduced to zero:

(i) any subsequent decrease relating to future service in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk;~~relating to future service~~ and

(ii) any subsequent increases in the amount of the entity's share of~~in~~ the fair value of the underlying items ~~solely to the loss component until that component is reduced to zero~~.

Applying paragraphs 44(c)(ii), 45(b)(iii) and 45(c)(iii), an entity shall adjust the contractual service margin only for the excess of the decrease over the amount allocated to the loss component.

...

Paragraphs 53 and 55–56 are amended. New text is underlined and deleted text is struck through.

Premium allocation approach

53 An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:

(a) ...

(b) the coverage period of each contract in the group (including insurance contract services~~coverage~~ arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

...

55 Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:

(a) on initial recognition, the carrying amount of the liability is:

...

(iii) plus or minus any amount arising from the derecognition at that date of:

1. any asset for insurance acquisition cash flows applying paragraph 28C; and ~~the asset or liability recognised for insurance acquisition cash flows applying paragraph 27.~~

2. any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.

(b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:

...

(v) minus the amount recognised as insurance revenue for services~~coverage~~ provided in that period (see paragraph B126); and

(vi) ...

56 If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the services~~coverage~~ and the related premium due date is no more than a year.

...

Paragraphs 60, 62, 65–66 and 69 are amended, paragraph 62 is bifurcated creating new paragraph 62A, paragraph 65 is bifurcated creating new paragraph 65A, paragraphs 66A–66B and 70A are added. New text is underlined and deleted text is struck through.

Reinsurance contracts held

60 The requirements in IFRS 17 are modified for reinsurance contracts held, as set out in paragraphs 61–70A~~70~~.

...

Recognition

62 Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held from the earlier of the following:

(a) the beginning of the coverage period of the group of reinsurance contracts held; and

(b) the date the entity recognises an onerous group of underlying insurance contracts applying paragraph 25(c), if the entity entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

62A Notwithstanding paragraph 62(a), an entity shall delay the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

~~62~~ ~~Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held:~~

~~(a)~~ ~~if the reinsurance contracts held provide proportionate coverage—at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the later; and~~

~~(b)~~ ~~in all other cases—from the beginning of the coverage period of the group of reinsurance contracts held.~~

Measurement

...

65 The requirements of paragraph 38 that relate to determining the contractual service margin on initial recognition are modified to reflect the fact that for a group of reinsurance contracts held there is no unearned profit but instead a net cost or net gain on purchasing the reinsurance. Hence, unless paragraph 65A applies, on initial recognition~~: (a)~~ the entity shall recognise any net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin measured at an amount equal to the sum of:

(a) the fulfilment cash flows;~~,~~

(b) the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held;~~, and~~

(c) any cash flows arising at that date; and

(d) any income recognised in profit or loss applying paragraph 66A.~~; unless~~

65A If ~~(b)~~ the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts held,~~ in which case,~~ notwithstanding the requirements of paragraph B5, the entity shall recognise such a cost immediately in profit or loss as an expense.

66 Instead of applying paragraph 44, an entity shall measure the contractual service margin at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for:

...

(ba) income recognised in profit or loss in the reporting period applying paragraph 66A;

(bb) reversals of a loss-recovery component recognised applying paragraph 66B (see paragraph B119F) to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held;

(c) changes in the fulfilment cash flows, measured at the discount rates specified in paragraph B72(c), to the extent that the change relates to future service, unless:

~~(i)~~ ~~relates to future service; unless~~

(i)~~(ii)~~ the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts; or~~.~~

(ii) the change results from applying paragraphs 57–58 (on onerous contracts), if the entity measures a group of underlying insurance contracts applying the premium allocation approach.

...

66A An entity shall adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group (see paragraphs B119C–B119E).

66B An entity shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses recognised applying paragraphs 66(c)(i)–(ii) and 66A. The loss-recovery component determines the amounts that are presented in profit or loss as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer (see paragraph B119F).

...

Premium allocation approach for reinsurance contracts held

69 An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group:

(a) ...

(b) the coverage period of each contract in the group of reinsurance contracts held (including insurance coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

...

70A If an entity measures a group of reinsurance contracts held applying the premium allocation approach, the entity shall apply paragraph 66A by adjusting the carrying amount of the asset for remaining coverage instead of adjusting the contractual service margin.

Paragraph 71 is amended. New text is underlined and deleted text is struck through.

Investment contracts with discretionary participation features

71 An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements in IFRS 17 for insurance contracts are modified for investment contracts with discretionary participation features as follows:

(a) the date of initial recognition (see paragraphs 25 and 28~~paragraph 25~~) is the date the entity becomes party to the contract.

...

Paragraphs 72 and 76 are amended. New text is underlined and deleted text is struck through.

Modification and derecognition

Modification of an insurance contract

72 If the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying IFRS 17 or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:

(a) if the modified terms had been included at contract inception:

(i) the modified contract would have been excluded from the scope of IFRS 17, applying paragraphs 3–8A~~8~~;

(ii) ...

...

Derecognition

...

76 An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in IFRS 17:

...

(c) the number of coverage units for expected remaining insurance contract services~~coverage~~ is adjusted to reflect the coverage units derecognised from the group, and the amount of the contractual service margin recognised in profit or loss in the period is based on that adjusted number~~,~~ applying paragraph B119.

...

Paragraphs 78–79 are amended. New text is underlined and deleted text is struck through.

Presentation in the statement of financial position

78 **An entity shall present separately in the statement of financial position the carrying amount of portfolios~~groups~~ of:**

(a) **insurance contracts issued that are assets;**

(b) **insurance contracts issued that are liabilities;**

(c) **reinsurance contracts held that are assets; and**

(d) **reinsurance contracts held that are liabilities.**

79 An entity shall include any assets~~ or liabilities~~ for insurance acquisition cash flows recognised applying paragraph 28B~~27~~ in the carrying amount of the related portfolios~~groups~~ of insurance contracts issued, and any assets or liabilities for cash flows related to portfolios~~groups~~ of reinsurance contracts held (see paragraph 65(b)~~65(a)~~) in the carrying amount of the portfolios~~groups~~ of reinsurance contracts held.

Paragraphs 83, 86 and 88–89 are amended and paragraph 87A is added. New text is underlined and deleted text is struck through.

Recognition and presentation in the statement(s) of financial performance (paragraphs B120–B136)

...

Insurance service result

83 **An entity shall present in profit or loss insurance revenue arising from the groups of insurance contracts issued. Insurance revenue shall depict the provision of~~ coverage and other~~ 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. Paragraphs B120–B127 specify how an entity measures insurance revenue.**

...

86 An entity may present the income or expenses from a group of reinsurance contracts held (see paragraphs 60–70A~~70~~), other than insurance finance income or expenses, as a single amount; or the entity may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount. If an entity presents separately the amounts recovered from the reinsurer and an allocation of the premiums paid, it shall:

(a) ...

(b) treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer;~~ and~~

(ba) treat amounts recognised relating to recovery of losses applying paragraphs 66(c)(i)–(ii) and 66A–66B as amounts recovered from the reinsurer; and

(c) not present the allocation of premiums paid as a reduction in revenue.

Insurance finance income or expenses (see paragraphs B128–B136)

...

87A **An entity shall apply:**

(a) paragraph B117A to insurance finance income or expenses arising from the application of paragraph B115 (risk mitigation); and

(b) paragraphs 88 and 89 to all other insurance finance income or expenses.

88 **In applying paragraph 87A(b), unless~~Unless~~ paragraph 89 applies, an entity shall make an accounting policy choice between:**

...

89 **In applying paragraph 87A(b), for~~For~~ insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:**

...

Disclosure

...

Paragraphs 97, 99–101, 103–105, 106–107 and 109 are amended, paragraphs 105A–105B, and 109A are added. New text is underlined and deleted text is struck through.

Explanation of recognised amounts

97 Of the disclosures required by paragraphs 98–109A~~109~~, only those in paragraphs 98–100, 102–103, 105–105B and 109A~~ and 102–105~~ apply to contracts to which the premium allocation approach has been applied. If an entity uses the premium allocation approach, it shall also disclose:

...

99 An entity shall provide enough information in the reconciliations to enable users of financial statements to identify changes from cash flows and amounts that are recognised in the statement(s) of financial performance. To comply with this requirement, an entity shall:

(a) disclose, in a table, the reconciliations set out in paragraphs 100–105B~~105~~; and

(b) for each reconciliation, present the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for portfolios~~groups~~ of contracts that are assets and a total for portfolios~~groups~~ of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78.

100 An entity shall disclose reconciliations from the opening to the closing balances separately for each of:

...

(c) the liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70A~~70~~ has been applied, an entity shall disclose separate reconciliations for:

...

101 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A~~70~~ has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of:

...

103 An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to~~ insurance~~ services, if applicable:

...

(c) investment components excluded from insurance revenue and insurance service expenses (combined with refunds of premiums unless refunds of premiums are presented as part of the cash flows in the period described in paragraph 105(a)(i)).

104 An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to~~ insurance~~ services, if applicable:

(a) ...

(b) changes that relate to current service, ie:

(i) ...

(ii) the change in the risk adjustment for non-financial risk that does not relate to future service or past service; and

(iii) *experience adjustments* (see paragraphs B97(c) and B113(a)), excluding amounts relating to the risk adjustment for non-financial risk included in (ii).

(c) ...

105 To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to~~ insurance~~ services provided in the period, if applicable:

...

105A An entity shall disclose a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised applying paragraph 28B. An entity shall aggregate information for the reconciliation at a level that is consistent with that for the reconciliation of insurance contracts, applying paragraph 98.

105B An entity shall separately disclose in the reconciliation required by paragraph 105A any impairment losses and reversals of impairment losses recognised applying paragraph 28E–28F.

106 For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognised in the period comprising:

(a) the amounts relating to the changes in the liability for remaining coverage as specified in paragraph B124, separately disclosing:

(i) ...

(ii) the change in the risk adjustment for non-financial risk, as specified in paragraph B124(b);~~ and~~

(iii) the amount of the contractual service margin recognised in profit or loss because of the transfer of insurance contract services in the period, as specified in paragraph B124(c); and~~.~~

(iv) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service as specified in paragraph B124(d).

(b) the allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows (see paragraph B125).

107 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A~~70~~ has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognised in the period, showing their effect at initial recognition on:

...

109 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A~~70~~ has been applied, an entity shall disclose~~ an explanation of~~ when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss~~, either~~ quantitatively, in appropriate time bands~~, or by providing qualitative information~~. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.

109A An entity shall disclose quantitatively, in appropriate time bands, when it expects to derecognise an asset for insurance acquisition cash flows applying paragraph 28C.

...

Paragraph 114 is amended. New text is underlined and deleted text is struck through.

Transition amounts

114 An entity shall provide disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach (see paragraphs C6–C19A~~C19~~) or the fair value approach (see paragraphs C20–C24B~~C24~~) on the contractual service margin and insurance revenue in subsequent periods. Hence an entity shall disclose the reconciliation of the contractual service margin applying paragraph 101(c), and the amount of insurance revenue applying paragraph 103(a), separately for:

...

Paragraph 117 is amended. New text is underlined and deleted text is struck through.

Significant judgements in applying IFRS 17

117 An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

...

(c) to the extent not covered in (a), the approach used:

...

(iii) to determine discount rates;~~ and~~

(iv) to determine investment components; and~~.~~

(v) to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service (see paragraphs B119–B119B).

...

Paragraphs 128–129 and 132 are amended. New text is underlined and deleted text is struck through.

Nature and extent of risks that arise from contracts within the scope of IFRS 17

...

Insurance and market risks—sensitivity analysis

128 An entity shall disclose information about sensitivities to changes in risk variables~~exposures~~ arising from contracts within the scope of IFRS 17. To comply with this requirement, an entity shall disclose:

(a) a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in risk variables~~exposures~~ that were reasonably possible at the end of the reporting period:

(i) ...

(ii) for each type of market risk—in a way that explains the relationship between the sensitivities to changes in risk variables~~exposures~~ arising from insurance contracts and those arising from financial assets held by the entity.

...

129 If an entity prepares a sensitivity analysis that shows how amounts different from those specified in paragraph 128(a) are affected by changes in risk variables~~exposures~~ and uses that sensitivity analysis to manage risks arising from contracts within the scope of IFRS 17, it may use that sensitivity analysis in place of the analysis specified in paragraph 128(a). The entity shall also disclose:

...

Liquidity risk—other information

132 For liquidity risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

(a) ...

(b) separate maturity analyses for portfolios~~groups~~ of insurance contracts issued that are liabilities and portfolios~~groups~~ of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the portfolios~~groups~~ for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59 and paragraphs 69–70A. The analyses may take the form of:

...

(c) the amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related portfolios~~groups~~ of contracts, if not disclosed applying (b) of this paragraph.

Amendments to Appendix A—Defined terms

The definitions of 'contractual service margin', 'coverage period', 'group of insurance contracts' and 'insurance acquisition cash flows' are amended. New text is underlined and deleted text is struck through.

contractual service margin

A component of the carrying amount of the asset or liability for a **group of insurance contracts** representing the unearned profit the entity will recognise as it provides **insurance contract services**~~services~~ under the **insurance contracts** in the group.

coverage period

The period during which the entity provides **insurance contract services**~~coverage for **insured events**~~. This period includes the **insurance contract services** that relate~~coverage that relates~~ to all premiums within the boundary of the **insurance contract**.

...

group of insurance contracts

A set of **insurance contracts** resulting from the division of a **portfolio of insurance contracts** into, at a minimum, contracts issued~~written~~ within a period of no longer than one year and that, at initial recognition:

(a) are onerous, if any;

(b) have no significant possibility of becoming onerous subsequently, if any; or

(c) do not fall into either (a) or (b), if any.

insurance acquisition cash flows

Cash flows arising from the costs of selling, underwriting and starting a **group of insurance contracts** (issued or expected to be issued) that are directly attributable to the **portfolio of insurance contracts** to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or **groups of insurance contracts** within the portfolio.

...

A new definition is added after the definition of 'insurance contract'. New text is underlined.

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).

...

> The definitions of 'investment component', 'liability for incurred claims' and 'liability for remaining coverage' are amended. New text is underlined and deleted text is struck through.

investment component

The amounts that an **insurance contract** requires the entity to repay to a **policyholder** in all circumstances, regardless of whether an **insured event** occurs~~even if an **insured event** does not occur~~.

...

liability for incurred claims

An entity's obligation to:

(a) investigate and pay valid claims for **insured events** that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and~~.~~

(b) pay amounts that are not included in (a) and that relate to:

  (i) **insurance contract services** that have already been provided; or

  (ii) any **investment components** or other amounts that are not related to the provision of **insurance contract services** and that are not in the **liability for remaining coverage**.

liability for remaining coverage

An entity's obligation to:

(a) investigate and pay valid claims under existing **insurance contracts** for **insured events** that have not yet occurred (ie the obligation that relates to the unexpired portion of the insurance coverage~~**coverage period**~~); and~~.~~

(b) pay amounts under existing **insurance contracts** that are not included in (a) and that relate to:

(i) **insurance contract services** not yet provided (ie the obligations that relate to future provision of **insurance contract services**); or

(ii) any **investment components** or other amounts that are not related to the provision of **insurance contract services** and that have not been transferred to the **liability for incurred claims**.

...

Amendments to Appendix B—Application guidance

Paragraph B1 is amended. New text is underlined and deleted text is struck through.

B1 This appendix provides guidance on the following:

...

(ba) asset for insurance acquisition cash flows (see paragraphs B35A–B35D);

(c) measurement (see paragraphs B36–B119F~~B119~~);

...

Paragraphs B5 and B12 are amended. New text is underlined.

Definition of an insurance contract (Appendix A)

...

Uncertain future event

...

B5 Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides insurance coverage against an adverse development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

...

The distinction between insurance risk and other risks

...

B12 The definition of an insurance contract refers to an adverse effect on the policyholder. This definition does not limit the payment by the entity to an amount equal to the financial effect of the adverse event. For example, the definition includes 'new for old' insurance coverage that pays the policyholder an amount that permits the replacement of a used and damaged asset with a new one. Similarly, the definition does not limit the payment under a life insurance contract to the financial loss suffered by the deceased's dependants, nor does it exclude contracts that specify the payment of predetermined amounts to quantify the loss caused by death or an accident.

...

Paragraphs B33–B35 are amended. New text is underlined and deleted text is struck through.

Promises to transfer distinct goods or ~~non-insurance~~ services other than insurance contract services (paragraph 12)

B33 Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or ~~non-insurance~~ services other than insurance contract services to a policyholder. For the purpose of separation, an entity shall not consider activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service other than insurance contract services to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.

B34 A good or ~~non-insurance~~ service other than an insurance contract service promised to a policyholder is distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).

B35 A good or ~~non-insurance~~ service other than an insurance contract service that is promised to the policyholder is not distinct if:

(a) ...

(b) the entity provides a significant service in integrating the good or ~~non-insurance~~ service with the insurance components.

Paragraphs B35A–B35D and the heading above paragraph B35A are added. New text is underlined.

Insurance acquisition cash flows (paragraphs 28A–28F)

B35A To apply paragraph 28A, an entity shall use a systematic and rational method to allocate:

(a) insurance acquisition cash flows directly attributable to a group of insurance contracts:

(i) to that group; and

(ii) to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.

(b) insurance acquisition cash flows directly attributable to a portfolio of insurance contracts, other than those in (a), to groups of contracts in the portfolio.

B35B At the end of each reporting period, an entity shall revise amounts allocated as specified in paragraph B35A to reflect any changes in assumptions that determine the inputs to the method of allocation used. An entity shall not change amounts allocated to a group of insurance contracts after all contracts have been added to the group (see paragraph B35C).

B35C An entity might add insurance contracts to a group of insurance contracts across more than one reporting period (see paragraph 28). In those circumstances, an entity shall derecognise the portion of an asset for insurance acquisition cash flows that relates to insurance contracts added to the group in that period and continue to recognise an asset for insurance acquisition cash flows to the extent that the asset relates to insurance contracts expected to be added to the group in a future reporting period.

B35D To apply paragraph 28E:

(a) an entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group of insurance contracts, determined applying paragraph 32(a).

(b) when an entity allocates insurance acquisition cash flows to groups of insurance contracts applying paragraph B35A(a)(ii), the entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of the related assets for insurance acquisition cash flows to the extent that:

(i) the entity expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, determined applying paragraph 32(a); and

(ii) the excess determined applying (b)(i) has not already been recognised as an impairment loss applying (a).

Paragraphs B64–B66 and B71–B72 are amended and paragraph B66A is added. New text is underlined and deleted text is struck through.

Measurement (paragraphs 29–71)

Estimates of future cash flows (paragraphs 33–35)

...

Cash flows within the contract boundary (paragraph 34)

...

B64 Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining service~~coverage~~. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

B65 Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

...

(ka) costs the entity will incur:

(i) performing investment activity, to the extent the entity performs that activity to enhance benefits from insurance coverage for policyholders. Investment activities enhance benefits from insurance coverage if the entity performs those activities expecting to generate an investment return from which policyholders will benefit if an insured event occurs.

(ii) providing investment-return service to policyholders of insurance contracts without direct participation features (see paragraph B119B).

(iii) providing investment-related service to policyholders of insurance contracts with direct participation features.

...

B66 The following cash flows shall not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:

...

(f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity or that are not specifically chargeable to the policyholder under the terms of the contract.~~ Such payments and receipts are recognised, measured and presented separately applying IAS 12 *Income Taxes*.~~

...

B66A Before the recognition of a group of insurance contracts, an entity might be required to recognise an asset or liability for cash flows related to the group of insurance contracts other than insurance acquisition cash flows either because of the occurrence of the cash flows or because of the requirements of another IFRS Standard. Cash flows are related to the group of insurance contracts if those cash flows would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date. To apply paragraph 38(c)(ii) an entity shall derecognise such an asset or liability to the extent that the asset or liability would not be recognised separately from the group of insurance contracts if the cash flow or the application of the IFRS Standard occurred at the date of initial recognition of the group of insurance contracts.

Contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts

...

B71 After all insurance contract services have~~the coverage has~~ been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.

Discount rates (paragraph 36)

B72 An entity shall use the following discount rates in applying IFRS 17:

...

(c) to measure the changes to the contractual service margin applying paragraphs B96(a)–B96(b) and B96(d)~~paragraph B96(a)–B96(c)~~ for insurance contracts without direct participation features—discount rates applying paragraph 36 determined on initial recognition;

...

Paragraphs B93–B95 are amended, paragraph B95 is bifurcated creating new paragraph B95A. Paragraphs B95B–B95F and the heading above paragraph B95E are added. New text is underlined.

Initial recognition of transfers of insurance contracts and business combinations (paragraph 39)

B93 When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.

B94 An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination within the scope of IFRS 3, the consideration received or paid is the fair value of the contracts at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 (relating to demand features).

B95 Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 and 69–70A applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition.

B95A If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination within the scope of IFRS 3, or as a loss in profit or loss for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.

B95B For a group of reinsurance contracts held to which paragraphs 66A–66B apply, an entity shall determine the loss-recovery component of the asset for remaining coverage at the date of the transaction by multiplying:

(a) the loss component of the liability for remaining coverage of the underlying insurance contracts at the date of the transaction; and

(b) the percentage of claims on the underlying insurance contracts the entity expects at the date of the transaction to recover from the group of reinsurance contracts held.

B95C The entity shall recognise the amount of the loss-recovery component determined applying paragraph B95B as part of goodwill or gain on a bargain purchase for reinsurance contracts held acquired in a business combination within the scope of IFRS 3, or as income in profit or loss for contracts acquired in a transfer.

B95D Applying paragraphs 14–22, at the date of the transaction an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous contracts not covered by the group of reinsurance contracts held. To apply paragraph B95B in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

Asset for insurance acquisition cash flows

B95E When an entity acquires insurance contracts issued in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3, the entity shall recognise an asset for insurance acquisition cash flows at fair value at the date of the transaction for the rights to obtain:

(a) future insurance contracts that are renewals of insurance contracts recognised at the date of the transaction; and

(b) future insurance contracts, other than those in (a), after the date of the transaction without paying again insurance acquisition cash flows the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.

B95F At the date of the transaction, the amount of any asset for insurance acquisition cash flows shall not be included in the measurement of the acquired group of insurance contracts applying paragraphs B93–B95A.

Paragraphs B96–B97 are amended. New text is underlined and deleted text is struck through.

Changes in the carrying amount of the contractual service margin for insurance contracts without direct participation features (paragraph 44)

B96 For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

(a) experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph B72(c).~~;~~

(b) changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph B97(a), measured at the discount rates specified in paragraph B72(c).~~;~~

(c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period. Those differences are determined by comparing (i) the actual investment component that becomes payable in the period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable. ~~measured at the discount rates specified in paragraph B72(c); and~~

(ca) differences between any loan to a policyholder expected to become repayable in the period and the actual loan to a policyholder that becomes repayable in the period. Those differences are determined by comparing (i) the actual loan to a policyholder that becomes repayable in the period with (ii) the repayment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected repayment before it becomes repayable.

(d) changes in the risk adjustment for non-financial risk that relate to future service. An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between (i) a change related to non-financial risk and (ii) the effect of the time value of money and changes in the time value of money. If an entity makes such a disaggregation, it shall adjust the contractual service margin for the change related to non-financial risk, measured at the discount rates specified in paragraph B72(c).

B97 An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

(a) the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk. These effects comprise: ~~(being~~

(i) the effect, if any, on estimated future cash flows;

(ii) the effect, if disaggregated, on the risk adjustment for non-financial risk; and

(iii) the effect of a change in discount rate.~~);~~

(b) changes in estimates of fulfilment cash flows in the liability for incurred claims.~~; and~~

(c) ...

...

Paragraphs B104, B107, B112, B115–B116 and B118 are amended. Paragraph B117A is added. Paragraph B101 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Changes in the carrying amount of the contractual service margin for insurance contracts with direct participation features (paragraph 45)

B101 Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

(a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs B105–B106);

(b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph B107); and

(c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph B107).

...

B104 The conditions in paragraph B101 ensure that insurance contracts with direct participation features are contracts under which the entity's obligation to the policyholder is the net of:

(a) ...

(b) a variable fee (see paragraphs B110–B118) that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:

(i) the amount of the entity's share of the fair value of the underlying items; less

(ii) ...

...

B107 Paragraph B101(b) requires that the entity expects a substantial share of the fair value returns on the underlying items will be paid to the policyholder and paragraph B101(c) requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. An entity shall:

(a) ...

(b) assess the variability in the amounts in paragraphs B101(b) and B101(c):

(i) over the duration of the insurance contract~~group of insurance contracts~~; and

(ii) ...

...

B112 Changes in the amount of the entity's share of the fair value of the underlying items (paragraph B104(b)(i)) relate to future service and adjust the contractual service margin, applying paragraph 45(b).

...

Risk mitigation

B115 To the extent that an entity meets the conditions in paragraph B116, it may choose not to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of the time value of money and financial risk on: ~~the entity's share of the underlying items (see paragraph B112) or the fulfilment cash flows set out in paragraph B113(b).~~

(a) the amount of the entity's share of the underlying items (see paragraph B112) if the entity mitigates the effect of financial risk on that amount using derivatives or reinsurance contracts held; and

(b) the fulfilment cash flows set out in paragraph B113(b) if the entity mitigates the effect of financial risk on those fulfilment cash flows using derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held.

B116 To apply paragraph B115, an entity must have a previously documented risk-management objective and strategy for mitigating financial risk as described in paragraph B115.~~using derivatives to mitigate financial risk arising from the insurance contracts and, in~~ In applying that objective and strategy:

~~(a)~~ ~~the entity uses a derivative to mitigate the financial risk arising from the insurance contracts.~~

(a)~~(b)~~ an economic offset exists between the insurance contracts and the derivative, non-derivative financial instrument measured at fair value through profit or loss, or reinsurance contract held (ie the values of the insurance contracts and those risk mitigating items~~the derivative~~ generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated). An entity shall not consider accounting measurement differences in assessing the economic offset.

(b)~~(c)~~ credit risk does not dominate the economic offset.

...

B117A If the entity mitigates the effect of financial risk using derivatives or non-derivative financial instruments measured at fair value through profit or loss, it shall include insurance finance income or expenses for the period arising from the application of paragraph B115 in profit or loss. If the entity mitigates the effect of financial risk using reinsurance contracts held, it shall apply the same accounting policy for the presentation of insurance finance income or expenses arising from the application of paragraph B115 as the entity applies to the reinsurance contracts held applying paragraphs 88 and 90.

B118 If, and only if, any of the conditions in paragraph B116 cease~~ceases~~ to be met~~,~~ an entity shall~~:~~

~~(a)~~ cease to apply paragraph B115 from that date. ~~; and~~

~~(b)~~ An entity shall not make any adjustment for changes previously recognised in profit or loss.

Paragraph B119 is amended and paragraphs B119A–B119B are added. New text is underlined and deleted text is struck through.

Recognition of the contractual service margin in profit or loss

B119 An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by:

(a) identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services~~coverage~~ provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period~~duration~~.

(b) allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the insurance contract services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.

(c) recognising in profit or loss the amount allocated to coverage units provided in the period.

B119A To apply paragraph B119, the period of investment-return service 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 included in the fulfilment cash flows applying paragraph B68.

B119B Insurance contracts without direct participation features may provide an investment-return service if, and only if:

(a) an investment component exists, or the policyholder has a right to withdraw an amount;

(b) the entity expects the investment component or amount the policyholder has a right to withdraw to include an investment return (an investment return could be below zero, for example, in a negative interest rate environment); and

(c) the entity expects to perform investment activity to generate that investment return.

Paragraphs B119C–B119F and the heading above paragraph BC119C are added. New text is underlined and deleted text is struck through.

Reinsurance contracts held—recognition of recovery of losses on underlying insurance contracts (paragraphs 66A–66B)

B119C Paragraph 66A applies if, and only if, the reinsurance contract held is entered into before or at the same time as the onerous underlying insurance contracts are recognised.

B119D To apply paragraph 66A, an entity shall determine the adjustment to the contractual service margin of a group of reinsurance contracts held and the resulting income by multiplying:

(a) the loss recognised on the underlying insurance contracts; and

(b) the percentage of claims on the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

B119E Applying paragraphs 14–22, an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraphs 66(c)(i)–(ii) and paragraph 66A in such cases, the entity shall apply a systematic and rational method of allocation to determine the portion of losses recognised on the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

B119F After an entity has established a loss-recovery component applying paragraph 66B, the entity shall adjust the loss-recovery component to reflect changes in the loss component of an onerous group of underlying insurance contracts (see paragraphs 50–52). The carrying amount of the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Paragraphs B121, B123, B124 and B126 are amended and paragraph B123A is added. New text is underlined and deleted text is struck through.

Insurance revenue (paragraphs 83 and 85)

...

B121 Paragraph 83 requires the amount of insurance revenue recognised in a period to depict the transfer of promised services at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The total consideration for a group of contracts covers the following amounts:

(a) amounts related to the provision of services, comprising:

(i) insurance service expenses, excluding any amounts relating to the risk adjustment for non-financial risk included in (ii) and any amounts allocated to the loss component of the liability for remaining coverage;

(ia) amounts related to income tax that are specifically chargeable to the policyholder;

(ii) the risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and

(iii) ...

(b) ...

...

B123 Applying IFRS 15, when an entity provides services, it derecognises the performance obligation for those services and recognises revenue. Consistently, applying IFRS 17, when an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:

(a) changes that do not relate to services provided in the period, for example:

...

(iia) changes resulting from cash flows from loans to policyholders;

...

B123A To the extent that an entity derecognises an asset for cash flows other than insurance acquisition cash flows at the date of initial recognition of a group of insurance contracts (see paragraphs 38(c)(ii) and B66A), it shall recognise insurance revenue and expenses for the amount derecognised at that date.

B124 Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:

(a) insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:

...

(iii) amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i));~~ and~~

(iv) insurance acquisition expenses (see paragraph B125); and~~.~~

(v) the amount related to the risk adjustment for non-financial risk (see (b)).

...

(d) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service (see paragraph B96(a)).

...

B126 When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of insurance contract services~~coverage~~:

...

Paragraphs B128 and B134 are amended. New text is underlined and deleted text is struck through.

Insurance finance income or expenses (paragraphs 87–92)

B128 Paragraph 87 requires an entity to include in insurance finance income or expenses the effect of the time value of money and financial risk and changes therein~~in assumptions that relate to financial risk~~. For the purposes of IFRS 17:

(a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk;~~ and~~

(b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk; and~~.~~

(c) changes in the measurement of a group of insurance contracts caused by changes in the value of underlying items (excluding additions and withdrawals) are changes arising from the effect of the time value of money and financial risk and changes therein.

...

B134 Paragraph 89 applies if an entity, either by choice or because it is required to, holds the underlying items for insurance contracts with direct participation features. If an entity chooses to disaggregate insurance finance income or expenses applying paragraph 89(b), it shall include in profit or loss expenses or income that exactly match the income or expenses included in profit or loss for the underlying items, resulting in the net of the~~ two~~ separately presented items being nil.

...

Paragraph B137 and its heading are amended. New text is underlined and deleted text is struck through.

The effect of accounting estimates made in interim~~Interim~~ financial statements

B137 If an entity prepares interim financial statements applying IAS 34 *Interim Financial Reporting*, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period. The entity shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds.~~Notwithstanding the requirement in IAS 34 *Interim Financial Reporting* that the frequency of an entity's reporting shall not affect the measurement of its annual results, an entity shall not change the treatment of accounting estimates made in previous interim~~

~~financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period.~~

Amendments to Appendix C—Effective date and transition

Paragraph C1 is amended. Paragraph C2 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

Effective date

C1 An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023~~2021~~. If an entity applies IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply IFRS 9 *Financial Instruments* ~~and IFRS 15 *Revenue from Contracts with Customers*~~ on or before the date of initial application of IFRS 17.

C2 For the purposes of the transition requirements in paragraphs C1 and C3–C33:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 17; and

(b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

Paragraphs C3–C5 are amended and paragraphs C5A–C5B are added. New text is underlined and deleted text is struck through.

Transition

C3 Unless it is impracticable to do so, or paragraph C5A applies, an~~An~~ entity shall apply IFRS 17 retrospectively ~~unless impracticable~~, except that:

(a) ...

(b) an entity shall not apply the option in paragraph B115 for periods before the transition date~~date of initial application of IFRS 17~~. An entity may apply the option in paragraph B115 prospectively on or after the transition date if, and only if, the entity designates risk mitigation relationships at or before the date it applies the option.

C4 To apply IFRS 17 retrospectively, an entity shall at the transition date:

(a) ...

(aa) identify, recognise and measure any assets for insurance acquisition cash flows as if IFRS 17 had always applied (except that an entity is not required to apply the recoverability assessment in paragraph 28E before the transition date);

...

C5 If, and only if, it is impracticable for an entity to apply paragraph C3 for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph C4(a):

(a) the modified retrospective approach in paragraphs C6–C19A~~C19~~, subject to paragraph C6(a); or

(b) the fair value approach in paragraphs C20–C24B~~C24~~.

C5A Notwithstanding paragraph C5, an entity may choose to apply the fair value approach in paragraphs C20–C24B for a group of insurance contracts with direct participation features to which it could apply IFRS 17 retrospectively if, and only if:

(a) the entity chooses to apply the risk mitigation option in paragraph B115 to the group of insurance contracts prospectively from the transition date; and

(b) the entity has used derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts, as specified in paragraph B115, before the transition date.

C5B If, and only if, it is impracticable for an entity to apply paragraph C4(aa) for an asset for insurance acquisition cash flows, the entity shall apply the following approaches to measure the asset for insurance acquisition cash flows:

(a) the modified retrospective approach in paragraphs C14B–C14D, subject to paragraph C6(a); or

(b) the fair value approach in paragraphs C24A–C24B.

Paragraphs C7–C9, C11 and C15–C16 and C17 are amended. Paragraphs C9A, C14A–C14D, C16A–C16C and C17A are added. New text is underlined and deleted text is stuck through.

Modified retrospective approach

...

C7 Paragraphs C9–C19A~~C19~~ set out permitted modifications to retrospective application in the following areas:

...

C8 To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–C19A~~C19~~ only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at inception or initial recognition

C9 To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date:

(a) ...

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109;~~ and~~

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100; and~~.~~

(d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17, applying paragraph 71.

C9A To the extent permitted by paragraph C8, an entity shall classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

...

Determining the contractual service margin or loss component for groups of insurance contracts without direct participation features

C11 To the extent permitted by paragraph C8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs C12–C16C~~C16~~.

...

C14A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine the contractual service margin or loss component at the transition date as if the entity had not prepared interim financial statements before the transition date.

C14B To the extent permitted by paragraph C8, an entity shall use the same systematic and rational method the entity expects to use after the transition date when applying paragraph 28A to allocate any insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the transition date (excluding any amount relating to insurance contracts that ceased to exist before the transition date) to:

(a) groups of insurance contracts that are recognised at the transition date; and

(b) groups of insurance contracts that are expected to be recognised after the transition date.

C14C Insurance acquisition cash flows paid before the transition date that are allocated to a group of insurance contracts recognised at the transition date adjust the contractual service margin of that group, to the extent insurance contracts expected to be in the group have been recognised at that date (see paragraphs 28C and B35C). Other insurance acquisition cash flows paid before the transition date, including those allocated to a group of insurance contracts expected to be recognised after the transition date, are recognised as an asset, applying paragraph 28B.

C14D If an entity does not have reasonable and supportable information to apply paragraph C14B, the entity shall determine the following amounts to be nil at the transition date:

(a) the adjustment to the contractual service margin of a group of insurance contracts recognised at the transition date and any asset for insurance acquisition cash flows relating to that group; and

(b) the asset for insurance acquisition cash flows for groups of insurance contracts expected to be recognised after the transition date.

C15 If applying paragraphs C12–C14D~~C14~~ results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:

...

C16 If applying paragraphs C12–C14D~~C14~~ results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs C12–C14D~~C14~~ and using a systematic basis of allocation.

C16A For a group of reinsurance contracts held that provides coverage for an onerous group of insurance contracts and was entered into before or at the same time that the insurance contracts were issued, an entity shall establish a loss-recovery component of the asset for remaining coverage at the transition date (see paragraphs 66A–66B). To the extent permitted by paragraph C8, an entity shall determine the loss-recovery component by multiplying:

(a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and

(b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C16B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C16A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

C16C If an entity does not have reasonable and supportable information to apply paragraph C16A, the entity shall not identify a loss-recovery component for the group of reinsurance contracts held.

Determining the contractual service margin or loss component for groups of insurance contracts with direct participation features

C17 To the extent permitted by paragraph C8, for contracts with direct participation features an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:

(a) the total fair value of the underlying items at that date; minus

(b) the fulfilment cash flows at that date; plus or minus

(c) an adjustment for:

...

(iv) insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the transition date that are allocated to the group (see paragraph C17A).

(d) if (a)–(c) result in a contractual service margin—minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts, ie before any amounts that would have been recognised in profit or loss for services provided. The entity shall estimate the amounts that would have been recognised in profit or loss for services provided by comparing the remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or

(e) if (a)–(c) result in a loss component—adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

C17A To the extent permitted by paragraph C8, an entity shall apply paragraphs C14B–C14D to recognise an asset for insurance acquisition cash flows, and any adjustment to the contractual service margin of a group of insurance contracts with direct participation features for insurance acquisition cash flows (see paragraph C17(c)(iv)).

Paragraph C19A is added. New text is underlined.

Insurance finance income or expenses

...

C19A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine amounts related to insurance finance income or expenses at the transition date as if it had not prepared interim financial statements before the transition date.

Paragraphs C20A–C20B and C22A are added and paragraph C21 is amended. New text is underlined and deleted text is struck through.

Fair value approach

...

C20A For a group of reinsurance contracts held to which paragraphs 66A–66B apply (without the need to meet the condition set out in paragraph B119C), an entity shall determine the loss-recovery component of the asset for remaining coverage at the transition date by multiplying:

(a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and

(b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C20B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C20A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

C21 In applying the fair value approach, an entity may apply paragraph C22 to determine:

(a) ...

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109;~~ and~~

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100; and~~.~~

(d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17, applying paragraph 71.

...

C22A In applying the fair value approach, an entity may choose to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

...

Paragraphs C24A–C24B and the heading above paragraphs C24A–C24B are added. New text is underlined.

Asset for insurance acquisition cash flows

C24A In applying the fair value approach for an asset for insurance acquisition cash flows (see paragraph C5B(b)), at the transition date, an entity shall determine an asset for insurance acquisition cash flows at an amount equal to the insurance acquisition cash flows the entity would incur at the transition date for the rights to obtain:

(a) recoveries of insurance acquisition cash flows from premiums of insurance contracts issued before the transition date but not recognised at the transition date;

(b) future insurance contracts that are renewals of insurance contracts recognised at the date of the transaction and insurance contracts described in (a); and

(c) future insurance contracts, other than those in (b), after the date of the transaction without paying again insurance acquisition cash flows the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.

C24B At the transition date, the entity shall exclude from the measurement of any groups of insurance contracts the amount of any asset for insurance acquisition cash flows.

Paragraph C34 is amended. New text is underlined and deleted text is struck through.

Withdrawal of other IFRS Standards

C34 IFRS 17 supersedes IFRS 4 *Insurance Contracts*, as amended in 2020~~2016~~.

Amendments to Appendix D—Amendments to other IFRS Standards

This appendix sets out the amendments to other Standards that are a consequence of the International Accounting Standards Board amending IFRS 17 *Insurance Contracts* in June 2020. An entity shall apply these amendments when it applies IFRS 17.

IFRS 3 *Business Combinations*

In the amendments to IFRS 3 *Business Combinations*, paragraphs 31A and 64N are amended. New text is underlined and deleted text is struck through.

...

Insurance contracts

31A The acquirer shall measure a group of contracts within the scope of IFRS 17 *Insurance Contracts* acquired in a business combination<u>, and any assets for insurance acquisition cash flows as defined in IFRS 17,</u> as a liability or asset in accordance with paragraphs 39 and B93–<u>B95F</u>~~B95~~ of IFRS 17, at the acquisition date.

...

Effective date

...

64N IFRS 17, issued in May 2017, amended paragraphs 17, 20, 21, 35 and B63, and after paragraph 31 added a heading and paragraph 31A.<u> *Amendments to IFRS 17*, issued in June 2020, amended paragraph 31A.</u> An entity shall apply <u>the amendments to paragraph 17 to business combinations with an acquisition date after the date of initial application of IFRS 17. An entity shall apply the other</u>~~those~~ amendments when it applies IFRS 17.

...

IFRS 7 *Financial Instruments: Disclosures*

In the amendments to IFRS 7 *Financial Instruments: Disclosures*, paragraphs 3 and 44DD are amended. New text is underlined and deleted text is struck through.

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

...

(d) insurance contracts as defined in~~contracts within the scope of~~ IFRS 17 *Insurance Contracts* or investment contracts with discretionary participation features within the scope of IFRS 17. However, this IFRS applies to:

   (i) derivatives that are embedded in contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately.~~; and~~

   (ii) investment components that are separated from contracts within the scope of IFRS 17, if IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features.

   (iii) an issuer's rights and obligations arising under insurance contracts that meet the definition of~~Moreover, an issuer shall apply this IFRS to~~ *financial guarantee contracts*, if the issuer applies IFRS 9 in recognising and measuring the contracts. However, the issuer~~, but~~ shall apply IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of IFRS 17, to apply IFRS 17 in recognising and measuring the contracts~~them~~.

   (iv) an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies IFRS 9 to those rights and obligations in accordance with paragraph 7(h) of IFRS 17 and paragraph 2.1(e)(iv) of IFRS 9.

   (v) an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of IFRS 17, to apply IFRS 9 instead of IFRS 17 to such contracts.

(e) ...

...

Effective date and transition

...

44DD IFRS 17, issued in May 2017, amended paragraphs 3, 8 and 29 and deleted paragraph 30. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 3. An entity shall apply those amendments when it applies IFRS 17.

IFRS 9 *Financial Instruments*

In the amendments to IFRS 9 *Financial Instruments*, paragraphs 2.1 and 7.1.6 are amended. A new heading and paragraphs 7.2.36–7.2.42 are added. New text is underlined and deleted text is struck through.

Chapter 2 Scope

2.1 **This Standard shall be applied by all entities to all types of financial instruments except:**

...

(e) **rights and obligations arising under an insurance contract as defined in~~a contract within the scope of~~ IFRS 17 *Insurance Contracts*, ~~other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract~~or an investment contract with discretionary participation features within the scope of IFRS 17. However, this Standard applies to:**

(i) **derivatives~~a derivative~~ that are~~is~~ embedded in contracts~~a contract~~ within the scope of IFRS 17, if the derivatives are not themselves contracts~~derivative is not itself a contract~~ within the scope of IFRS 17.~~; and~~**

(ii) **investment components~~an investment component~~ that are~~is~~ separated from contracts~~a contract~~ within the scope of IFRS 17, if IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features within the scope of IFRS 17.**

(iii) **an issuer's rights and obligations under insurance contracts that meet the definition of a financial guarantee contract. However~~Moreover~~, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or IFRS 17 to such financial guarantee contracts (see paragraphs B2.5–B2.6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.**

(iv) **an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract but which paragraph 7(h) of IFRS 17 excludes from the scope of IFRS 17. However, if, and only if, the insurance coverage is a contractual term of such a financial**

instrument, the entity shall separate that component and apply IFRS 17 to it (see paragraph 7(h) of IFRS 17).

(v) **an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of IFRS 17, to apply IFRS 9 instead of IFRS 17 to such contracts.**

(f) **...**

...

Chapter 7 Effective date and transition

7.1 Effective date

...

7.1.6 IFRS 17, issued in May 2017, amended paragraphs 2.1, B2.1, B2.4, B2.5 and B4.1.30, and added paragraph 3.3.5. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 2.1 and added paragraphs 7.2.36–7.2.42. An entity shall apply those amendments when it applies IFRS 17.

...

7.2 Transition

...

Transition for IFRS 17 as amended in June 2020

7.2.36 An entity shall apply the amendments to IFRS 9 made by IFRS 17 as amended in June 2020 retrospectively in accordance with IAS 8, except as specified in paragraphs 7.2.37–7.2.42.

7.2.37 An entity that first applies IFRS 17 as amended in June 2020 at the same time it first applies this Standard shall apply paragraphs 7.2.1–7.2.28 instead of paragraphs 7.2.38–7.2.42.

7.2.38 An entity that first applies IFRS 17 as amended in June 2020 after it first applies this Standard shall apply paragraphs 7.2.39–7.2.42. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).

7.2.39 With regard to designating a financial liability as measured at fair value through profit or loss, an entity:

(a) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of these amendments; and

(b) may designate a financial liability as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of these amendments.

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application of these amendments. That classification shall be applied retrospectively.

7.2.40 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods only if it is possible to do so without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements in this Standard for the affected financial instruments. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

7.2.41 In the reporting period that includes the date of initial application of these amendments, an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8.

7.2.42 In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that was affected by these amendments:

(a) the previous classification, including the previous measurement category when applicable, and carrying amount determined immediately before applying these amendments;

(b) the new measurement category and carrying amount determined after applying these amendments;

(c) the carrying amount of any financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated; and

(d) the reasons for any designation or de-designation of financial liabilities as measured at fair value through profit or loss.

IAS 1 *Presentation of Financial Statements*

In the amendments to IAS 1 *Presentation of Financial Statements* paragraphs 54 and 139R are amended. New text is underlined and deleted text is struck through.

Information to be presented in the statement of financial position

54 **The statement of financial position shall include line items that present the following amounts:**

...

(da) **portfolios~~groups~~ of contracts within the scope of IFRS 17 that are assets, disaggregated as required by paragraph 78 of IFRS 17;**

...

(ma) **portfolios~~groups~~ of contracts within the scope of IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of IFRS 17;**

...

Transition and effective date

...

139R IFRS 17, issued in May 2017, amended paragraphs 7, 54 and 82. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 54. An entity shall apply those amendments when it applies IFRS 17.

...

IAS 32 *Financial Instruments: Presentation*

In the amendments to IAS 32 *Financial Instruments: Presentation* paragraphs 4 and 97T are amended. New text is underlined and deleted text is struck through.

Scope

4 **This Standard shall be applied by all entities to all types of financial instruments except:**

...

(d) **insurance contracts as defined in~~contracts within the scope of~~ IFRS 17 *Insurance Contracts* or investment contracts with discretionary participation features within the scope of IFRS 17. However, this Standard applies to:**

(i) **derivatives that are embedded in contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately.~~; and~~**

(ii) **investment components that are separated from contracts within the scope of IFRS 17, if IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features within the scope of IFRS 17.**

(iii) **an issuer's rights and obligations arising under insurance contracts that meet the definition of~~Moreover, an issuer shall apply this Standard to~~ financial guarantee contracts, if the issuer applies IFRS 9 in recognising and measuring the contracts. However, the issuer~~, but~~ shall apply IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of IFRS 17, to apply IFRS 17 in recognising and measuring the contracts~~them~~.**

(iv) **an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies IFRS 9 to those rights and obligations in accordance with paragraph 7(h) of IFRS 17 and paragraph 2.1(e)(iv) of IFRS 9.**

(v) **an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract if the entity elects, in accordance with paragraph 8A of IFRS 17, to apply IFRS 9 instead of IFRS 17 to such contracts.**

...

Effective date and transition

...

97T IFRS 17, issued in May 2017, amended paragraphs 4, AG8 and AG36, and added paragraph 33A. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 4. An entity shall apply those amendments when it applies IFRS 17.

IAS 36 *Impairment of Assets*

In the amendments to IAS 36 *Impairment of Assets* paragraphs 2 and 140N are amended. New text is underlined.

Scope

2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**

...

(h) **contracts within the scope of IFRS 17 *Insurance Contracts* that are assets and any assets for insurance acquisition cash flows as defined in IFRS 17; and**

...

Transition provisions and effective date

...

140N IFRS 17, issued in May 2017, amended paragraph 2. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 2. An entity shall apply those amendments when it applies IFRS 17.

IAS 38 *Intangible Assets*

In the amendments to IAS 38 *Intangible Assets* paragraphs 3 and 130M are amended. New text is underlined.

Scope

...

3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

...

(g) contracts within the scope of IFRS 17 *Insurance Contracts* and any assets for insurance acquisition cash flows as defined in IFRS 17.

(h) ...

...

Transitional provisions and effective date

...

130M IFRS 17, issued in May 2017, amended paragraph 3. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 3. An entity shall apply those amendments when it applies IFRS 17.

Approval by the International Accounting Standards Board of *Amendments to IFRS 17* issued in June 2020

Amendments to IFRS 17 was approved for issue by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Tadeu Cendon	
Martin Edelmann	
Françoise Flores	
Gary Kabureck	
Jianqiao Lu	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Rika Suzuki	
Ann Tarca	
Mary Tokar	

Amendments to Illustrative Examples on IFRS 17

Paragraph IE3A is added. New text is underlined.

Introduction

...

IE3A In June 2020, the International Accounting Standards Board (Board) amended IFRS 17 and made the following amendments to these examples:

(a) Example 12C was added;

(b) Examples 4, 6, 7, 9, 11, 12, 13, 14 and 16 were amended; and

(c) some amendments were made to improve the explanations in Examples 2B, 3B, 6, 8 and 9.

Footnote (b) to the table after paragraph IE28 is amended. New text is underlined and deleted text is struck through.

Example 2B—Changes in fulfilment cash flows that create an onerous group of insurance contracts

...

IE28 ...

...

(b) This example illustrates the amounts recognised in the statement of profit or loss. Example 3B~~3A~~ illustrates how these amounts could be presented.

The table after paragraph IE40 and the related footnote are amended. New text is underlined and deleted text is struck through.

Example 3B—Changes in fulfilment cash flows that create an onerous group of insurance contracts

...

IE40 ...

	Liability for remaining coverage, excluding loss component		Loss component of the liability for remaining coverage		Liability for incurred claims		Insurance contract liability	
	CU		CU		CU		CU	
Opening balance	404		113		–		517	
<u>Insurance finance expenses</u>	<u>16</u>		<u>5</u>	<u>(b)</u>	<u>–</u>		<u>21</u>	<u>(d)</u>
Insurance revenue	(320)	(a)	–		–		(320)	
Insurance service expenses	–		(118)	(b)	350	(c)	232	
Investment component	(100)		–		100		–	
~~Insurance finance expenses~~	~~16~~		~~5~~	~~(b)~~	~~–~~		~~21~~	~~(d)~~
Cash flows	–		–		(450)		(450)	
Closing balance	**–**		**–**		**–**		**–**	

(a) ...

(b) Applying paragraph 50(a), the entity allocates on a systematic basis the subsequent changes in the fulfilment cash flows of the liability for remaining coverage between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. In this example ~~the allocation is based on the 22 per cent proportion of the loss component of the liability for remaining coverage of CU113 to the total liability for remaining coverage of CU517 (CU404 + CU113). Consequently,~~ the entity allocates subsequent changes in fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

continued...

...continued

(i) insurance finance expenses of CU5 are determined by multiplying the total insurance finance expenses of CU21 by 22 per cent. The allocation is based on the 22 per cent proportion of the loss component of the liability for remaining coverage of CU113 to the total liability for remaining coverage of CU517 (CU404 + CU113).

(ii)~~(i)~~ the change of the loss component of CU118 is the sum of:

1 the estimates of the future cash flows released from the liability for remaining coverage for the year of CU94~~CU99~~, calculated by multiplying the expected insurance service expenses for the incurred claims for the year of CU350 by 27 per cent~~plus the investment component of CU450 (CU350 + CU100) by 22 per cent~~; and

2 the change in the risk adjustment for non-financial risk caused by the release from risk of CU24~~CU19~~, calculated by multiplying the total such change of CU88 by 27~~22~~ per cent.

The allocation of the amounts described in 1 and 2 to the loss component of CU118 is determined after the insurance finance expenses and investment component have been allocated. The insurance finance expenses are allocated as described in (i). The investment component is allocated solely to the liability for remaining coverage excluding the loss component, because it is not included in insurance revenue or insurance service expenses. After those allocations, the loss component of the liability for remaining coverage is CU118 (CU113 + CU5) and the liability for remaining coverage excluding the investment component is CU438 (CU517 + CU21 – CU100). Hence, the allocations in (ii) are determined as the ratio of CU118 to CU438, which is 27 per cent.

~~(ii)~~ ~~the insurance finance expenses of CU5 is determined by multiplying the total insurance finance expenses of CU21 by 22 per cent.~~

See Example 8 for a more detailed calculation of losses in a group of insurance contracts subsequent to initial recognition.

...

Paragraph IE50 is amended. New text is underlined and deleted text is struck through.

Example 4—Separating components from a life insurance contract with an account balance

...

Separating the asset management component

IE50 The asset management activities, similar~~similarly~~ to claims processing activities, are part of the activities the entity must undertake to fulfil the contract, and the entity does not transfer a good or service other than insurance contract services to the policyholder because the entity performs those activities. Thus, applying paragraph B33, the entity would not separate the asset management component from the insurance contract.

The title of Example 6, paragraphs IE58 and IE62 and the tables after paragraphs IE70 and IE71 and the related footnotes are amended. New text is underlined and deleted text is struck through.

Example 6—Additional features of the contractual service margin (paragraphs 44, 87, 101, B96–B99 and B119–B119B)

...

IE58 The contracts in this example:

(a) ...

(b) do not meet the criteria for insurance contracts with direct participation features applying paragraph B101(a) because a pool of assets is not specified in the contracts.

(c) provide an investment-return service applying paragraph B119B.

(d) provide both insurance coverage and investment-return service evenly over the coverage period of three years.

...

IE62 On initial recognition of the group of contracts, the entity:

...

(d) estimates the risk adjustment for non-financial risk to be CU30 and expects to recognise it in profit or loss evenly over the coverage period. Applying paragraph 81, the entity does not disaggregate the changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.

...

IE70 ...

Changes in the estimates of future cash flows in Year 2	**Estimates of future cash flows**		**Estimates of the present value of future cash flows~~(a)~~**	
	CU		**CU**	
Beginning of Year 2 (present value discounted at 10%~~ for 2 years~~)	3,414	(a)~~(b)~~	2,824	(b)
The effect of changes in financial assumptions (and interest accretion)	(186)	(c)	195~~193~~	(d)
Revised~~End of Year 2, revised~~ for changes in financial assumptions (present value discounted at 7%~~ for 1 year~~)	3,228	(a)~~(b)~~	3,019~~3,017~~	(b)
The effect of the exercise of discretion (present value discounted at 7%~~ for 1 year~~)	61	(e)	57	
Revised~~ in Year 2~~ for changes in financial assumptions and the exercise of discretion (present value discounted at 7% ~~for 1 year~~)	3,289	(a)~~(b)~~	3,076~~3,074~~	(b)
Payment of cash flows	(32)	(a)~~(b)~~	(32)	
End of Year 2	**3,257**		**3,044~~3,042~~**	

(a) See the table after paragraph IE69.~~The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a).~~

(b) The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). All the cash flows—other than the death benefit payable at the end of Year 2—are payable at the end of Year 3.~~See the table after paragraph IE69.~~

(c) ...

(d) The change in estimates of the present value of the future cash flows of CU195~~CU193~~ is the difference between the estimates of the present value of the future cash flows at the end of Year 2 (revised for changes in financial assumptions) of CU3,019~~CU3,017~~ and the estimates of the present value of the future cash flows at the beginning of Year 2 (before changes in financial assumptions) of CU2,824. Hence, it reflects the effect of the interest accretion during Year 2 and the effect of the change in financial assumptions.

(e) ...

IE71 ...

	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin	Insurance contract liability
	CU	CU	CU	CU
Opening balance	2,824	20	258	3,102
Insurance finance expenses	197~~195~~ (a)	–	10 (b)	207~~205~~
Changes related to future service: exercise of discretion	55 (c)	–	(55) (c)	–
Changes related to current service	–	(10)	(107) (d)	(117)
Cash outflows	(32)	–	–	(32)
Closing balance	**3,044~~3,042~~**	**10**	**106**	**3,160~~3,158~~**

(a) Applying paragraph B97, the entity does not adjust the contractual service margin for a group of contracts for changes in fulfilment cash flows related to the effect of the time value of money and financial risk and changes therein, comprising ~~(being~~(i) the effect, if any, on estimated future cash flows; (ii) the effect, if disaggregated, on the risk adjustment for non-financial risk; and (iii) the effect of a change in discount rate~~)~~. This is because such changes do not relate to future service. Applying paragraph 87, the entity recognises those changes as insurance finance expenses. Consequently, the insurance finance expenses of CU197~~CU195~~ are the sum of:

(i) the effect of interest accretion and the effect of the change in financial assumptions of CU195~~CU193~~ (see the table after paragraph IE70~~IE69~~); and

(ii) ...

...

Paragraph IE76 is amended. New text is underlined and deleted text is struck through.

Example 7—Insurance acquisition cash flows (paragraphs 106, B65(e) and B125)

...

IE76 In this example for simplicity, it is assumed that:

...

(c) there is no investment component;~~ and~~

(d) the insurance acquisition cash flows directly attributable to the portfolio to which the contracts belong of CU90 are directly attributable to the group of contracts to which the contracts belong and no renewals of those contracts are expected; and

(e)~~(d)~~ all other amounts, including the effect of discounting, are ignored for simplicity.

Paragraph IE82 and the tables after paragraphs IE94–IE98 and the related footnotes are amended. New text is underlined and deleted text is struck through.

Example 8—Reversal of losses in an onerous group of insurance contracts (paragraphs 49–50 and B123–B124)

...

IE82 An entity issues 100 insurance contracts with a coverage period of three years. The coverage period starts when the insurance contracts are issued and the services are provided evenly over the coverage period. It is assumed, for simplicity, that no contracts will lapse before the end of the coverage period.

...

IE94 ...

	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin	Insurance contract liability
	CU	CU	CU	CU
Opening balance	743	160	–	903
Insurance finance expenses	37 [(a)]	–	–	37
Changes related to future service	(286) [(b)]	–	103 [(b)]	(183)
Changes related to current service	–	(80)	(52)~~–~~ [(c)]	(132)~~(80)~~
Cash outflows	(400)	–	–	(400)
Closing balance	**94**	**80**	**51~~103~~**	**225~~277~~**

...

(c) Applying paragraph B119(b), the entity allocates the contractual service margin at the end of the period (before recognising any amounts in profit or loss) equally to each coverage unit provided in the current period and expected to be provided in the future. Applying paragraph B119(c), the entity recognises in profit or loss the amount allocated to coverage units provided in the period of CU52, which is CU103 divided by two years.

IE95 ...

	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Liability for incurred claims	Insurance contract liability
	CU	CU	CU	CU
Opening balance	544	359	–	903
Insurance finance expenses	22	15 (a)	–	37 (b)
Insurance revenue	(341)~~(289)~~ (a)	–	–	(341)~~(289)~~
Insurance service expenses: incurred expenses	–	(191) (a)	400	209
Insurance service expenses: reversal of loss on onerous contracts	–	(183) (c)	–	(183)
Cash flows	–	–	(400)	(400)
Closing balance	**225~~277~~**	**–**	**–**	**225~~277~~**

...

IE96 ...

	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Total
	CU	CU	CU
Release of expected insurance service expenses for the incurred claims for the year	(241)	(159) (a)	(400)
Change in the risk adjustment for non-financial risk caused by the release from risk	(48)	(32) (a)	(80)
Contractual service margin recognised in profit or loss for the year	(52)	–	(52)
Insurance revenue	(341)~~(289)~~ (b)	–	
Insurance service expenses	–	(191)	
Insurance finance expenses	22 (b)	(15) (a)	

(a) ...

continued...

...continued

(b) Insurance revenue of CU341~~CU289~~ is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU319 (CU544 – CU225)~~CU267 (CU544 – CU277)~~, further excluding insurance finance expenses of CU22, ie CU341 = CU319 + CU22~~CU289 = CU267 + CU22~~; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses for the incurred claims for the year of CU400~~, and~~ the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the amount of the contractual service margin recognised in profit or loss in the period of CU52 minus the reversal of the loss component of the liability for remaining coverage of CU191 (CU159 + CU32), ie CU341~~CU289~~ = CU400 + CU80 + CU52 – CU191.

IE97 ...

	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin	Insurance contract liability
	CU	CU	CU	CU
Opening balance	94	80	51~~103~~	225~~277~~
Insurance finance expenses	5 [a]	–	3~~5~~ [b]	8~~10~~
Changes related to current service	–	(80)	(54)~~(108)~~ [c]	(134)~~(188)~~
Cash outflows	(100)	–	–	(100)
Rounding difference	1	–	–	1
Closing balance	–	–	–	–

(a) ...

(b) Applying paragraph 44(b), the entity calculates interest accreted on the carrying amount of the contractual service margin of CU3~~CU5~~ by multiplying the opening balance of CU51~~CU103~~ by the discount rate of 5 per cent determined applying paragraphs 44(b) and B72(b).

(c) ...

IE98 ...

	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Liability for incurred claims	Insurance contract liability
	CU	CU	CU	CU
Opening balance	225~~277~~	–	–	225~~277~~
Insurance revenue	(233)~~(287)~~ (a)	–	–	(233)~~(287)~~
Insurance service expenses	–	–	100	100
Insurance finance expenses	8~~10~~ (b)	–	–	8~~10~~
Cash flows	–	–	(100)	(100)
Closing balance	**–**	**–**	**–**	**–**

(a) Insurance revenue of CU233~~CU287~~ is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU225 (CU225–CU0)~~CU277 (CU277– CU0)~~, further excluding insurance finance expenses of CU8~~CU10~~, ie CU233 = CU225 + CU8~~CU287 = CU277 + CU10~~; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses of CU100, the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the contractual service margin recognised in profit or loss of CU54~~CU108~~, ie CU233~~CU287~~ = CU100 + CU80 + CU54~~CU108~~ – CU1 rounding difference.

(b) ...

Paragraph IE99 is moved to after the title of Example 9. Paragraphs IE104 and IE105, and footnote (a) to the table after paragraph IE111 are amended. New text is underlined and deleted text is struck through.

Measurement of groups of insurance contracts with direct participation features

~~IE99~~ ~~This example illustrates the measurement of groups of insurance contracts with direct participation features.~~

Example 9—Measurement on initial recognition and subsequently of groups of insurance contracts with direct participation features (paragraphs 45 and B110–B114)

IE99 This example illustrates the measurement of groups of insurance contracts with direct participation features.

...

IE104 On initial recognition of the contracts, the entity:

...

(c) estimates the risk adjustment for non-financial risk to be CU25 and expects to recognise it in profit or loss in Years 1–3 as follows: CU12, CU8 and CU5;~~ and~~

(d) estimates the time value of the guarantee inherent in providing a minimum death benefit;[1] and

(e)~~(d)~~ expects that one insured person will die at the end of each year and claims will be settled immediately.

IE105 During the coverage period, there are changes in the time value of the guarantee and changes in the fair value returns on underlying items, as follows:

...

IE111 ...

...

(a) Applying paragraphs B110–B113, the entity adjusts the contractual service margin for the net of changes in:

(i) the amount of the entity's share of~~in~~ the fair value of the underlying items; and

...

1 There is no prescribed method for the calculation of the time value of a guarantee, and a calculation of an amount separate from the rest of the fulfilment cash flows is not required.

The title of Example 11 is amended. New text is underlined and deleted text is struck through.

Example 11—Measurement on initial recognition of groups of reinsurance contracts held (paragraphs 63–65A~~65~~)

...

The title of Example 12 is amended. New text is underlined and deleted text is struck through.

Examples 12A and 12B~~Example 12~~—Measurement subsequent to initial recognition of groups of reinsurance contracts held (paragraph 66)

...

Paragraphs IE138A–IE138O and their related headings are added. For ease of reading, this new example is not underlined.

Example 12C—Measurement of a group of reinsurance contracts held that provides coverage for groups of underlying insurance contracts, including an onerous group (paragraphs 66A–66B and B119C–B119F)

IE138A This example illustrates the initial and subsequent measurement of reinsurance contracts held when one of the groups of underlying insurance contracts is onerous.

Assumptions

IE138B At the beginning of Year 1, an entity enters into a reinsurance contract that in return for a fixed premium covers 30 per cent of each claim from the groups of underlying insurance contracts. The underlying insurance contracts are issued at the same time as the entity enters into the reinsurance contract.

IE138C In this example for simplicity it is assumed:

(a) no contracts will lapse before the end of the coverage period;

(b) there are no changes in estimates other than that described in paragraph IE138J; and

(c) all other amounts, including the effect of discounting, the risk adjustments for non-financial risk, and the risk of non-performance of the reinsurer are ignored.

IE138D Some of the underlying insurance contracts are onerous on initial recognition. Thus, applying paragraph 16, the entity establishes a group comprising the onerous contracts. The remainder of the underlying insurance contracts are expected to be profitable and, applying paragraph 16, in this example the entity establishes a single group comprising the profitable contracts.

IE138E The coverage period of the underlying insurance contracts and the reinsurance contract held is three years starting from the beginning of Year 1. Services are provided evenly across the coverage periods.

IE138F The entity expects to receive premiums of CU1,110 on the underlying insurance contracts immediately after initial recognition. Claims on the underlying insurance contracts are expected to be incurred evenly across the coverage period and are paid immediately after the claims are incurred.

IE138G The entity measures the groups of underlying insurance contracts on initial recognition as follows:

	Profitable group of insurance contracts	Onerous group of insurance contracts	Total
	CU	CU	CU
Estimates of present value of future cash inflows	(900)	(210)	(1,110)
Estimates of present value of future cash outflows	600	300	900
Fulfilment cash flows	(300)	90	(210)
Contractual service margin	300	–	300
Insurance contract liability on initial recognition	**–**	**90**	**90**
Loss on initial recognition	**–**	**(90)**	**(90)**

IE138H Applying paragraph 61, the entity establishes a group comprising a single reinsurance contract held. The entity pays a premium of CU315 to the reinsurer immediately after initial recognition. The entity expects to receive recoveries of claims from the reinsurer on the same day that the entity pays claims on the underlying insurance contracts.

IE138I Applying paragraph 63, the entity measures the estimates of the present value of the future cash flows for the group of reinsurance contracts held using assumptions consistent with those used to measure the estimates of the present value of the future cash flows for the groups of underlying insurance contracts. Consequently, the estimate of the present value of the future cash inflows is CU270 (recovery of 30 per cent of the estimates of the present value of the future cash outflows for the groups of underlying insurance contracts of CU900).

IE138J At the end of Year 2, the entity revises its estimates of the remaining fulfilment cash outflows of the groups of underlying insurance contracts. The entity estimates that the fulfilment cash flows of the groups of underlying insurance contracts increase by 10 per cent, from future cash outflows of CU300 to future cash outflows of CU330. Consequently, the entity estimates the fulfilment cash flows of the reinsurance contract held also increase, from future cash inflows of CU90 to future cash inflows of CU99.

Analysis

IE138K The entity measures the group of reinsurance contracts held on initial recognition as follows:

	Initial recognition	
	CU	
Estimates of present value of future cash inflows (recoveries)	(270)	
Estimates of present value of future cash outflows (premiums)	315	
Fulfilment cash flows	**45**	
Contractual service margin of the reinsurance contract held (before the loss-recovery adjustment)	(45)	
Loss-recovery component	(27)	(a)
Contractual service margin of the reinsurance contract held (after the loss-recovery adjustment)	**(72)**	(b)
Reinsurance contract asset on initial recognition	**(27)**	(c)
Income on initial recognition	**27**	(a)

(a) Applying paragraph 66A, the entity adjusts the contractual service margin of the reinsurance contract held and recognises income to reflect the loss recovery. Applying paragraph B119D, the entity determines the adjustment to the contractual service margin and the income recognised as CU27 (the loss of CU90 recognised for the onerous group of underlying insurance contracts multiplied by 30 per cent, the percentage of claims the entity expects to recover).

(b) The contractual service margin of CU45 is adjusted by CU27, resulting in a contractual service margin of CU72, reflecting a net cost on the reinsurance contract held.

(c) The reinsurance contract asset of CU27 comprises the fulfilment cash flows of CU45 (net outflows) and a contractual service margin reflecting a net cost of CU72. Applying paragraph 66B, the entity establishes a loss-recovery component of the asset for remaining coverage of CU27 depicting the recovery of losses recognised applying paragraph 66A.

IE138L At the end of Year 1, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability		Reinsurance contract asset	
	Profitable group of insurance contracts	Onerous group of insurance contracts		
	CU	CU	CU	
Estimates of present value of future cash inflows (recoveries)	–	–	(180)	
Estimates of present value of future cash outflows (claims)	400	200	–	
Fulfilment cash flows	400	200	(180)	
Contractual service margin	200	–	(48)	(a)
Insurance contract liability	**600**	**200**		
Reinsurance contract asset			**(228)**	

(a) Applying paragraphs 66(e) and B119, the entity determines the amount of the contractual service margin recognised in profit or loss for the service received in Year 1 as CU24, which is calculated by dividing the contractual service margin on initial recognition of CU72 by the coverage period of three years. Consequently, the contractual service margin of the reinsurance contract held at the end of Year 1 of CU48 equals the contractual service margin on initial recognition of CU72 minus CU24.

IE138M At the end of Year 2, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability				Reinsurance contract asset	
	Profitable group of insurance contracts		Onerous group of insurance contracts			
	CU		CU		CU	
Estimates of present value of future cash inflows (recoveries)	–		–		(99)	(a)
Estimates of present value of future cash outflows (claims)	220	(a)	110	(a)	–	
Fulfilment cash flows	220		110		(99)	
Contractual service margin	90	(b)	–		(21)	(e)
Insurance contract liability	**310**		**110**			
Reinsurance contract asset					**(120)**	
Recognition of loss and recovery of loss			**(10)**	(c)	**3**	(d)

continued...

...continued

(a) The entity increases the expected remaining cash outflows of the groups of underlying insurance contracts by 10 per cent for each group (CU30 in total) and increases the expected remaining cash inflows of the reinsurance contract held by 10 per cent of the expected recoveries of CU90 (CU9).

(b) Applying paragraph 44(c), the entity adjusts the carrying amount of the contractual service margin of CU200 by CU20 for the changes in fulfilment cash flows relating to future service. Applying paragraph 44(e), the entity also adjusts the carrying amount of the contractual service margin by CU90 for the amount recognised as insurance revenue ((CU200 – CU20) ÷ 2). The resulting contractual service margin at the end of Year 2 is CU90 (CU200 – CU20 – CU90).

(c) Applying paragraph 48, the entity recognises in profit or loss an amount of CU10 for the changes in the fulfilment cash flows relating to future service of the onerous group of underlying insurance contracts.

(d) Applying paragraph 66(c)(i), the entity adjusts the contractual service margin of the reinsurance contract held for the change in fulfilment cash flows that relate to future service unless the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for that group. Consequently, the entity recognises the change in the fulfilment cash flows of the reinsurance contract held of CU9 by:

    (i) recognising immediately in profit or loss CU3 of the change in the fulfilment cash flows of the reinsurance contract held (30 per cent of the CU10 change in the fulfilment cash flows of the onerous group of underlying insurance contracts that does not adjust the contractual service margin of that group); and

    (ii) adjusting the contractual service margin of the reinsurance contract held by CU6 of the change in the fulfilment cash flows (CU9 – CU3).

(e) Consequently, the contractual service margin of the reinsurance contract held of CU21 equals the contractual service margin at the end of Year 1 of CU48 adjusted by CU6 and by CU21 of the contractual service margin recognised in profit or loss for the service received in Year 2 (CU21 = (CU48 – CU6) ÷ 2).

IE138N A possible format of the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 2 is as follows:

	Asset for remaining coverage, excluding loss-recovery component		Loss-recovery component of the asset for remaining coverage		Asset for incurred claims	Reinsurance contract asset
	CU		CU		CU	CU
Opening balance	(210)		(18)	(b)	–	(228)
Allocation of reinsurance premiums paid[a]	102	(c)	–		–	102
Amount recovered from the reinsurer[a]	–		6	(d)	(90)	(84)
Cash flows	–		–		90	90
Closing balance	**(108)**		**(12)**		**–**	**(120)**

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(b) The loss-recovery component of CU18 at the beginning of Year 2 is calculated as the loss-recovery component of CU27 on initial recognition less the reversal of the loss-recovery component of CU9 in Year 1.

(c) The allocation of reinsurance premiums paid of CU102 is:

  (i) determined applying paragraph B123 as the difference between the opening and closing carrying amount of the asset for remaining coverage of CU102, ie CU210 – CU108.

  (ii) analysed applying paragraph B124 as the sum of the recoveries for the incurred claims of the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contract held recognised in profit or loss in the period of CU21 (see the table after paragraph IE138M), ie CU102 = CU90 – CU9 + CU21.

(d) The amount recovered from the reinsurer relating to the loss-recovery component of CU6 is the net of the reversal of the loss-recovery component of CU9 and the additional loss-recovery component of CU3. Applying paragraph 86(ba), amounts recognised relating to the recovery of losses are treated as amounts recovered from the reinsurer.

IE138O The amounts presented in the statement of profit or loss corresponding to the amounts analysed in the tables above are:

Statement of profit or loss	Year 1		Year 2		Year 3		Total
	CU		CU		CU		CU
Insurance revenue	370		360		380		1,110
Insurance service expenses	(360)		(280)		(290)		(930)
Insurance contracts issued total	**10**	(b)	**80**	(d)	**90**	(f)	**180**
Allocation of reinsurance premiums paid[(a)]	(105)		(102)		(108)		(315)
Amount recovered from reinsurer[(a)]	108		84		87		279
Reinsurance contracts held total	**3**	(c)	**(18)**	(e)	**(21)**	(g)	**(36)**
Insurance service result	**13**		**62**		**69**		**144**

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(b) For Year 1, the profit of CU10 from the groups of underlying insurance contracts is calculated as follows:

(i) insurance revenue of CU370, which is analysed as the sum of the insurance service expenses from the claims incurred of CU270 (CU300 minus the reversal of the loss component of CU30) and the contractual service margin of CU100 recognised in profit or loss in the period (CU370 = CU270 + CU100); minus

(ii) insurance service expenses of CU360, which are the sum of the loss component of the onerous group of CU90 and the claims incurred in the period of CU300 minus the reversal of the loss component of CU30 (CU360 = CU90 + CU300 – CU30).

(c) For Year 1, the income of CU3 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU105, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contracts held of CU24 recognised in profit or loss in the period (CU105 = CU90 – CU9 + CU24); and

(ii) the amounts recovered from the reinsurer of CU108, which are the income of CU27 on initial recognition and the recoveries for the incurred claims from the underlying insurance contracts of CU90 minus the reversal of the loss-recovery component of CU9 (CU108 = CU27 + CU90 – CU9).

continued...

...continued

(d) For Year 2, the profit of CU80 from the groups of underlying insurance contracts is calculated as follows:

(i) insurance revenue of CU360, which is analysed as the sum of the insurance service expenses from the claims incurred of CU270 (CU300 minus the reversal of the loss component of CU30) and the contractual service margin of CU90 recognised in profit or loss in the period (CU360 = CU270 + CU90); minus

(ii) insurance service expenses of CU280, which are the sum of the increase in the loss component resulting from the changes in the fulfilment cash flows of the onerous group of CU10 and the claims incurred of CU300 minus the reversal of the loss component of CU30 (CU280 = CU10 + CU300 – CU30).

(e) For Year 2, the expense of CU18 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU102, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contract held of CU21 recognised in profit or loss in the period (CU102 = CU90 – CU9 + CU21); and

(ii) the amounts recovered from the reinsurer of CU84, which are the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 minus the reversal of the loss-recovery component of CU9 and the additional loss-recovery component of CU3 (CU84 = CU90 – CU9 + CU3).

(f) For Year 3, the profit of CU90 from the groups of underlying insurance contracts is calculated as follows:

(i) insurance revenue of CU380, which is analysed as the sum of the insurance service expenses from the claims incurred of CU290 (CU330 minus the reversal of the loss component of CU40) and the contractual service margin of CU90 recognised in profit or loss in the period (CU380 = CU290 + CU90); minus

(ii) insurance service expenses of CU290, which are the claims incurred of CU330 minus the reversal of the loss component of CU40 (CU290 = CU330 – CU40).

continued...

...continued

(g) For Year 3, the expense of CU21 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU108, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU99 less the reversal of the loss-recovery component of CU12 and the contractual service margin of the reinsurance contracts held of CU21 recognised in profit or loss in the period (CU108 = CU99 – CU12 + CU21); and

(ii) the amounts recovered from the reinsurer of CU87, which are the recoveries for the incurred claims from the underlying insurance contracts of CU99 minus the reversal of the loss-recovery component of CU12 (CU87 = CU99 – CU12).

The heading above Example 13 and footnote (b) to the table after paragraph IE145 are amended. New text is underlined and deleted text is struck through.

Measurement of insurance contracts acquired (paragraphs 38 and B94–<u>B95A</u>~~B95~~)

Example 13—Measurement on initial recognition of insurance contracts acquired in a transfer from another entity

...

IE145 ...

...

(b) Applying paragraphs 47 and <u>B95A</u>~~B95~~, the entity concludes that the group of insurance contracts is onerous on initial recognition. This is because the total of the fulfilment cash flows of a net outflow of CU45 and cash flows arising at that date (proxy for the premiums of net inflow of CU30) is a net outflow of CU15. The entity recognises a loss in profit or loss for the net outflow of CU15, resulting in the carrying amount of the liability for the group of CU45 being the sum of the fulfilment cash flows of CU45 and the contractual service margin of zero.

(c) ...

Paragraphs IE146 and IE147 and footnotes (a) and (b) to the table after paragraph IE151 are amended. New text is underlined and deleted text is struck through.

Example 14—Measurement on initial recognition of insurance contracts acquired in a business combination

IE146 This example illustrates the initial recognition of a group of insurance contracts acquired in a business combination within the scope of IFRS 3 *Business Combinations*.

Assumptions

IE147 An entity acquires insurance contracts as part of a business combination within the scope of IFRS 3 and it:

(a) determines~~estimates~~ that the transaction results in goodwill applying IFRS 3 ~~*Business Combinations*~~.

(b) ...

...

IE151 ...

...

(a) Applying paragraph 38, the entity measures the contractual service margin on initial recognition of a group of insurance contracts at an amount that results in no income or expenses arising from the initial recognition of the fulfilment cash flows and any cash flows arising from the contracts in the group at that date. On initial recognition, the fulfilment cash flows are~~is~~ a net inflow (or asset) of CU10 (proxy for the premiums received of CU30 minus the fulfilment cash flows of CU20). Consequently, the contractual service margin equals CU10.

(b) Applying paragraphs 38 and 47, the entity recognises the contractual service margin as zero because the sum of fulfilment cash flows and cash flows at the date of initial recognition is a net outflow of CU15. Applying paragraph B95A~~B95~~, the entity recognises the excess of CU15 of the fulfilment cash flows of CU45 over the consideration received of CU30 as part of the goodwill on the business combination.

...

The table after paragraph IE184 and the related footnote are amended. New text is underlined and deleted text is struck through.

Example 16—Amount that eliminates accounting mismatches with finance income or expenses arising on underlying items held (paragraphs 89–90 and B134)

...

IE184 ...

Contractual service margin	Year 1	Year 2	Year 3
	CU	CU	CU
Opening balance	–	61	33
Change related to future service: new contracts	75	–	–
Change in the amount of the entity's share of~~in~~ the fair value of the underlying items[a]	16	5	5
Change related to current service: recognition in profit or loss for the service provided	(30) [b]	(33)	(38)
Closing balance	**61**	**33**	**–**

(a) Applying paragraph B112, the entity adjusts the contractual service margin for the change in the amount of the entity's share of the fair value of the underlying items because those changes relate to future service. For example, in Year 1 the change in the amount of the entity's share of the fair value of the underlying items of CU16 is 5 per cent of the change in fair value of the underlying items of CU311 (CU1,811 – CU1,500). This example does not include cash flows that do not vary based on the returns on underlying items. For more details about the changes related to future service that adjust the contractual service margin see Example 10.

(b) ...

Amendments to Basis for Conclusions on IFRS 17

Paragraphs BC6A–BC6C and the heading above paragraph BC6A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17

BC6A After IFRS 17 was issued in May 2017, the Board undertook activities to support entities and monitor their progress in implementing the Standard. These activities included establishing a Transition Resource Group for IFRS 17 to discuss implementation questions, and meeting with stakeholders affected by the changes introduced by IFRS 17, including preparers and users of financial statements, auditors and regulators. These activities helped the Board to understand the concerns and challenges that arose for some entities while implementing the Standard. In the light of these activities, the Board concluded that the costs of proposing targeted amendments to IFRS 17 to address concerns and challenges could be justified if those amendments would not change the fundamental principles of the Standard. The Board considered suggestions to amend the Standard in relation to 25 topics.

BC6B To maintain the benefits of IFRS 17, the Board decided that any amendments to IFRS 17 must not:

(a) result in a significant loss of useful information for users of financial statements compared with the information that would have resulted from applying IFRS 17 as issued in May 2017; or

(b) unduly disrupt implementation already under way.

BC6C The 2019 Exposure Draft *Amendments to IFRS 17* set out the targeted amendments that the Board proposed, considering the criteria described in paragraph BC6B. The Board received 123 comment letters about the proposed amendments. Having considered the feedback on the 2019 Exposure Draft, the Board issued *Amendments to IFRS 17* in June 2020.

Paragraph BC10 is amended. New text is underlined and deleted text is struck through.

Applying generally applicable IFRS Standards

...

BC10 If the Board extended the scope of existing IFRS Standards to include insurance contracts, an entity would need to:

...

(d) apply the financial instruments Standards to the investment component. If an entity accounted for the investment components of an insurance contract in the same way it accounts for other financial liabilities, it would, consistent with IFRS 17, not recognise principal deposited as revenue and would account separately for embedded options and guarantees when so required by IFRS 9. However, it would also:

...

(iii) recognise, for investment components measured at fair value through profit or loss, the costs of originating contracts as an expense when incurred, with no corresponding gain at inception. For investment components measured at amortised cost, incremental transaction costs relating to the investment component would reduce the initial carrying amount of that liability. The treatment of insurance acquisition cash flows applying IFRS 17 is discussed in paragraphs BC175–BC184K~~BC184~~.

Paragraph BC19 is amended. New text is underlined and deleted text is struck through.

Fulfilment cash flows (paragraphs 33–37 of IFRS 17)

BC19 The current value of the fulfilment cash flows allocated to a group of insurance contracts includes:

(a) a current, unbiased estimate of the future cash flows expected to fulfil the insurance contracts. The estimate of future cash flows reflects the perspective of the entity, provided that the estimates of any relevant market variables are consistent with the observable market prices for those variables (see paragraphs BC147–BC184N~~BC184~~).

(b) an adjustment for the time value of money and the financial risks associated with the future cash flows, to the extent that the financial risks are not included in the estimate of the future cash flows. For example, if the cash flows being discounted are an estimate of the probability-weighted average (the mean), that mean itself does not include an adjustment for risk, and any financial risk (ie uncertainty relating to financial risk on whether the ultimate cash flows will equal the mean) will be included in the discount rate (a risk-adjusted rate). If, in contrast, the cash flows being discounted are an estimate of the mean with an adjustment to reflect uncertainty related to financial risk, the discount rate will be a rate that reflects only the time value of money (ie not adjusted for risk). The discount rates are consistent with observable current market prices for instruments whose cash flow characteristics are consistent with the estimates of the cash flows of the insurance contracts. The discount rates also exclude the effects of any factors that influence observable market prices but are not relevant to the estimates of the cash flows of the insurance contracts (see paragraphs BC185–BC205B~~BC205~~).

...

A footnote is added to paragraph BC21 after 'It depicts the profit that the entity expects to earn by providing the services promised under the contracts in the group over the duration of the coverage of the group.' For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to recognise an amount of the contractual service margin in profit or loss in each period to reflect the insurance contract services provided in that period (see paragraphs BC283A–BC283J).

Paragraph BC23 is amended. New text is underlined and deleted text is struck through.

Subsequent measurement and recognition of profit (paragraphs 40–46 of IFRS 17)

...

BC23 After initial recognition, IFRS 17 also requires an entity to recognise specified changes in the contractual service margin for a group of insurance contracts. These changes depict changes in the future profit to be earned from providing services under the contracts, and include:

(a) changes in the estimates of the fulfilment cash flows that relate to future service (see paragraphs BC222–BC269C~~BC269~~);

(b) the effect of the time value of money on the contractual service margin (see paragraphs BC270–BC276E~~BC276~~) and, for insurance contracts with direct participation features, changes in the entity's share of the underlying items (see paragraphs BC238–BC263);

(c) ...

(d) the profit earned in the period from providing services (see paragraphs BC279–BC283J~~BC283~~).

...

A footnote is added to the end of paragraph BC25(a). For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a liability for remaining coverage to include amounts for which an entity will provide investment-return service or investment-related service (see paragraphs BC283A–BC283J).

A footnote is added to the end of the first sentence of paragraph BC33. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of an investment component to clarify that an investment component is the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs (see paragraph BC34A).

A footnote is added to the end of paragraph BC33. For ease of reading new text is not underlined.

* In June 2020, the Board amended paragraph B123 of IFRS 17 to clarify that changes caused by cash flows from loans to policyholders do not give rise to insurance revenue. This treatment is similar to the treatment of investment components.

Paragraph BC34A and the heading above that paragraph are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—definition of an investment component

BC34A In June 2020, the Board amended the definition of an investment component to clarify that an investment component is the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs (see paragraph BC34). A discussion at a meeting of the Transition Resource Group for IFRS 17 suggested that the wording of the definition before the amendment did not capture fully the explanation in paragraph BC34.

Paragraph BC45 is amended. New text is underlined and deleted text is struck through.

Presentation of insurance finance income or expenses (paragraphs 87–92 and B128–B136 of IFRS 17)

...

BC45 Alternative approaches to the presentation of insurance finance income or expenses considered but rejected by the Board are discussed in paragraphs BC340–BC342C~~BC342~~.

Paragraph BC52 is amended. New text is underlined and deleted text is struck through.

The level of aggregation

...

BC52 In reaching a decision on the level of aggregation, the Board balanced the loss of information inevitably caused by the aggregation of contracts with the usefulness of the resulting information in depicting the financial performance of an entity's insurance activities and with the operational burden of collecting the information (see paragraphs BC115–BC139T~~BC139~~).

Paragraphs BC55–BC56 are amended. New text is underlined and deleted text is struck through.

Accounting mismatches

...

BC55 The Board's decisions on risk mitigation techniques related to insurance contracts with direct participation features reduce the accounting mismatches that were introduced by the variable fee approach by providing an option to align the overall effect of the variable fee approach more closely to the model for other insurance contracts (see paragraphs BC250–BC256H~~BC256~~). However, the Board concluded that it would not be appropriate to develop a bespoke solution for all hedging activities for insurance contracts, noting that such a solution should form part of a broader project. The Board did not want to delay the publication of IFRS 17 pending finalisation of that broader project. The Board also concluded that a prospective basis was necessary for the application of the risk mitigation requirements on transition, for the reasons set out in paragraph BC393.

BC56 Insurance contracts with direct participation features are measured by reference to the fair value of the underlying items (see paragraphs BC238–BC249D~~BC249~~). This measurement reflects the investment-related nature of the contracts. Applying IFRS Standards, many underlying items will also be measured at fair value. The Board also decided to amend some IFRS Standards to enable additional underlying items to be measured at fair value (see paragraph BC65(c)). However, there could still be underlying items that cannot be measured at fair value applying IFRS Standards; for example, other insurance contracts or net assets of a subsidiary. The Board noted that all such mismatches would be eliminated only if all assets and liabilities were recognised and measured at fair value.

The heading above paragraph BC63 is amended. New text is underlined and deleted text is struck through.

Scope of the Standard and definition of insurance contracts (paragraphs 3–8A~~8~~ and B2–B30 of IFRS 17)

...

Paragraphs BC87–BC88 and the heading above paragraph BC87 are amended. New text is underlined and deleted text is struck through.

Scope exclusions (paragraphs 7–8A~~8~~ of IFRS 17)

BC87 The scope of IFRS 17 excludes various items that may meet the definition of insurance contracts, such as:

...

(h) some credit card contracts and similar contracts that provide credit or payment arrangements (see paragraphs BC94A–BC94C).

BC88 IFRS 17 also allows an entity a choice of applying IFRS 17 or another IFRS Standard to some contracts, specifically:

(a) applying IFRS 17 or IFRS 15 to some fixed-fee service contracts (see paragraphs BC95–BC97); and~~.~~

(b) applying IFRS 17 or IFRS 9 to specified contracts such as loan contracts with death waivers (see paragraphs BC94D–BC94F).

Paragraphs BC94A–BC94F and the headings above paragraphs BC94A and BC94D are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—scope exclusions

Credit card contracts and similar contracts that provide credit or payment arrangements (paragraph 7(h) of IFRS 17)

BC94A Some contracts that provide credit or payment arrangements meet the definition of an insurance contract—for example, some credit card contracts, charge card contracts, consumer financing contracts or bank account contracts. In June 2020, the Board amended IFRS 17 to exclude from the scope of the Standard such contracts if, and only if, an 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. When the entity does not reflect such an assessment in the price of the contract, the Board concluded that IFRS 9 would provide more useful information about those contracts than would IFRS 17.

BC94B The Board was aware that, applying IFRS 4, most entities separated the components of such contracts. For example, an entity applying IFRS 4 might have accounted for the credit card component applying IFRS 9, the insurance component applying IFRS 4 and any other service components applying IFRS 15. IFRS 17 has different criteria from IFRS 4 for separating components of an insurance contract. However, the Board acknowledged that entities had already identified methods to separate the components of the contracts described in paragraph BC94A, and concluded that prohibiting such separation would impose costs and disruption for no significant benefit.

BC94C The Board instead decided to specify that an entity's rights and obligations that are financial instruments arising under such contracts are within the scope of IFRS 9. However, an entity is required to separate and apply IFRS 17 to an insurance coverage component if, and only if, that component is a contractual term of that financial instrument. In the Board's view, applying IFRS 17 to those insurance coverage components will result in the most useful information for users of financial statements. Applying IFRS 17 to those components will also increase comparability between insurance coverage provided as part of the contractual terms of a credit card contract and insurance coverage provided as a separate stand-alone contract. Other IFRS Standards, such as IFRS 15 or IAS 37, might apply to other components of the contract, such as other service components or insurance components required by law or regulation.

Specified contracts such as loan contracts with death waivers (paragraph 8A of IFRS 17)

BC94D In June 2020, the Board amended IFRS 17 to allow entities to apply either IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loan contracts with death waivers).

BC94E The Board noted that an entity would provide useful information about such contracts whether it applied IFRS 17 or IFRS 9. Hence, the Board concluded that requiring an entity to apply IFRS 17 to those contracts when the entity had previously been applying an accounting policy consistent with IFRS 9 or IAS 39 could impose costs and disruption for no significant benefit.

BC94F An entity is required to choose whether to apply IFRS 17 or IFRS 9 for each portfolio of insurance contracts described in paragraph BC94D, and this choice is irrevocable. The Board concluded that such restrictions would mitigate the lack of comparability that might otherwise arise between similar contracts issued by the same entity.

Separating components from an insurance contract (paragraphs 10–13 and B31–B35 of IFRS 17)

...

A footnote is added to the end of paragraph BC102, to the end of the heading above paragraph BC110, to paragraph BC110 after 'non-insurance services', and to paragraph BC111 after 'non-insurance service,'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 and replaced 'non-insurance services' with 'services other than insurance contract services' (see paragraphs BC283A–BC283J).

A footnote is added to the end of the first sentence in paragraph BC108. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of an investment component to clarify that an investment component is the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs (see paragraph BC34A).

A footnote is added to the end of paragraph BC109. For ease of reading new text is not underlined.

* In June 2020, the Board amended paragraph 11(b) of IFRS 17 to clarify that an entity applies IFRS 17 to a separated investment component if that component meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17.

A footnote is added to paragraph BC110 after 'insurance coverage,'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require entities to separate only goods and services that are distinct from the provision of insurance contract services (see paragraphs BC283A–BC283J).

A footnote is added to paragraph BC122 after 'profit relating to the coverage'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to recognise an amount of the contractual service margin in profit or loss in each period to reflect insurance contract services provided in that period (see paragraphs BC283A–BC283J).

Paragraphs BC139A–BC139T and the headings above paragraphs BC139A, BC139F, BC139I and BC139T are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on the level of aggregation

BC139A Entities implementing IFRS 17 raised concerns relating to the level of aggregation requirements. The Board therefore considered whether to amend the requirements, and if so, how (see paragraph BC139B). Having considered a number of possible amendments, the Board reaffirmed its view that the benefits of the level of aggregation requirements significantly outweigh the costs. The Board therefore decided to retain the requirements unchanged.

BC139B The Board considered suggestions to:

(a) replace all level of aggregation requirements in paragraphs 14–24 of IFRS 17 with approaches that reflect an entity's internal management (see paragraph BC139C);

(b) reduce the minimum number of groups required by paragraph 16 of IFRS 17 (profitability groups) from three to two—contracts that are onerous at initial recognition and contracts that are not onerous at initial recognition (see paragraph BC139D); and

(c) remove or exempt some groups of insurance contracts from the annual cohort requirement in paragraph 22 of IFRS 17 (see paragraph BC139E).

BC139C The Board considered but rejected suggestions to replace all level of aggregation requirements with approaches that reflect an entity's internal management, for example approaches based on an entity's asset and liability management strategy or risk management strategy. The objective of the level of aggregation requirements in IFRS 17 is to provide useful information for users of financial statements. Aspects of internal management such as asset and liability management strategy or risk management strategy have different objectives. Hence an approach based on those aspects would not necessarily achieve the Board's objective.

BC139D The Board considered but rejected the suggestion to reduce the minimum number of profitability groups from three to two (see paragraph BC127) for the reason set out in paragraph BC130. This suggestion would have removed the requirement to group separately insurance contracts that at initial recognition have no significant possibility of becoming onerous from other insurance contracts that are not onerous at initial recognition. The Board noted that an entity will generally issue contracts expecting them to be profitable, and losses will arise subsequently as a result of changes in expectations. Including all contracts that are profitable at initial recognition in a single group could significantly delay loss recognition or increase the risk of losses for onerous contracts never being recognised.

BC139E Some suggestions to remove or exempt some groups of insurance contracts from the annual cohort requirement related to all insurance contracts issued (see paragraphs BC139F–BC139H). Other suggestions related to specific types of insurance contracts—those with intergenerational sharing of risks between policyholders (see paragraphs BC139I–BC139S).

Annual cohort requirement—all insurance contracts

BC139F The Board considered but rejected a suggestion to exempt contracts from the annual cohort requirement if an entity has reasonable and supportable information to conclude that contracts issued more than one year apart would be classified in the same profitability group. Such an exemption could result in a portfolio consisting of only the three groups of contracts described in paragraph BC127, that would each last for the entire life of the portfolio, which may be indefinite. The contractual service margin of each group would average the profitability of all contracts in the group over the life of the portfolio, resulting in the loss of useful information about trends in profitability. The contracts placed in any of the three profitability groups could be significantly more or less profitable than other contracts in the group. The effect of averaging profits of the contracts in the group could therefore be substantially increased, leading to a greater likelihood that:

(a) the contractual service margin of a contract would outlast the coverage period of that contract; and

(b) the continuing profitability of some contracts would absorb the subsequent adverse changes in expectations that make some contracts onerous.

BC139G Some stakeholders said that in some circumstances they could achieve at much less cost the same or a similar outcome without applying the annual cohort requirement as would be achieved applying that requirement. The Board concluded that it is unnecessary to amend IFRS 17 to reflect such circumstances. The Board reaffirmed its view that the requirements specify the amounts to be reported, not the methodology to be used to arrive at those amounts (see paragraph BC138). An entity is required to apply judgement and to consider all possible scenarios for future changes in expectations to conclude whether it could achieve the same accounting outcome without applying the annual cohort requirement.

BC139H The Board recognised that entities will incur costs to identify the contractual service margin for each group of insurance contracts that is an annual cohort. However, the Board concluded that information about higher or lower profits earned by an entity from different generations of contracts is sufficiently useful to justify such costs.

Annual cohort requirement—insurance contracts with intergenerational sharing of risks between policyholders

BC139I The Board considered but rejected a suggestion to exempt from the annual cohort requirement insurance contracts with intergenerational sharing of risks between policyholders. Some stakeholders commented that:

(a) applying the requirement to such contracts requires arbitrary allocations, and the resulting information is therefore not useful; and

(b) implementing the requirement is particularly costly and complex for such contracts, and the cost exceeds the resulting benefit.

BC139J Intergenerational sharing of risks between policyholders is reflected in the fulfilment cash flows and therefore in the contractual service margin of each generation of contracts applying paragraphs B67–B71 of IFRS 17 (see paragraph BC171). However, each generation of contracts may be more or less profitable for an entity than other generations. Applying the variable fee approach (see paragraphs BC238–BC249) the profit for a group of insurance contracts reflects the entity's share in the fair value returns on underlying items. The entity's share in the fair value returns on underlying items is unaffected by the way the policyholders' share is distributed among generations of policyholders. For example, even if all generations of policyholders share equally in the fair value returns on the same pool of underlying items, the amount of the entity's share in those fair value returns created by each generation may differ. The entity's share in the fair value returns depends on the contractual terms of each annual cohort and the economic conditions during the coverage period of each annual cohort. For example, a 20 per cent share in fair value returns created by an annual cohort for which the fair value returns during the coverage period are 5 per cent is more profitable for an entity than a 20 per cent share in fair value returns created by an annual cohort for which the fair value returns during the coverage period are 1 per cent. Removing the annual cohort requirement for groups of insurance contracts with intergenerational sharing of risks between policyholders would average higher or lower profits from each generation of contracts, resulting in a loss of information about changes in profitability over time.

BC139K Nonetheless, the Board identified two aspects of applying the annual cohort requirement to some contracts with intergenerational sharing of risks between policyholders that could increase the costs of applying the requirement and reduce the benefits of the resulting information:

(a) distinguishing between the effect of risk sharing and the effect of discretion (paragraph BC139L); and

(b) allocating changes in the amount of the entity's share of the fair value of underlying items between annual cohorts that share in the same pool of underlying items (paragraph BC139M).

BC139L The aspect set out in paragraph BC139K(a) relates to circumstances in which an entity has discretion over the portion of the fair value returns on underlying items that the entity pays to policyholders and the portion that the entity retains. For example, an entity may be required under the terms of the insurance contracts to pay policyholders a minimum of 90 per cent of the total fair value returns on a specified pool of underlying items, but have discretion to pay more. The Board acknowledged that an entity with such discretion is required to apply additional judgement compared to an entity without such discretion to allocate changes in fulfilment cash flows between groups in a way that appropriately reflects the effect of risk sharing and the effect of the discretion. However, that judgement is required to measure new contracts recognised in a period, so would be needed even without the annual cohort requirement.

BC139M The aspect set out in paragraph BC139K(b) relates to insurance contracts with direct participation features. For such contracts, an entity adjusts the contractual service margin for changes in the amount of the entity's share of the fair value of underlying items. IFRS 17 does not include specific requirements for allocating those changes between annual cohorts that share in the same pool of underlying items. The Board acknowledged that an entity needs to apply judgement to choose an allocation approach that provides useful information about the participation of each annual cohort in the underlying items.

BC139N Nonetheless, in the Board's view, the information that results from the judgements an entity makes in determining the allocation approaches discussed in paragraphs BC139L–BC139M will provide users of financial statements with useful information about how management expects the performance of insurance contracts to develop.

BC139O Further, the Board identified specific insurance contracts with intergenerational sharing of risks for which the information provided by the annual cohort requirement is particularly useful. Those contracts:

(a) include features such as financial guarantees on the returns on underlying items or other cash flows that do not vary with returns on underlying items (for example, insurance claims); and

(b) do not share the changes in the effect of the features in (a) between the entity and policyholders, or share the changes in the effect between the entity and policyholders in a way that results in the entity bearing more than a small share.

BC139P The Board acknowledged that for some insurance contracts with substantial intergenerational sharing of risks, the effect of financial guarantees and other cash flows that do not vary with returns on underlying items would rarely cause an annual cohort to become onerous. However, the Board disagreed with stakeholders who said that the rarity of such an event makes less useful the information that results from applying the annual cohort requirement to such insurance contracts. The Board instead observed the rarity makes the information particularly useful to users of financial statements when such an event occurs. The Board identified such information about the effect of financial guarantees as being particularly important when interest rates are low.

BC139Q Consequently, the Board concluded the costs of the annual cohort requirement might exceed the benefits of the resulting information for only a very limited population of contracts. The population is much smaller than some stakeholders had suggested.

BC139R Nonetheless, the Board considered whether it could create an exemption from the annual cohort requirement that would capture only that very limited population of contracts, without the risk of capturing a wider population. However:

(a) any focused exemption would be complex because of the interaction between contract features that increase the costs and reduce the benefits. An exemption would therefore result in difficulties for entities and auditors in identifying which contracts would be exempted, and for users of financial statements in understanding which contracts had been exempted. A significant difference in outcomes could arise in some circumstances depending on whether the annual cohort requirement has been applied, and thus it would be essential that the scope of an exemption from that requirement is clear to understand.

(b) the purpose of any exemption would be to balance the costs and benefits. However, there is no way to specify the scope of the exemption other than by using arbitrary thresholds because the balance of costs and benefits for different contracts vary across a range and there is no clearly identifiable point at which the costs exceed the benefits. Entities would be able to avoid applying the annual cohort requirement by structuring contracts to meet those thresholds. The Board concluded there was a high risk that contracts for which the benefits of the annual cohort requirement heavily outweigh the costs would be included in the exemption, resulting in a loss of information critical for users of financial statements.

BC139S The Board concluded that for all but a very limited population of contracts there is no question that the benefits of the annual cohort requirement significantly outweigh the costs. For a very limited population of contracts the costs and benefits of the requirement are more finely balanced. However, it is not possible to define that population in a way that does not risk it becoming too broad. The Board therefore decided to retain the annual cohort requirement unchanged.

Annual cohort requirement—group based on issue date

BC139T In June 2020, the Board amended paragraph 28 of IFRS 17 to clarify that an entity is required to add an insurance contract to a group of insurance contracts at the date the contract is recognised, instead of the date the contract is issued (see paragraph BC145A). The Board considered but rejected a suggestion to also amend the annual cohort requirement in paragraph 22 of IFRS 17 to base it on the date contracts are recognised, instead of the date they are issued. The objective of the annual cohort requirement is to facilitate timely recognition of profits, losses and trends in profitability. The profitability of a contract is initially set when the contract is issued, based on facts and circumstances at that date—for example, interest rates, underwriting expectations and pricing. Hence, the Board concluded that determining annual cohorts based on the date that contracts are issued is necessary to provide useful information about trends in profitability.

The heading above paragraph BC140 is amended. New text is underlined and deleted text is struck through.

Recognition (paragraphs 25–<u>28F</u>~~28~~ of IFRS 17)

...

A footnote is added to the end of the first sentence of paragraph BC144. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a coverage period to be the period during which the entity provides insurance contract services (see paragraphs BC283A–BC283I).

A footnote is added to the end of paragraph BC145. For ease of reading new text is not underlined.

* In June 2020, the Board amended the requirements relating to assets for insurance acquisition cash flows (see paragraphs BC184A–BC184K). The Board also specified that an entity recognises an asset for insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) (see paragraphs BC184L–BC184N).

Paragraph BC145A and the heading above that paragraph are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—recognition

BC145A In June 2020, the Board amended paragraph 28 of IFRS 17 to clarify that an entity is required to add an insurance contract to a group of insurance contracts (that is, to recognise an insurance contract) at the date the insurance contract meets any one of the recognition criteria in paragraph 25 of IFRS 17 (see paragraph BC142). That date may differ from the date on which the insurance contract is issued—for example, it may be the date that premiums become due.

Paragraph BC146 is amended. New text is underlined and deleted text is struck through.

Measurement of fulfilment cash flows (paragraphs 29–37 and B36–B92 of IFRS 17)

BC146 As explained in paragraphs BC19–BC20, IFRS 17 requires an entity to measure the fulfilment cash flows at a risk-adjusted present value. The sections below discuss the measurement of the fulfilment cash flows, in particular:

(a) ...

(b) which cash flows should be included in the expected value of cash flows (see paragraphs BC158–BC184N~~BC184~~);

(c) how the cash flows are adjusted to reflect the time value of money and the financial risks, to the extent that the financial risks are not included in the estimates of future cash flows (see paragraphs BC185–BC205B~~BC205~~); and

(d) ...

Paragraph BC150 is amended. New text is underlined and deleted text is struck through.

Unbiased use of all reasonable and supportable information available without undue cost or effort (paragraphs 33(a) and B37–B41 of IFRS 17)

...

BC150 In principle, determining an expected present value involves the following steps:

(a) ...

(b) measuring the present value of the cash flows in that scenario—paragraphs BC185–BC205B~~BC205~~ discuss the discount rate; and

...

Paragraph BC158 is amended. New text is underlined and deleted text is stuck through.

The cash flows used to measure insurance contracts (paragraphs 34–35 and B61–B71 of IFRS 17)

BC158 This section discusses which cash flows should be included in the expected value of cash flows, including:

...

(ca) cash flows relating to policyholder taxes (see paragraph BC170A);

(d) cash flows that affect or are affected by cash flows to policyholders of other contracts (see paragraphs BC171–BC174);~~ and~~

(e) insurance acquisition cash flows (see paragraphs BC175–BC184K~~BC184~~)~~.~~; and

(f) pre-recognition cash flows other than insurance acquisition cash flows (see paragraphs BC184L–BC184N).

A footnote is added to the end of paragraphs BC160(a), BC162(a), BC162(b) and BC163. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a coverage period to be the period during which the entity provides insurance contract services (see paragraphs BC283A–BC283J).

Paragraph BC170A and the heading above paragraph BC170A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—cash flows relating to policyholder taxes (paragraphs B65–B66 of IFRS 17)

BC170A In June 2020, the Board amended IFRS 17 to resolve an inconsistency between the description of cash flows within the boundary of an insurance contract in paragraph B65(m) of IFRS 17 and the description of cash flows outside the boundary of an insurance contract in paragraph B66(f) of IFRS 17. Before the amendment, paragraph B66(f) of IFRS 17 required an entity to exclude income tax payments and receipts not paid or received in a fiduciary capacity from the estimate of the cash flows that will arise as the entity fulfils an insurance contract. Some stakeholders said that some income tax payments and receipts, although not paid or received in a fiduciary capacity, are costs specifically chargeable to the policyholder under the terms of the contract. Accordingly, those costs should be included in the boundary of an insurance contract applying paragraph B65(m) of IFRS 17. The Board agreed that any costs specifically chargeable to the policyholder are cash flows that will arise as the entity fulfils an insurance contract. Therefore, the Board amended paragraph B66(f) of IFRS 17 to avoid excluding from the fulfilment cash flows income tax payments or receipts specifically chargeable to the policyholder under the terms of the contract. An entity recognises insurance revenue for the consideration paid by the policyholder for such income tax amounts when the entity recognises in profit or loss the income tax amounts. This treatment is consistent with the recognition of insurance revenue for other incurred expenses applying IFRS 17 (see paragraph BC37).

A footnote is added to the end of paragraph BC174. For ease of reading new text is not underlined.

* When developing the June 2020 amendments to IFRS 17, the Board considered but rejected suggestions to exempt from the annual cohort requirement insurance contracts with intergenerational sharing of risks (see paragraphs BC139I–BC139S). These considerations were similar to those in developing the Standard as described in paragraph BC174.

A footnote is added to paragraph BC176 after 'future cash flows that are included in the measurement of the contract.' For ease of reading new text is not underlined.

* An asset for insurance acquisition cash flows is derecognised when those insurance acquisition cash flows are included in the measurement of the group of insurance contracts to which they have been allocated. In June 2020, the Board amended IFRS 17 so that allocation reflects an entity's expectations about future contract renewals (see paragraphs BC184A–BC184K).

A footnote is added to paragraph BC177 after '(including amounts received or to be received by the entity to acquire new insurance contracts).'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to clarify that insurance acquisition cash flows paid before a group of insurance contracts is recognised cannot be a liability.

A footnote is added to the end of paragraphs BC180 and BC184. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to include specific requirements relating to an asset for insurance acquisition cash flows recognised before a group of insurance contracts is recognised (see paragraphs BC184A–BC184K).

Paragraphs BC184A–BC184K and the heading above paragraph BC184A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—insurance acquisition cash flows (paragraphs 28A–28F and B35A–B35D of IFRS 17)

BC184A In June 2020, the Board amended IFRS 17 to require an entity to use a systematic and rational method to allocate insurance acquisition cash flows that are directly attributable to a group of insurance contracts:

(a) to that group; and

(b) to groups that will include insurance contracts that are expected to arise from renewals of insurance contracts in that group (see paragraph B35A of IFRS 17).

BC184B Before the amendment, an entity was required to allocate insurance acquisition cash flows directly attributable to a group to only that group. In contrast, insurance acquisition cash flows directly attributable to a portfolio of insurance contracts but not directly attributable to a group of insurance contracts are systematically and rationally allocated to groups of insurance contracts in the portfolio.

BC184C Stakeholders said an entity that issues an insurance contract with a short coverage period, such as one year, might incur high up-front costs, such as commissions to sales agents, relative to the premium the entity will charge for the contract. The entity agrees to those costs because it expects that some policyholders will renew their contracts. Often, those costs are fully directly attributable to the initial insurance contract issued because those costs are non-refundable and are not contingent on the policyholder renewing the contracts.

BC184D In some circumstances, such commissions are higher than the premium charged and applying IFRS 17 before it was amended would have resulted in the initial insurance contract being identified as onerous. In the Board's view, an entity recognising a loss in that circumstance would provide useful information to users of financial statements. The information would reflect that the entity does not have a right to either oblige policyholders to renew the contracts, or to reclaim the commissions from sales agents if policyholders choose not to renew the contracts.

BC184E However, the Board was persuaded that an amendment to IFRS 17 requiring an entity to allocate insurance acquisition cash flows to expected renewal contracts (expected renewals) would also provide useful information to users of financial statements. Such a requirement depicts the payment of up-front costs such as commissions as an asset that an entity expects to recover through both initial insurance contracts issued and expected renewals. The asset reflects the right of an entity to not pay again costs it had already paid to obtain renewals. The Board noted that the information resulting from the amendment is comparable to the information provided by IFRS 15 for the incremental costs of obtaining a contract.

BC184F The Board concluded it did not need to develop requirements to specify how to allocate insurance acquisition cash flows to expected renewals. It concluded that requiring a systematic and rational method of allocation, consistent with paragraph B65(l) of IFRS 17, is sufficient.

BC184G The Board noted that if an entity allocates assets for insurance acquisition cash flows to groups expected to be recognised across more than one reporting period in the future, an entity would need to update its allocation at the end of each reporting period to reflect any changes in assumptions about expected renewals. The Board also decided to clarify that an entity must apply a consistent method across reporting periods by referring in the requirements to a systematic and rational method (rather than a systematic and rational basis).

BC184H Amending IFRS 17 to require an entity to allocate insurance acquisition cash flows to expected renewals creates assets for insurance acquisition cash flows that will be recognised for longer than assets would have been recognised applying the requirements before the amendment. The amendment will therefore increase the carrying amount of assets for insurance acquisition cash flows. Accordingly, the Board considered whether it should specify requirements for:

(a) accretion of interest on assets for insurance acquisition cash flows. The Board decided against specifying such requirements because doing so would be inconsistent with IFRS 15.

(b) assessments of the recoverability of assets for insurance acquisition cash flows. The Board decided to specify such requirements for the reasons set out in paragraphs BC184I–BC184K.

BC184I When the Board issued IFRS 17 in May 2017, it concluded that requiring an entity to assess the recoverability of an asset for insurance acquisition cash flows would be unnecessary. The asset was typically of relatively short duration and any lack of recoverability would be reflected on a timely basis when the asset was derecognised and the insurance acquisition cash flows were included in the measurement of a group of insurance contracts (see paragraph BC180). As a result of the June 2020 amendment set out in paragraph BC184A, the Board concluded that it needed to require an entity to assess the recoverability of an asset for insurance acquisition cash flows at the end of each reporting period if facts and circumstances indicate the asset may be impaired.

BC184J Consistent with the impairment test in paragraph 101 of IFRS 15, an entity recognises an impairment loss in profit or loss and reduces the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount does not exceed the expected net cash inflow for the related group.

BC184K The Board noted that an entity measures an asset for insurance acquisition cash flows at the level of a group of insurance contracts. An impairment test at a group level compares the carrying amount of an asset for insurance acquisition cash flows allocated to a group with the expected net cash inflow of the group. That net cash inflow includes cash flows for contracts unrelated to any expected renewals but expected to be in that group. The Board therefore decided to require an additional impairment test specific to cash flows for expected renewals. This additional impairment test results in the recognition of any impairment losses when the entity no longer expects the renewals supporting the asset to occur, or expects the net cash inflows to be lower than the amount of the asset. Without the additional impairment test, cash flows from contracts unrelated to any expected renewals might prevent the recognition of such an impairment loss.

Paragraphs BC184L–BC184N and the heading above paragraph BC184L are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—pre-recognition cash flows other than insurance acquisition cash flows (paragraphs 38, B66A and B123A of IFRS 17)

BC184L In June 2020, the Board amended IFRS 17 to address the treatment of assets or liabilities for cash flows related to a group of insurance contracts that have been recognised before the group of insurance contracts is recognised. Such assets and liabilities might have been recognised before the group of insurance contracts is recognised because the cash flows occur or because a liability is recognised applying another IFRS Standard. Cash flows are related to a group of insurance contracts if they would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date.

BC184M The Board agreed with feedback that such cash flows should be included in the determination of the contractual service margin and insurance revenue for the group of insurance contracts. These cash flows should affect profit and revenue in the same way as the fulfilment cash flows regardless of their timing (or of the timing of their recognition as a liability).

BC184N The amendment requires an entity to derecognise any asset or liability for such cash flows when the entity recognises the related group of insurance contracts to the extent that the asset or liability would not have been recognised separately from the group of insurance contracts if the cash flows (or the event that triggered their recognition as a liability) had occurred at the date of initial recognition of the group of insurance contracts. In addition the Board concluded that, to be consistent with the recognition of insurance revenue and incurred expenses required by IFRS 17, to the extent that an asset is derecognised when the entity recognises the related group of insurance contracts, insurance revenue and expenses should be recognised. In contrast, no insurance revenue or expenses arise on the derecognition of a liability at that date. The derecognition of a liability results either in the amounts expected to settle the liability being included in the fulfilment cash flows or the performance obligation depicted by the liability being subsumed within the recognition of the group of insurance contracts. For example, an entity that recognised a liability for premiums received in advance of the recognition of a group of insurance contracts would derecognise that liability when the entity recognises a group of insurance contracts to the extent the premiums relate to the contracts in the group. The performance obligation that was depicted by the liability would not be recognised separately from the group of insurance contracts had the premiums been received on the date of the initial recognition of the group. No insurance revenue arises on the derecognition of the liability.

Paragraph BC185 is amended. New text is underlined and deleted text is struck through.

Discount rates (paragraphs 36 and B72–B85 of IFRS 17)

BC185 This section discusses:

...

(d) disclosure of the yield curve (see paragraph BC198);~~ and~~

(e) reflecting dependence on underlying items in the discount rate (see paragraphs BC199–BC205)<u>; and</u>~~.~~

<u>(f) subjectivity in determining discount rates (see paragraphs BC205A–BC205B).</u>

Paragraphs BC205A–BC205B and the heading above paragraph BC205A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on the subjectivity in determining discount rates

BC205A When the Board considered feedback from entities implementing IFRS 17, it also considered feedback from users of financial statements that the principle-based requirements for determining discount rates could limit comparability between entities.

BC205B The Board made no amendments to IFRS 17 in response to that feedback. In the Board's view, requiring an entity to determine discount rates using a rule-based approach would result in outcomes that are appropriate only in some circumstances. IFRS 17 requires entities to apply judgement when determining the inputs most applicable in the circumstances. To enable users of financial statements to understand the discount rates used, and to facilitate comparability between entities, IFRS 17 requires entities to disclose information about the methods used and judgements applied.

Paragraph BC207 is amended. New text is underlined and deleted text is struck through.

Risk adjustment for non-financial risk (paragraphs 37 and B86–B92 of IFRS 17)

...

BC207 This section discusses:

(a) ...

(b) the techniques for estimating the risk adjustment for non-financial risk (see paragraphs BC213–<u>BC214C</u>~~BC214~~); and

(c) ...

Paragraphs BC214A–BC214C and the headings above paragraphs BC214A and BC214B are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on the subjectivity in determining the risk adjustment for non-financial risk

BC214A When the Board considered feedback from entities implementing IFRS 17, it also considered feedback from users of financial statements that the principle-based requirements for determining the risk adjustment for non-financial risk could limit comparability between entities. The Board made no amendments to IFRS 17 in response to that feedback, for the same reason it made no amendments in response to similar feedback on discount rates (see paragraph BC205B).

Amendments to IFRS 17—feedback on the risk adjustment for non-financial risk in consolidated financial statements

BC214B The Transition Resource Group for IFRS 17 discussed an implementation question on determining the risk adjustment for non-financial risk in the consolidated financial statements of a group of entities. Transition Resource Group members held different views. Some members thought the risk adjustment for non-financial risk for a group of insurance contracts must be the same in the issuing subsidiary's stand-alone financial statements as in the consolidated financial statements of the group of entities. Other members thought the risk adjustment for non-financial risk may be measured differently in the issuing subsidiary's stand-alone financial statements from how it is measured in the consolidated financial statements of the group of entities.

BC214C The Board considered whether it should clarify its intention for determining the risk adjustment for non-financial risk in the consolidated financial statements of a group of entities in response to those different views. The Board concluded that doing so would address only some differences that could arise in the application of the requirements for determining the risk adjustment for non-financial risk, given the judgement required to apply those requirements. The Board concluded that practice needs to develop in this area. If necessary, the Board will seek to understand how the requirements are being applied as part of the Post-implementation Review of IFRS 17.

Paragraphs BC220–BC221 and the heading above paragraph BC218 are amended. New text is underlined and deleted text is struck through.

Measurement of the contractual service margin (paragraphs 38, 43–46 and B96–B119B~~B119~~ of IFRS 17)

...

BC220 IFRS 17 requires the carrying amount of the contractual service margin to be adjusted for (see paragraphs 44 and 45 of IFRS 17):

(a) ...

(b) insurance finance income or expenses (see paragraphs BC270–BC276E~~BC276~~); and

(c) ...

BC221 The resulting carrying amount at the end of the reporting period is allocated over the current and future periods, and the amount relating to the current period is recognised in profit or loss (see paragraphs BC279–BC283J~~BC283~~).

Paragraphs BC222–BC223 are amended. New text is underlined and deleted text is struck through.

Changes in estimates of the future unearned profit (paragraphs 44, 45 and B96–B118 of IFRS 17)

BC222 The key service provided by insurance contracts is insurance coverage, but contracts may also provide investment-related or other services. The measurement of a group of insurance contracts at initial recognition includes a contractual service margin, which represents the margin the entity has charged for the services it provides in addition to bearing risk. The expected margin charged for bearing risk is represented by the risk adjustment for non-financial risk (see paragraphs BC206–BC214C~~BC214~~).

BC223 IFRS 17 requires an entity to measure the contractual service margin, on initial recognition of the group of insurance contracts, as the difference between the expected present value of cash inflows and the expected present value of cash outflows, after adjusting for uncertainty and any cash flows received or paid before or on initial recognition. IFRS 17 also requires an entity to update the measurement of the contractual service margin for changes in estimates of the fulfilment cash flows relating to future service, for the following reasons:

(a) changes in estimates of the fulfilment cash flows relating to future service affect the future profitability of the group of insurance contracts. Thus, adjusting the contractual service margin to reflect these changes provides more relevant information about the remaining unearned profit in the group of insurance contracts after initial recognition than not adjusting the contractual service margin. Paragraphs BC227–BC237 discuss which changes in estimates relate to future service for insurance contracts without direct participation features, and paragraphs BC238–BC256H~~BC256~~ discuss which changes relate to future service for insurance contracts with direct participation features.

...

A footnote is added to the end of paragraph BC224(d). For ease of reading new text is not underlined.

* In June 2020, the Board amended paragraph B96(d) of IFRS 17 to clarify that if an entity chooses to disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses, the entity should adjust the contractual service margin only for the changes related to non-financial risk (and not for changes in the risk adjustment for non-financial risk that result from the effects of the time value of money).

Paragraph BC227 is amended. New text is underlined and deleted text is struck through.

Insurance contracts without direct participation features (paragraphs 44 and B96–B100 of IFRS 17)

BC227 In determining which changes in estimates relate to future service, IFRS 17 distinguishes two types of insurance contracts: those without direct participation features and those with direct participation features. Insurance contracts with direct participation features are discussed in paragraphs BC238–BC269C~~BC269~~.

A footnote is added to the end of paragraph BC235. For ease of reading new text is not underlined.

* Paragraph B96(c) of IFRS 17 requires changes in fulfilment cash flows that arise from differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period to adjust the contractual service margin. In June 2020, the Board amended IFRS 17 to specify that paragraph B96(c) of IFRS 17 does not apply to insurance finance income or expenses that depict the effect on the investment component of the time value of money and financial risk between the beginning of the period and the unexpected payment or non-payment of the investment component.

A footnote is added to the end of paragraph BC236. For ease of reading new text is not underlined.

* In June 2020, the Board amended the requirements relating to the effect of accounting estimates made in interim financial statements (see paragraphs BC236A–BC236D).

Paragraphs BC236A–BC236D and the heading above paragraph BC236A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—the effect of accounting estimates made in interim financial statements

BC236A In June 2020, the Board amended IFRS 17 to require an entity to choose whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period.

BC236B The requirement relating to accounting estimates made in interim financial statements as described in paragraph BC236 was developed in response to feedback during the development of IFRS 17 that recalculating the carrying amount of the contractual service margin from the beginning to the end of an annual reporting period, when an entity has prepared interim financial statements during that period, would be a significant practical burden. However, some entities implementing IFRS 17 as issued in May 2017 said that the requirement described in paragraph BC236 would result in a practical burden that would be more significant than the burden the Board had intended to alleviate. Some of those entities said that the requirement was a burden particularly for entities in a consolidated group that report at different frequencies from each other, because there would be a need to maintain two sets of records to reflect the different treatments of the accounting estimates.

BC236C The Board concluded that permitting an accounting policy choice as described in paragraph BC236A would ease IFRS 17 implementation by enabling an entity to assess which accounting policy would be less burdensome. To avoid a significant loss of useful information for users of financial statements, an entity is required to consistently apply its choice to all groups of insurance contracts it issues and groups of reinsurance contracts it holds (that is, the accounting policy choice is at the reporting entity level).

BC236D The Board added a relief, related to the amendment, to the transition requirements for entities applying IFRS 17 for the first time (see paragraphs C14A and C19A of IFRS 17).

A footnote is added to the end of paragraph BC249. For ease of reading new text is not underlined.

* The Board subsequently reaffirmed this view when it considered similar feedback from entities implementing IFRS 17 (see paragraph BC249C).

Paragraphs BC249A–BC249D and the heading above paragraph BC249A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—scope of the variable fee approach (paragraphs B101 and B107 of IFRS 17)

BC249A The requirements of IFRS 17 with the additional adjustments to the contractual service margin described in paragraph BC246 are referred to as the variable fee approach. Some entities implementing IFRS 17 suggested the Board expand the scope of the variable fee approach to include:

(a) insurance contracts that some stakeholders view as economically similar to insurance contracts with direct participation features, except that these contracts do not meet the criterion in paragraph B101(a) of IFRS 17; and

(b) reinsurance contracts issued and reinsurance contracts held, which are explicitly excluded from the scope of the variable fee approach applying paragraph B109 of IFRS 17.

BC249B The Board considered but rejected the suggestions described in paragraph BC249A(a). The additional adjustments to the contractual service margin in the variable fee approach were designed specifically to faithfully represent the profit from insurance contracts within the scope of the variable fee approach. Therefore, if the Board were to amend the scope of the variable fee approach, it would need to consider amending those adjustments. The Board also observed that whatever the scope of the variable fee approach, differences would arise between the accounting for contracts within the scope and contracts outside the scope.

BC249C The Board considered but rejected suggestions described in paragraph BC249A(b). The Board concluded that reinsurance contracts are not substantially investment-related service contracts. The variable fee approach was designed specifically so an entity issuing insurance contracts that are substantially investment-related service contracts would account for profit similarly to an entity issuing asset management contracts. Some stakeholders said that excluding reinsurance contracts held from the scope of the variable fee approach creates an accounting mismatch when a reinsurance contract held covers underlying insurance contracts that are within the scope of the variable fee approach. The Board responded to that concern by amending the risk mitigation option (see paragraphs BC256A–BC256B).

BC249D In June 2020, the Board amended paragraph B107 of IFRS 17 to replace a reference to 'the group of insurance contracts' with 'the insurance contract'. Applying paragraph B101 of IFRS 17, an entity assesses whether an insurance contract (rather than a group of insurance contracts) is within the scope of the variable fee approach. The reference to a group of insurance contracts in paragraph B107 of IFRS 17 was a drafting error and was inconsistent with the requirements in paragraph B101 of IFRS 17. Some stakeholders said this amendment would be a major change and disruptive to IFRS 17 implementation. Those stakeholders had assumed that an entity was required to apply the criteria for the scope of the variable fee approach at a group level. The Board concluded that it needed to fix the drafting error in paragraph B107 of IFRS 17 to enable consistent application of the requirements. The Board noted that some stakeholders had interpreted a contract-level assessment as being more burdensome than it is because they thought an individual assessment was required for every contract. However, the Board observed that one assessment should be sufficient for an entity to determine whether the criteria are met for each contract in a set of homogenous contracts issued in the same market conditions and priced on the same basis.

A footnote is added to paragraph BC255 after 'from those fulfilment cash flows:'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to clarify that an entity ceases to apply the risk mitigation option if, and only if, the conditions described in paragraph BC255 cease to be met.

A footnote is added to the end of paragraph BC255(a). For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 so that the risk mitigation option also applies in specified circumstances when an entity mitigates financial risk using reinsurance contracts held or non-derivative financial instruments measured at fair value through profit or loss (see paragraphs BC256A–BC256F).

Paragraphs BC256A–BC256F and the heading above paragraph BC256A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—risk mitigation using instruments other than derivatives

BC256A In June 2020, the Board amended IFRS 17 to extend the risk mitigation option in paragraphs B115–B116 of IFRS 17 to apply when an entity uses:

(a) reinsurance contracts held to mitigate the effect of financial risk on the amount of the entity's share of the underlying items or the fulfilment cash flows set out in paragraph B113(b) of IFRS 17 (see paragraph BC256B); or

(b) non-derivative financial instruments measured at fair value through profit or loss to mitigate the effect of financial risk on the fulfilment cash flows set out in paragraph B113(b) of IFRS 17 (see paragraph BC256C).

BC256B Some stakeholders said that applying the requirements in IFRS 17 results in an accounting mismatch when an entity holds a reinsurance contract that covers insurance contracts with direct participation features. The entity accounts for the underlying insurance contracts issued, but not the reinsurance contract held, applying the variable fee approach. Reinsurance contracts that cover insurance contracts with direct participation features transfer both non-financial and financial risk to the reinsurer. The Board considered but rejected a suggestion to permit an entity to apply the variable fee approach to such reinsurance contracts held (see paragraph BC249C). However, the Board acknowledged that when an entity mitigates the effect of financial risk using a reinsurance contract held, an accounting mismatch could arise that is similar to the mismatch that could arise when an entity mitigates the effect of financial risk using derivatives (see paragraph BC252). Accordingly, the Board amended IFRS 17 so that the risk mitigation option applies in the same way when an entity uses reinsurance contracts held as when an entity uses derivatives.

BC256C Some stakeholders said that some entities mitigate the effect of some financial risk on fulfilment cash flows that do not vary with returns on underlying items (the cash flows set out in paragraph B113(b) of IFRS 17) using non-derivative financial instruments. The Board was persuaded that if such non-derivative financial instruments are measured at fair value through profit or loss, an accounting mismatch could arise, which is similar to the accounting mismatch for derivatives (see paragraph BC252). Accordingly, the Board extended the risk mitigation option to apply in such circumstances. The Board decided to limit the extension to only non-derivative financial instruments measured at fair value through profit or loss. For such non-derivative financial instruments, the extension resolves the accounting mismatch in the same way it resolves the accounting mismatch for derivatives (which are also measured at fair value through profit or loss).

BC256D The Board considered but rejected a suggestion that an entity should be permitted to apply the risk mitigation option when it uses non-derivative financial instruments measured at fair value through other comprehensive income. The Board observed that in most circumstances the risk mitigation option would not resolve perceived mismatches between amounts recognised in profit or loss relating to:

(a) insurance contracts with direct participation features using the other comprehensive income option in IFRS 17; and

(b) assets measured at fair value through other comprehensive income.

BC256E The amounts described in paragraph BC256D will differ depending on when the financial assets and the insurance liabilities are acquired or issued and depending on their duration. Further, the suggestion in paragraph BC256D would have resulted in any ineffectiveness of the risk mitigation strategy being recognised in other comprehensive income. That would be inconsistent with the hedge accounting requirements in IFRS 9 which result in the ineffectiveness of hedging strategies having a transparent effect on profit or loss. The Board observed that an entity could avoid mismatches by applying together the fair value option in IFRS 9 (to designate financial assets at fair value through profit or loss) and the risk mitigation option in IFRS 17.

BC256F The Board also considered but rejected a suggestion that an entity should be permitted to apply the risk mitigation option when it uses non-derivative financial instruments to mitigate the effect of financial risk on the entity's share of the fair value of the underlying items (see paragraph B112 of IFRS 17). Some stakeholders said that an entity may mitigate such financial risk by investing premiums in assets other than the underlying items—for example, fixed rate bonds. The Board concluded that permitting an entity to apply the risk mitigation option in that circumstance would contradict the principle that an entity need not hold the underlying items for the variable fee approach to apply (see paragraph BC246).

Paragraphs BC256G–BC256H and the heading above paragraph BC256G are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—applying the risk mitigation option and the other comprehensive income option (paragraphs 87A–89 and B117A of IFRS 17)

BC256G In June 2020, the Board amended IFRS 17 to specify that paragraphs 88 and 89 of IFRS 17 do not apply to the insurance finance income or expenses that arise from the application of the risk mitigation option. Instead, the Board specified that such insurance finance income or expenses are presented in:

(a) profit or loss if the entity mitigates financial risk using financial instruments measured at fair value through profit or loss; and

(b) profit or loss or other comprehensive income applying the same accounting policy the entity applies to a reinsurance contract held if the entity mitigates financial risk using that reinsurance contract held.

BC256H The amendment described in paragraph BC256G resolves a mismatch that would otherwise have arisen between amounts recognised in profit or loss for a group of insurance contracts with direct participation features and amounts recognised in profit or loss on the items used to mitigate financial risk arising from the insurance contracts. The mismatch would have arisen if an entity determined the amounts recognised in profit or loss on the group of insurance contracts by applying both paragraph 89 of IFRS 17 (to include some insurance finance income or expenses in other comprehensive income) and paragraph B115 of IFRS 17 (the risk mitigation option).

A footnote is added to the end of paragraphs BC265–BC269. For ease of reading new text is not underlined.

* When developing the June 2020 amendments to IFRS 17, the Board noted that some entities described in practice as mutual entities do not have the feature that the most residual interest of the entity is due to a policyholder (see paragraphs BC269A–BC269C). Paragraphs BC265–BC269 describe the outcome of applying IFRS 17 for entities for which the most residual interest of the entity is due to a policyholder.

Paragraphs BC269A–BC269C and the heading above paragraph BC269A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on insurers that are mutual entities

BC269A Entities implementing IFRS 17 expressed the following concerns about mutual entities:

(a) applying IFRS 17 as described in paragraph BC265 would result in a misleading depiction of the financial position and financial performance of an entity with the feature that the most residual interest of the entity is due to a policyholder; and

(b) some entities described in practice as mutual entities do not have the feature that the most residual interest of the entity is due to a policyholder.

BC269B The Board reaffirmed its decision that IFRS 17 should not include any specific requirements or exceptions to requirements in IFRS 17 for entities that issue insurance contracts under which the most residual interest of the entity is due to a policyholder because:

(a) a core principle of IFRS 17 applicable to all entities is the requirement to include in the fulfilment cash flows all the expected future cash flows that arise within the boundary of insurance contracts, including discretionary cash flows and those due to future policyholders;

(b) if entities were required to account for the same insurance contract differently depending on the type of entity issuing the contract, comparability among entities would be reduced; and

(c) a robust definition of entities to which different requirements would apply would be difficult to create.

BC269C In response to the concern described in paragraph BC269A(b), the Board added the footnote to paragraphs BC265–BC269.

Paragraphs BC276A–BC276E and the heading above paragraph BC276A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on discount rates used to determine adjustments to the contractual service margin

BC276A For insurance contracts without direct participation features, differences arise between a change in the fulfilment cash flows measured using current discount rates, and the resulting adjustment to the contractual service margin measured using discount rates locked in at initial recognition (see paragraph BC275). Consistent with the feedback set out in paragraph BC274, entities implementing IFRS 17 continued to express concerns about such differences.

BC276B Some stakeholders suggested that an amendment to require an entity to measure adjustments to the contractual service margin using the current discount rates used for the measurement of the fulfilment cash flows would reduce the operational burden of applying the Standard. Others said such an amendment would be conceptually appropriate.

BC276C The fulfilment cash flows and the contractual service margin are the two components of the measurement of insurance contracts. The fulfilment cash flows are a current risk-adjusted estimate of future cash flows expected to arise from a group of insurance contracts. In contrast, the contractual service margin is the profit expected to arise from future service that an entity will provide for a group of insurance contracts. The contractual service margin on initial recognition of a group is the difference between the estimated cash inflows and estimated cash outflows (adjusted for the effect of the time value of money, non-financial risk and financial risk). The contractual service margin is not a future cash flow. When changes in fulfilment cash flows relate to future service, the expected profit relating to that future service changes. Accordingly, those changes in estimates adjust the contractual service margin.

BC276D The Board considered but rejected the suggestions to amend IFRS 17 described in paragraph BC276B for the reasons that led it to conclude, while developing IFRS 17, that an entity should determine adjustments to the contractual service margin using locked-in discount rates (see paragraphs BC273–BC275). An entity would measure profit inconsistently if it were to measure the effect of future cash flows on the contractual service margin at discount rates that differed depending on when such future cash flows become part of the expected cash flows. The Board concluded that measuring the contractual service margin at the discount rates determined at the date of initial recognition (that is, locked-in discount rates) provides a faithful representation of the revenue earned as the entity provides services, reflecting the price set at the contract issue date for that service. In contrast, measuring changes in the contractual service margin using current rates would result in arbitrary amounts relating to the effects of changes in discount rates being reflected in the insurance service result rather than in insurance finance income or expenses. A core benefit introduced by IFRS 17 is the presentation of insurance finance income or expenses separately from the insurance service result.

BC276E The Board disagreed with stakeholders who said that entities would have difficulty explaining to users of financial statements a gain or loss arising from the differences between a change in fulfilment cash flows and a change in the adjustment to the contractual service margin. The Board observed that the gain or loss provides information about the cumulative amount of insurance finance income or expenses that had been previously recognised and should be reversed, or the amount that was not previously recognised and now is.

The heading above paragraph BC279 is amended. New text is underlined.

Recognition in profit or loss (paragraphs 44(e), 45(e) and B119–B119B of IFRS 17)

...

A footnote is added to the end of paragraphs BC279, BC280 and BC283. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a coverage period to be the period during which the entity provides insurance contract services (see paragraphs BC283A–BC283J).

Paragraphs BC283A–BC283J and the headings above paragraphs BC283A and BC283J are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—contractual service margin attributable to investment-return service and investment-related service

BC283A In June 2020, the Board amended IFRS 17 to:

(a) 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. Paragraph B119B of IFRS 17 specifies criteria for when such contracts may provide an investment-return service.

(b) clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

(c) require an entity to include investment activity costs in the fulfilment cash flows, to the extent that the entity performs those activities to:

(i) enhance benefits from insurance coverage for policyholders (see paragraph B65(ka)(i) of IFRS 17);

  (ii) provide investment-return service to policyholders of insurance contracts without direct participation features (see paragraph B119B of IFRS 17); or

  (iii) provide investment-related service to policyholders of insurance contracts with direct participation features.

(d) define 'insurance contract services' as comprising insurance coverage, investment-return service and investment-related service.

(e) expand the definitions of a liability for remaining coverage and a liability for incurred claims to reflect an entity's obligation to provide insurance contract services and any other obligations arising from insurance contracts.

BC283B The Board was persuaded that some insurance contracts without direct participation features provide an investment-return service (see paragraph BC283A(a)). Recognising the contractual service margin considering both insurance coverage and an investment-return service will provide useful information to users of financial statements, particularly for contracts that have an insurance coverage period that differs from the period in which the policyholder benefits from an investment-return service.

BC283C The Board concluded that an investment-return service exists only if the contract includes an investment component or the policyholder has a right to withdraw an amount from the entity. Further, those amounts must be expected to include an investment return that the entity generates by performing investment activity. The Board concluded that if those conditions are not met, the policyholder has no right to benefit from investment returns. In this context, a 'right to withdraw an amount from the entity' includes a policyholder's right to:

(a) receive a surrender value or refund of premiums on cancellation of a policy; or

(b) transfer an amount to another insurance provider.

BC283D Without the Standard specifying conditions for the existence of an investment-return service, entities issuing the same type of contracts might make different decisions from each other about whether those contracts provide an investment-return service. Entities might also conclude that an investment-return service exists in circumstances in which the Board would conclude otherwise (for example, when an entity provides only custodial services relating to an investment component). On the other hand, specifying conditions creates the risk of an inappropriate outcome in some scenarios.

BC283E Balancing the potential risks described in paragraph BC283D, the Board decided to specify conditions that are necessary to identify, but are not determinative of, the existence of an investment-return service (see paragraph B119B of IFRS 17). An entity is required to apply judgement, considering the facts and circumstances, to determine whether an insurance contract that meets the conditions provides an investment-return service.

BC283F Including an investment-return service in addition to insurance coverage in determining coverage units for insurance contracts without direct participation features adds subjectivity and complexity to that determination. However, the Board noted that entities are required to make similar assessments for insurance contracts with direct participation features and for contracts that provide more than one type of insurance coverage. Furthermore, any additional subjectivity and complexity would be mitigated by the related disclosure required by paragraph 109 of IFRS 17, which provides users of financial statements with useful information about the pattern of service provision.

BC283G Applying IFRS 17 as amended in June 2020, an entity recognises the contractual service margin in profit or loss over the period the entity provides insurance contract services. Therefore, as part of the June 2020 amendments, the Board added 'insurance contract services' to the defined terms of IFRS 17 (see paragraph BC283A(d)) and inserted the defined term into the requirements in IFRS 17 for the recognition of the contractual service margin. Insurance contract services are the only services that an entity considers when determining coverage units and hence the recognition of the contractual service margin in profit or loss.

BC283H The Board decided against inserting that defined term into the requirements in IFRS 17 relating to the recognition of insurance revenue (for example, paragraph 83 of IFRS 17). This is not because other services are considered in determining insurance revenue, but rather because inserting that defined term there might be interpreted as prohibiting an entity from recognising insurance revenue unrelated to the contractual service margin before the coverage period begins. Insurance revenue can be analysed as consisting of the amount of the contractual service margin allocated to the period, the release of the risk adjustment for non-financial risk in the period and the expenses the entity expected to incur in the period. Some insurance contracts include a pre-coverage period, between the date the contract is recognised and the date the entity first provides insurance contract services. In contracts with a pre-coverage period, an entity may be released from non-financial risk, or may incur expenses before the coverage period begins—in other words, before the entity starts providing insurance contract services. The Board did not want to preclude an entity from recognising the related insurance revenue in that pre-coverage period.

BC283I Investment activity costs that an entity incurs are included in the fulfilment cash flows to the extent that the entity incurs those costs to provide investment-return service or investment-related service. The Board acknowledged that an entity may also incur investment activity costs to enhance benefits from insurance coverage for policyholders. Therefore, the Board amended IFRS 17 to specify that an entity is required to include investment activity costs in the fulfilment cash flows to the extent that the entity performs those activities to enhance benefits from insurance coverage for policyholders. The Board also specified when investment activities enhance benefits from insurance coverage. The Board noted that in determining whether investment activity costs enhance benefits from insurance coverage for policyholders, an entity needs to apply judgement in a similar manner to when an entity determines whether an investment-return service exists.

Other approaches considered but rejected

BC283J Some stakeholders said the Board should replace the requirements for the recognition of the contractual service margin in profit or loss with a less specific requirement based on all services provided by the contract. Applying this suggestion, an entity would decide what services are provided by the contract, potentially including services other than insurance coverage or services related to investment returns. The Board concluded that specifying that an entity recognises the contractual service margin by considering all services would result in more subjectivity and complexity than entities already face when determining the pattern of service provision. Feedback the Board received when developing IFRS 17 supports that view. Furthermore, the Board noted that the concerns leading to this suggestion were generally about services related to investment returns. The Board concluded that the amendment described in paragraph BC283A(a) responds to feedback that some insurance contracts without direct participation features have two defining services—insurance coverage and investment-return service. Thus, the amendment balances the need for relevant information about the way in which profit from the contract is earned and the need for comparable information, as well as the costs of applying the coverage units requirement.

A footnote is added to paragraph BC284 after 'immediately in profit or loss.'. For ease of reading new text is not underlined.

* In June 2020, the Board amended paragraphs 48(a) and 50(b) of IFRS 17 for measuring onerous insurance contracts to clarify that those paragraphs relate to both changes in estimates of future cash flows and changes in the risk adjustment for non-financial risk.

A footnote is added to the end of paragraph BC292(a). For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a coverage period to be the period during which the entity provides insurance contract services (see paragraphs BC283A–BC283J).

Paragraph BC303 and the heading above paragraph BC296 are amended. New text is underlined and deleted text is struck through.

Reinsurance contracts (paragraphs 60–<u>70A</u>~~70~~ of IFRS 17)

...

BC303 The following paragraphs discuss aspects of the general principles in IFRS 17 in relation to groups of reinsurance contracts held:

...

(c) cash flows (see paragraphs BC307–<u>BC309F</u>~~BC309~~); and

(d) contractual service margin (see paragraphs BC310–BC315L~~BC315~~).

The heading above paragraph BC304 is amended. New text is underlined and deleted text is stuck through.

Recognition for groups of reinsurance contracts held (paragraphs 62–62A~~paragraph 62~~ of IFRS 17)

...

Paragraph BC305A is added. For ease of reading new text is not underlined.

BC305A In June 2020, the Board amended IFRS 17 for reinsurance contracts held when underlying insurance contracts are onerous at initial recognition (see paragraphs BC315A–BC315L). As a consequence of that amendment, the Board also amended the requirement in paragraph 62 of IFRS 17 (for recognising a group of reinsurance contracts held) to require an entity to recognise a group of reinsurance contracts held when the entity recognises onerous underlying insurance contracts, if it does so earlier than when the entity would otherwise recognise the group of reinsurance contracts held. The Board concluded such an amendment was necessary for income to be recognised on a group of reinsurance contracts held at the same time that losses are recognised on initial recognition of onerous underlying insurance contracts.

A heading is added above paragraph BC307. For ease of reading new text is not underlined.

Expected credit losses

...

Paragraphs BC309A–BC309F and the heading above paragraph BC309A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on the cash flows in the boundary of a reinsurance contract held

BC309A Estimates of future cash flows included in the measurement of a group of reinsurance contracts held include future cash flows that relate to insurance contracts an entity expects to be covered by the reinsurance contracts held in the group. Such cash flows include cash flows related to insurance contracts the entity expects to issue in the future if the entity has a substantive right to receive reinsurance coverage for those insurance contracts. The Board considered a suggestion from entities implementing IFRS 17 to amend IFRS 17 to exclude from the measurement of the group of reinsurance contracts held cash flows that relate to underlying insurance contracts that are yet to be issued.

BC309B The Board noted that the suggestion in paragraph BC309A, which is consistent with feedback during the development of IFRS 17, would achieve an outcome similar to the practice often used applying IFRS 4 whereby an entity measured reinsurance contracts held based on the measurement of existing underlying insurance contracts.

BC309C The Board reaffirmed its view that the accounting for a reinsurance contract held should be consistent with the accounting for insurance contracts issued (see paragraph BC298). Consistent accounting includes measuring the expected value of all the entity's rights and obligations arising from a contract. When an entity holds a reinsurance contract that provides the entity with a substantive right to receive reinsurance coverage for insurance contracts it expects to issue, cash flows arising from that substantive right are included in the measurement of the reinsurance contract held (that is, those cash flows are within the boundary of the reinsurance contract held applying paragraph 34 of IFRS 17). In contrast, if a reinsurance contract held provides an entity with neither substantive rights nor substantive obligations relating to insurance contracts it expects to issue, those insurance contracts would be outside the boundary of the reinsurance contract held. The requirements for expected future cash flows in paragraphs 33–35 of IFRS 17 form a core aspect of the Standard. The Board identified no reason for these requirements to be applied inconsistently—they should be applied both to insurance contracts issued and reinsurance contracts held.

BC309D The Board noted that including all expected future cash flows in the measurement of the contractual service margin at initial recognition of the group of reinsurance contracts held reflects the conditions under which the entity agreed, under specified terms, to receive services from the reinsurer for future insurance contracts it expects to issue.

BC309E Some stakeholders said that the requirements in IFRS 17 create an accounting mismatch when an entity has a substantive right to receive reinsurance coverage relating to insurance contracts it expects to issue. They said such a mismatch arises because expected future cash flows that relate to the reinsurance of those insurance contracts will be included in the measurement of the reinsurance contract held before those underlying insurance contracts are issued. The Board disagreed that differences between the carrying amount of the reinsurance contract held and the underlying insurance contracts are accounting mismatches. The carrying amount of a reinsurance contract held is nil before any cash flows occur or any service is received. Thereafter any differences that arise between the carrying amount of the reinsurance contract held and the underlying insurance contracts are not accounting mismatches. Rather they are differences caused by:

(a) the provision of coverage—for example, because the reinsurer provides coverage for less than 100 per cent of the risks the entity covers;

(b) the timing of cash flows; and

(c) interest accreted on the contractual service margin of the reinsurance contract held from an earlier period than, and at a different discount rate from, the interest accreted on the contractual service margin of the underlying insurance contracts, reflecting the different effects of the time value of money on the contractual service margin and fulfilment cash flows.

BC309F The Board acknowledged that some entities will incur costs implementing IFRS 17 for reinsurance contracts held because doing so would be a change from previous practice. However, the Board concluded that the benefits of appropriately reflecting an entity's rights and obligations as the holder of a reinsurance contract outweigh those costs. Accordingly, the Board rejected the suggestion to amend the contract boundary requirements in IFRS 17 for reinsurance contracts held.

The heading above paragraph BC310 is amended. New text is underlined and deleted text is struck through.

Gains and losses on buying reinsurance (paragraphs 65–65A, 66A–66B and B119D–B119F~~paragraph 65~~ of IFRS 17)

...

Paragraphs BC315A–BC315L and the headings above paragraphs BC315A and BC315J are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—recovery of losses on underlying insurance contracts (paragraphs 66A–66B and B119D–B119F of IFRS 17)

BC315A In June 2020, the Board amended IFRS 17 to require an entity to adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous contracts to a group. An entity determines the income on the reinsurance contract held (ie the amount of loss recovered) by multiplying:

(a) the loss recognised on the underlying insurance contracts; and

(b) the percentage of claims on underlying insurance contracts the entity expects to recover from the reinsurance contracts held.

BC315B As a practical assumption, the amendment treats:

(a) a loss recognised on an underlying insurance contract as the early recognition of a portion of expected claims; and

(b) a loss recovery recognised on the reinsurance contract held as the early recognition of a portion of expected claim recoveries.

BC315C For the amendment described in paragraph BC315A to apply, an entity must enter into the reinsurance contract held before or at the same time as the entity recognises the onerous underlying insurance contracts. The Board concluded it would not be appropriate for an entity to recognise a recovery of loss when the entity does not hold a reinsurance contract.

BC315D As a consequence of the amendment described in paragraph BC315A, the Board also:

(a) amended IFRS 17 to require an entity that has entered into a reinsurance contract held to recognise the related group of reinsurance contracts held when the entity recognises onerous underlying insurance contracts, if that is earlier than the date the entity would otherwise recognise the group of reinsurance contracts held (see paragraphs 62–62A of IFRS 17).

(b) added requirements to IFRS 17 relating to recovery of losses from a reinsurance contract held:

    (i) in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3 (see paragraphs B95B–B95D of IFRS 17); and

    (ii) in applying IFRS 17 for the first time (see paragraphs C16A–C16C and C20A–C20B of IFRS 17).

BC315E The amendment responds to concerns that, applying IFRS 17 before the amendment, an entity would have recognised a loss on initial recognition of an onerous group of insurance contracts (or on addition of onerous contracts to a group), without recognising corresponding income on a reinsurance contract held that covers that onerous group of insurance contracts. Some stakeholders said this is an accounting mismatch and suggested the Board amend IFRS 17 so that income is recognised on the reinsurance contract held at the same time losses are recognised on initial recognition of onerous underlying insurance contracts. That income would reflect the entity's right to recover those losses.

BC315F The Board was persuaded that such an amendment was justified because:

(a) paragraph 66(c) of IFRS 17 provides a similar exception from the general measurement requirements for changes in the measurement of a group of reinsurance contracts held that arise from changes in the measurement of underlying insurance contracts (see paragraph BC315).

(b) the amendment provides users of financial statements with useful information about expected loss recoveries on reinsurance contracts held that complements the information about expected losses on underlying insurance contracts. The information provided about onerous underlying contracts is unchanged. Losses and loss recoveries are presented in separate line items in the statement(s) of financial performance and are disclosed separately in the notes to the financial statements.

BC315G The Board acknowledged, however, that the amendment adds complexity to IFRS 17 because it requires an entity to track a loss-recovery component. On balance, the Board concluded that the added complexity is justified given the strong stakeholder support for the information that will result from entities applying the amendment. The Board also noted that, applying the amendment, the loss-recovery component of a reinsurance contract held is treated similarly to the loss component of insurance contracts issued. That similarity will help entities to understand how to apply the amendment, reducing the complexity caused.

BC315H An entity might group together onerous insurance contracts covered by a reinsurance contract held and onerous insurance contracts not covered by a reinsurance contract held. To apply the amendment described in paragraph BC315A in that circumstance, an entity needs to determine amounts at a level that is lower than the level of the group of insurance contracts. IFRS 17 does not require an entity to track insurance contracts at a level lower than the level of the group of insurance contracts. Accordingly, the Board specified that, in that circumstance, an entity applies a systematic and rational method of allocation to determine the portion of losses on a group of insurance contracts that relates to underlying insurance contracts covered by a reinsurance contract held. Requiring a systematic and rational method of allocation is consistent with other requirements in IFRS 17.

BC315I The Board noted that specifying that an entity use a systematic and rational method of allocation in a specified circumstance, such as the one described in paragraph BC315H, does not prohibit an entity from using a systematic and rational method of allocation as part of other estimation processes required in applying IFRS 17 if doing so meets the objective set by IFRS 17 for those estimation processes. The Board's decision to specify that an entity use a systematic and rational method of allocation in the specific circumstance described in paragraph BC315H was driven by the need to avoid the potential misinterpretation described in that paragraph. The need for such specification in this case does not imply that an entity cannot use a systematic and rational method of allocation in circumstances when it is not specified in the requirements of IFRS 17.

Other approaches considered but rejected

BC315J In the 2019 Exposure Draft, the Board had proposed limiting the amendment to a defined population of reinsurance contracts held—those that provide proportionate coverage. For such contracts, an entity can easily identify the portion of losses on underlying insurance contracts that the entity has a right to recover. For other reinsurance contracts held, the Board was concerned that entities would have difficulty identifying that portion and thus may need to make arbitrary allocations. However, in the light of feedback on the Exposure Draft, the Board concluded that it should not impose that limitation. Respondents to the Exposure Draft reported that if the Board had limited the amendment in that way, the amendment would apply to few reinsurance contracts held in practice. Further, respondents said that an entity could identify the portion of losses the entity has a right to recover for any reinsurance contract held in a non-arbitrary way based on the expected claim recovery cash flows included in the measurement of the reinsurance contract held. For example, consider a reinsurance contract held that provides cover over an aggregate amount of claims on 100 underlying insurance contracts—some of which are in a profitable group and the others in an onerous group. The entity could determine the portion of losses on the onerous contracts that the entity has a right to recover by comparing:

(a) total expected claim recoveries from the reinsurance contract held; and

(b) total expected claims for all underlying insurance contracts.

BC315K The Board considered a view that the amendment described in paragraph BC315A should apply only when a reinsurance contract held is in a net gain position—in other words, when an entity expects to receive from the reinsurer claim recoveries that are higher than the premium the entity pays to the reinsurer (see paragraph BC310). The Board disagreed with this view because an entity has a right to recover claims from the reinsurance contract held regardless of whether claim recoveries are expected to be higher or lower than the premiums the entity pays to the reinsurer.

BC315L The Board also considered an alternative suggestion to require a loss on a group of insurance contracts to be treated as a negative contractual service margin to the extent that the contracts in the group are covered by a reinsurance contract held on a proportionate basis. The Board disagreed with this suggestion because it is inconsistent with the Board's objective to recognise losses on insurance contracts when expected.

The heading above paragraph BC323 is amended. New text is underlined and deleted text is struck through.

Transfers of insurance contracts and business combinations (paragraphs 39 and B93–B95F~~B95~~ of IFRS 17)

...

A footnote is added to the end of the first sentence of paragraph BC324 and to the end of paragraph BC325. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to replace references to 'a business combination' in paragraphs 39 and B93–B95 of IFRS 17 with 'a business combination within the scope of IFRS 3' (see paragraph BC327A).

Paragraph BC327A and the heading above paragraph BC327A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—business combinations outside the scope of IFRS 3

BC327A In June 2020, the Board amended IFRS 17 to specify that an entity is required to apply paragraph 38 of IFRS 17 in accordance with paragraphs B93–B95F of IFRS 17 to insurance contracts acquired in a business combination within the scope of IFRS 3. An entity is not required to apply the measurement requirements in those paragraphs to insurance contracts acquired in a business combination outside the scope of IFRS 3 (that is, a business combination under common control). The Board did not intend to set requirements for business combinations outside the scope of IFRS 3. Such business combinations are the subject of a separate Board project.

Paragraphs BC327B–BC327G and the headings above paragraphs BC327B and BC327E are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on insurance contracts acquired in a transfer of insurance contracts or in a business combination within the scope of IFRS 3

Classification as an insurance contract

BC327B Applying IFRS 4, an entity acquiring a contract in a business combination determined whether that contract met the definition of an insurance contract based on facts and circumstances at the date the contract was issued, instead of the date of the business combination transaction (the acquisition date). This requirement was an exception to the general principles in IFRS 3. In contrast, entities applying IFRS 17 assess the classification of contracts using the general principles in IFRS 3.

BC327C When considering feedback from entities implementing IFRS 17, the Board considered but rejected a suggestion to reinstate that exception in IFRS 3 to continue to apply when an entity applies IFRS 17 instead of IFRS 4.

BC327D By removing the exception described in paragraph BC327B, IFRS 17 makes the accounting for the acquisition of insurance contracts consistent with the accounting for acquisitions of other contracts acquired in a business combination. Differences in accounting between an acquirer's financial statements and an acquiree's financial statements can arise because of the requirements in IFRS 3. Such differences reflect changes in facts and circumstances at the acquisition date compared to facts and circumstances at the date the acquiree recognised the contracts. Such differences depict the economics of the acquisition, are not unique to insurance contracts and are not unusual when applying IFRS Standards.

Contracts acquired in their settlement period

BC327E The Board also considered but rejected a suggestion to create an exception to the general classification and measurement requirements in IFRS 17 for contracts acquired in their settlement period. The Board concluded that an entity that acquires a contract should, at the acquisition date, apply the requirements for identifying whether a contract has an insured event and meets the definition of an insurance contract—just as an entity that issues a contract applies the requirements at the issue date.

BC327F An acquirer identifies assets and liabilities acquired based on the contractual terms, rights and obligations and economic conditions at the acquisition date, including the consideration to which the acquirer agreed at that date. The Board noted that for a contract to meet the definition of an insurance contract from the perspective of the acquirer at the acquisition date, the acquirer must compensate the policyholder for the adverse effect of an uncertain future event (that is, the acquirer must provide insurance coverage). If the acquirer provides insurance coverage, the contract is an insurance contract accounted for applying the requirements of IFRS 17. Contracts acquired in their settlement period with claim amounts that are uncertain in timing or amount could meet the definition of an insurance contract at the acquisition date.

BC327G The Board observed that some contracts acquired in their settlement period will not meet the definition of an insurance contract at the acquisition date. In some circumstances, all claim amounts are known at the acquisition date but remain unpaid. In such circumstances, the acquirer is not providing insurance coverage, the contract does not meet the definition of an insurance contract and the acquirer would account for the contract as a financial liability applying IFRS 3 and subsequently IFRS 9. The Board also observed that for contracts that meet the definition of an insurance contract at the acquisition date, an entity would need to consider whether any amounts payable to the policyholder meet the definition of an investment component (and are therefore excluded from insurance revenue).

Paragraphs BC327H–BC327I and the heading above paragraph BC327H are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—assets for insurance acquisition cash flows in a transfer of insurance contracts and in a business combination within the scope of IFRS 3 (paragraphs B95E–B95F of IFRS 17)

BC327H In June 2020, the Board amended IFRS 17 to require an entity that acquires insurance contracts in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 to recognise an asset measured at fair value at the acquisition date for the rights to obtain:

(a) future insurance contracts that are renewals of insurance contracts recognised at that date; and

(b) future insurance contracts, other than those in (a), after the acquisition date without paying again insurance acquisition cash flows the acquiree has already paid.

BC327I Requiring an entity to recognise such assets at the acquisition date is consistent with the requirements in IFRS 17 for recognising an asset for insurance acquisition cash flows (paragraph 28B of IFRS 17). As a result, the contractual service margin for a group of insurance contracts recognised after the acquisition date will appropriately reflect the rights relating to that future group which the entity paid for as part of the consideration for the acquisition. The Board decided that to achieve consistency between the requirements at the acquisition date and after the acquisition date, an entity should determine the rights described in paragraph BC327H(b) by reference to insurance acquisition cash flows the acquiree has already paid. Otherwise, broader rights to obtain future contracts from intangible assets such as customer relationships, unconnected to any previously paid insurance acquisition cash flows, could be included in the assets for insurance acquisition cash flows and therefore subsequently included in the contractual service margin of future groups of insurance contracts. In contrast, the Board decided that such reference is unnecessary to determine the rights described in paragraph BC327H(a)—these rights relate only to renewals, so they are sufficiently constrained.

A footnote is added to the end of paragraphs BC328 and BC329. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to present separately portfolios of insurance contracts that are assets and portfolios of insurance contracts that are liabilities (see paragraphs BC330A–BC330B).

Paragraphs BC330A–BC330D and the headings above paragraphs BC330A and BC330C are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—presentation in the statement of financial position

BC330A In June 2020, the Board amended IFRS 17 to require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and portfolios of insurance contracts issued that are liabilities. Before the amendment, IFRS 17 required an entity to present separately groups of insurance contracts issued that are assets and groups of insurance contracts issued that are liabilities (see paragraph BC328). The amendment also applies to portfolios of reinsurance contracts held.

BC330B The presentation requirement prior to the amendment was consistent with the requirements for recognising and measuring groups of insurance contracts. However, entities implementing IFRS 17 told the Board that they would need to allocate some fulfilment cash flows to groups only for the purpose of presentation (for example, fulfilment cash flows for incurred claims). These entities said that an amendment to require an entity to present insurance contracts at a portfolio level would provide significant operational relief. Feedback on the 2019 Exposure Draft, including from users of financial statements, suggested that the amendment would not significantly diminish the usefulness of information compared to that which would have been provided without the amendment.

Other approaches considered but rejected

BC330C Some stakeholders suggested the Board require an entity to present one insurance contract asset or liability for all insurance contracts issued by the entity (that is, present insurance contracts at an entity level). The Board rejected that suggestion because such presentation would risk an unacceptable loss of useful information for users of financial statements.

BC330D Some stakeholders suggested a different, more disaggregated approach to presentation in the statement of financial position. Applying IFRS 4, some entities presented separately in the statement of financial position different amounts arising from an insurance contract, as if those different amounts were separate assets or liabilities. For example, some entities presented an insurance contract liability and line items labelled as premiums receivable, claims payable and deferred acquisition costs. Entities differed in what line items they presented and in the definitions of those line items. For example, some entities presented amounts that were not yet billed as premiums receivable whereas other entities presented only billed amounts that remain outstanding. Some stakeholders said they would like to continue further disaggregation because they view such disaggregated line items as providing meaningful information to users of financial statements. The Board disagreed with suggestions to permit an entity to continue such disaggregation because it could result in the presentation of amounts that are not separable assets or liabilities. For example, premiums receivable for future insurance coverage is not a gross asset separable from the related liability for the future insurance coverage.

A footnote is added to the end of paragraph BC332. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to recognise an amount of the contractual service margin in profit or loss in each period to reflect the insurance contract services provided in that period (see paragraph BC283H).

Paragraphs BC342A–BC342C and the heading above paragraph BC342A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—insurance finance income or expenses

BC342A In June 2020, the Board amended paragraph B128 of IFRS 17 to clarify that changes in the measurement of a group of insurance contracts resulting from changes in underlying items are changes arising from the effect of the time value of money and assumptions that relate to financial risk for the purposes of IFRS 17. Otherwise, changes in underlying items could adjust the contractual service margin of insurance contracts without direct participation features. The Board considered a view that the effects of changes in cash flows resulting from the participation in underlying items that are not solely financial in nature (for example, insurance contracts) should be presented within the insurance service result, instead of within insurance finance income or expenses. The Board disagreed with this view because the requirement to reflect changes from participation in underlying items in insurance finance income or expenses appropriately depicts the nature of the participation—as an investment. The Board concluded that policyholder participation in underlying items, including underlying items that are not solely financial in nature such as insurance contracts, should have no effect on the depiction of the entity's insurance service result. Further, splitting the effect of changes in cash flows resulting from the participation in underlying items that are not solely financial in nature into an amount that should be included in the insurance service result and an amount that should be included in insurance finance income or expenses would be complex and could disrupt implementation for some entities.

BC342B Some users of financial statements were concerned that the requirements in paragraphs 88–89 of IFRS 17 for disaggregating insurance finance income or expenses allow an accounting policy choice. They would rather IFRS 17 required one consistent presentation. The Board acknowledged that requiring entities to report insurance finance income or expenses entirely in profit or loss instead of permitting the choice in paragraphs 88–89 of IFRS 17 would improve comparability between entities. However, consistent with the Board's previous conclusion explained in paragraph BC340, the Board concluded that the presentation of insurance finance income or expenses as a systematic allocation in profit or loss may provide more useful information than total insurance finance income or expenses in profit or loss for some contracts and less useful information for other contracts.

BC342C Some stakeholders said that accounting mismatches might arise between financial assets the entity holds and insurance contract liabilities if an entity were to apply the option in paragraph 88 of IFRS 17 to recognise some insurance finance income or expenses in other comprehensive income. That feedback led to no amendment because the Board noted that an entity can avoid such mismatches by not applying the option. The Board received similar feedback about accounting mismatches before IFRS 17 was issued (see paragraphs BC53–BC56).

...

Disclosure (paragraphs 93–132 of IFRS 17)

...

A footnote is added to the end of paragraph BC348(b)(iii). For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to correct the terminology used in paragraphs 128–129 of IFRS 17 by replacing 'risk exposures' with 'risk variables'.

Paragraph BC349 is amended. New text is underlined and deleted text is struck through.

BC349 In addition, when developing IFRS 17 the Board identified key items it views as critical to understanding the financial statements of entities issuing insurance contracts, in the light of the requirement to update the measurement of insurance contracts at each reporting date. The Board therefore decided that entities should disclose the following items:

...

(f) to the extent not already included in meeting the requirements in paragraph 117(a) of IFRS 17, information about the entity's approach to determine (see paragraph 117(c) of IFRS 17):

...

(iv) investment components (see paragraphs BC33–<u>BC34A</u>~~BC34~~).

...

A footnote is added to the end of paragraph BC363. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to disclose when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss quantitatively, in appropriate time bands (see paragraph BC366B).

A footnote is added to paragraph BC365 after 'criteria in paragraph B116 are met.'. For ease of reading new text is not underlined.

* In June 2020, the Board extended the risk mitigation option to be applicable when an entity uses reinsurance contracts held or non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk (see paragraphs BC256A–BC256F).

Paragraphs BC366A–BC366C and the headings above paragraphs BC366A, BC366B and BC366C are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—disclosure of amounts recognised

Insurance acquisition cash flows (paragraphs 105A–105B and 109A of IFRS 17)

BC366A In June 2020, the Board amended IFRS 17 to require an entity to allocate insurance acquisition cash flows to future groups of insurance contracts that are expected to include contracts that are renewals of other contracts (see paragraphs BC184A–BC184K). That amendment extends the period for which an asset for insurance acquisition cash flows exists, and therefore increases the total amount of such assets at the end of each reporting period. In the light of the amendment, the Board amended the disclosure requirements in IFRS 17 to require an entity to disclose a reconciliation from the opening to the closing balance of any asset for insurance acquisition cash flows recognised applying paragraph 28B of IFRS 17. An entity is also required to provide quantitative disclosure, in appropriate time bands, of the expected inclusion of insurance acquisition cash flows recognised as an asset in the measurement of the group of insurance contracts to which they are allocated (see paragraph 105A of IFRS 17).

Recognition of the contractual service margin (paragraphs 109 and 117 of IFRS 17)

BC366B In June 2020, the Board amended IFRS 17 to require an entity to determine the quantity of benefits provided by an insurance contract considering either investment-return service or investment-related service in addition to insurance coverage (see paragraphs BC283A–BC283J). That amendment adds complexity and judgement to the determination of the quantity of benefits provided by an insurance contract for the purpose of recognising the contractual service margin in profit or loss. Accordingly, the Board decided to require an entity to disclose:

(a) quantitative information, in appropriate time bands, about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of the reporting period (instead of permitting an entity to provide only qualitative information); and

(b) the approach used to assess the relative weighting of the benefits from insurance coverage and either investment-return service or investment-related service.

Other additional disclosures

BC366C In June 2020, the Board also amended the disclosure requirements in IFRS 17 to clarify that an entity:

(a) is not required to disclose refunds of premiums separately from investment components in the reconciliation required by paragraph 100 of IFRS 17; and

(b) cannot present separately amounts relating to the risk adjustment for non-financial risk that are experience adjustments applying paragraph 104(b)(iii) of IFRS 17 if the entity already discloses those amounts applying paragraph 104(b)(ii) of IFRS 17 (to prevent double counting those amounts).

...

Applying the Standard for the first time (Appendix C of IFRS 17)

...

A footnote is added to the end of paragraph BC372. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to permit an entity that has the information to apply a fully retrospective approach to instead apply the fair value approach for transition for a group of insurance contracts with direct participation features when specified conditions relating to risk mitigation are met (see paragraph BC393A).

Paragraph BC373 is amended. New text is underlined and deleted text is struck through.

BC373 The Board developed two alternative transition methods that may be used when retrospective application is impracticable (see paragraphs BC379–BC384B~~BC384~~ for the alternative transition method referred to as the 'modified retrospective approach' and paragraphs BC385–BC386 for the alternative transition method referred to as the 'fair value approach'). The Board decided to permit an entity to choose between the modified retrospective approach and the fair value approach if the entity cannot apply IFRS 17 retrospectively. The Board acknowledged a choice of transition methods results in a lack of comparability of transition amounts but concluded it was appropriate for the following reasons. The objective of the modified retrospective approach is to achieve the closest outcome to a retrospective application of the Standard. The Board noted that the similarity between a modified retrospective approach and a full retrospective application would depend on the amount of reasonable and supportable information available to an entity. If an entity has relatively little reasonable and supportable information available and, therefore, would need to use many of the permitted modifications, the cost of the modified retrospective approach might exceed the benefits.

Paragraphs BC373A–BC373B and the heading above paragraph BC373A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on transition approaches

BC373A When the Board considered feedback from entities implementing IFRS 17, the Board also considered feedback from users of financial statements that the optionality in the transition requirements reduces comparability between entities—in particular, the option to apply the modified retrospective approach or the fair value approach. The Board concluded that the choices provided are appropriate, for the reasons set out in paragraph BC373.

BC373B In the Board's view, providing practical one-off reliefs to help entities with their transition to IFRS 17 is worth a limited loss of comparability for a limited period. The Board therefore decided not to reduce the options available in the transition requirements, because doing so would be likely to cause undue disruption to implementation already under way. The Board noted the reduced comparability that the transition options cause has no effect on the current value measurement of the fulfilment cash flows. The Board also noted that entities are required to provide disclosures on the transition approaches used. Such disclosures assist users of financial statements in making comparisons between entities, and in understanding the transition reliefs used and how those reliefs affect reported information.

The heading above paragraph BC374 is amended. New text is underlined and deleted text is struck through.

Retrospective application (paragraphs C3–C5B~~C5~~ of IFRS 17)

...

A footnote is added to the end of paragraph BC374(a). For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to clarify that an entity recognises and measures any assets for insurance acquisition cash flows as if IFRS 17 had always applied, except that an entity is not required to assess the recoverability of any such assets before the transition date (see paragraphs BC184A–BC184K).

Paragraph BC380 and the heading above paragraph BC379 are amended. New text is underlined and deleted text is struck through.

Modified retrospective approach (paragraphs C6–C19A~~C19~~ of IFRS 17)

...

BC380 The Board decided to specify some modifications that could be applied if retrospective application as defined in IAS 8 is impracticable, to address the issues noted in paragraph BC378. Those modifications are permitted only to the extent necessary because an entity does not have reasonable and supportable information to apply the retrospective approach. Those modifications:

(a) simplify the information necessary for an entity to make assessments about insurance contracts or groups of insurance contracts that would be made at the date of inception or initial recognition (see paragraphs BC381–BC382B~~BC382~~).

(b) simplify how an entity determines amounts related to the contractual service margin (see paragraphs BC383–BC383B~~paragraph BC383~~).

(c) simplify how an entity determines the information necessary to determine insurance revenue (see paragraphs BC383–BC383B ~~paragraph BC383~~).

(d) permit an entity to determine insurance finance income and expenses included in profit or loss using the discount rates at the transition date if an entity chooses to disaggregate insurance finance income or expenses into an amount included in profit or loss and an amount included in other comprehensive income. In addition, the modification provides an expedient for determining the amount of the accumulated balance in equity relating to insurance finance income and expenses (see paragraphs BC384–BC384B~~paragraph BC384~~).

Paragraphs BC380A–BC380D and the heading above paragraph BC380A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on using reasonable and supportable information and making estimates

BC380A Some entities implementing IFRS 17 suggested that to provide operational relief, the Board should remove from the modified retrospective approach the requirements to:

(a) maximise the use of reasonable and supportable information available without undue cost or effort that would have been used to apply a fully retrospective approach.

(b) use reasonable and supportable information to apply the modifications.

BC380B The Board considered but rejected the suggestions in paragraph BC380A because:

(a) with regards to the suggestion in paragraph BC380A(a), permitting an entity to ignore reasonable and supportable information available without undue cost or effort that the entity would have used to apply a fully retrospective approach would be contrary to the objective of the modified retrospective approach. The objective is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. The suggestion would also reduce comparability between contracts issued before and after the transition date.

(b) with regards to the suggestion in paragraph BC380A(b), permitting an entity to apply a modification when it does not have reasonable and supportable information to do so would undermine the credibility of information that results from applying IFRS 17. In the Board's view, applying a fair value approach would result in more useful information for users of financial statements than would applying a modified retrospective approach without the reasonable and supportable information necessary to do so.

BC380C Some entities implementing IFRS 17 suggested that the inclusion of specified modifications implies that an entity cannot make estimates in applying IFRS 17 retrospectively. The Board noted that paragraph 51 of IAS 8 acknowledges the need for estimates in retrospective application. This paragraph applies to entities applying IFRS 17 for the first time just as it does to entities applying other IFRS Standards for the first time. The Board expects that entities will often need to make estimates when applying a specified modification in the modified retrospective approach.

BC380D Some stakeholders suggested that the Board could reduce the burden of applying the transition requirements by specifying methods that could be used—for example, methods using information from embedded value reporting or information prepared for regulatory reporting. The Board rejected this suggestion. The Board concluded that specifying methods would conflict with the approach in IFRS 17 of establishing measurement objectives that can be satisfied using various methods. The appropriateness of a method depends on facts and circumstances. Furthermore, if the Board were to specify methods, it could risk incorrectly implying that entities cannot use other methods that would satisfy the requirements of IFRS 17.

A footnote is added to the end of paragraph BC382. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to permit an entity to assess whether a contract meets the definition of an investment contract with discretionary participation features either at the date of initial recognition of the contract or at the transition date. This assessment is consistent with other assessments described in paragraph BC382.

Paragraphs BC382A–BC382B and the heading above paragraph BC382A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—classification of contracts acquired in their settlement period (paragraphs C9A and C22A of IFRS 17)

BC382A In June 2020, the Board considered but rejected a suggestion to create an exception to the general classification and measurement requirements in IFRS 17 for contracts acquired in their settlement period (see paragraphs BC327E–BC327G). However, the Board amended IFRS 17 to provide reliefs on transition in response to feedback that to apply IFRS 17 retrospectively to contracts acquired before the transition date (that is, to classify and measure those contracts as a liability for remaining coverage) would often be impracticable. Those reliefs permit an entity applying the modified retrospective approach or the fair value approach to classify as a liability for incurred claims a liability for the settlement of claims when:

(a) that liability relates to an insurance contract that was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3; and

(b) the acquisition date was before the transition date.

BC382B An entity applying the modified retrospective approach applies the relief in paragraph BC382A only to the extent permitted by paragraph C8 of IFRS 17.

Paragraphs BC383A–BC383B and the heading above paragraph BC383A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—modifications considered but rejected

BC383A The Board considered a suggestion from entities implementing IFRS 17 to permit an entity to develop the modifications that it thinks would achieve the closest possible outcome to retrospective application. The Board disagreed with this suggestion, because if such modifications were permitted:

(a) an entity could use modifications that would result in an outcome that the Board would consider insufficiently close to retrospective application; and

(b) each entity could use different modifications, reducing comparability and increasing complexity for users of financial statements.

BC383B Paragraph C17 of IFRS 17 provides a modification for determining the contractual service margin at the transition date for insurance contracts with direct participation features. An entity applying that modification determines the carrying amount of the contractual service margin at the transition date in a more direct way than the entity would by applying the modifications in paragraphs C11–C16 of IFRS 17 for determining the contractual service margin at the transition date for insurance contracts without direct participation features. An entity can determine the contractual service margin in this more direct way because of the extent to which the contractual service margin is remeasured for insurance contracts with direct participation features. Some stakeholders suggested that an entity should be able to apply the modifications in paragraphs C11–C16 of IFRS 17 to insurance contracts with direct participation features. The Board disagreed with this suggestion because applying those modifications to such contracts would be unlikely to achieve an outcome as close to retrospective application as would applying paragraph C17 of IFRS 17.

Paragraphs BC384A–BC384B and the heading above paragraph BC384A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback relating to the accumulated balance recognised in other comprehensive income

BC384A Some entities implementing IFRS 17 said they would prefer alternative modifications to the modifications set out in paragraphs C18–C19 of IFRS 17 for determining the amount of insurance finance income or expenses accumulated in other comprehensive income at the transition date. These entities suggested that for all insurance contracts (insurance contracts with and without direct participation features), an entity should be required to:

(a) deem as nil the accumulated amount in other comprehensive income for financial assets accounted for applying IFRS 9 that are related to insurance contracts; or

(b) deem the accumulated amount of insurance finance income or expenses in other comprehensive income as equal to the accumulated amount in other comprehensive income arising on financial assets accounted for applying IFRS 9 that are related to insurance contracts.

BC384B The Board considered but rejected the suggestions in paragraph BC384A because:

(a) both suggested amendments involve significant subjectivity in determining which assets relate to insurance contracts.

(b) both suggested amendments could result in an outcome that the Board would consider to be insufficiently close to retrospective application of IFRS 17 requirements.

(c) the suggested amendment to IFRS 9 described in BC384A(a) would reduce comparability of entities first applying IFRS 9 and IFRS 17 at the same time choosing this approach with other entities that have already applied IFRS 9. The Board noted that the amount accumulated in other comprehensive income relating to financial assets measured at fair value through other comprehensive income includes amounts that relate to expected credit losses. Hence, setting the cumulative amount to nil on transition would affect the accounting for expected credit losses in future periods.

(d) the suggested amendment to IFRS 17 described in BC384A(b) would mean that insurance finance income or expenses recognised in profit or loss in future periods would reflect the historical discount rate for assets held at the transition date that an entity determines are related to insurance contracts. The Board concluded that using that historical discount rate could result in a significant loss of useful information, because of the subjectivity in determining which assets relate to insurance contracts and because comparability for insurance contracts would be reduced between entities that hold different assets.

The heading above paragraph BC385 is amended. New text is underlined and deleted text is struck through.

Fair value approach (paragraphs C20–C24B~~C24~~ of IFRS 17)

...

A footnote is added to the end of paragraph BC386(a). For ease of reading new text is not underlined.

* An entity applying the fair value approach is permitted to classify as a liability for incurred claims a liability for the settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 (see paragraph BC382A).

Paragraph BC389A is added. For ease of reading new text is not underlined.

Comparative information (paragraphs C25–C28 of IFRS 17)

...

BC389A In June 2020, the Board deferred the effective date of IFRS 17 from 1 January 2021 to 1 January 2023 (see paragraphs BC404A–BC404F). The Board considered but rejected a suggestion to provide relief from the restatement of comparative information, because the Board concluded that restatement of comparative information is particularly important given the diversity in previous accounting practices and the extent of change introduced by IFRS 17.

Paragraph BC392A and the heading above paragraph BC392A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on applying the level of aggregation requirements on transition

BC392A In the modified retrospective approach, an entity is permitted to group together contracts that were issued more than one year apart, to the extent that the entity does not have reasonable and supportable information to separately group those contracts—in other words, the entity is permitted not to apply the annual cohort requirement in paragraph 22 of IFRS 17. In the fair value approach, an entity is permitted a choice to group together contracts that were issued more than one year apart. Some stakeholders suggested the Board provide further relief by permitting an entity a choice to group together contracts issued more than one year apart in a fully retrospective approach and in the modified retrospective approach, regardless of whether the entity has reasonable and supportable information to apply the annual cohort requirement. The Board disagreed with the suggestion for such transition relief because permitting an entity not to apply the annual cohort requirement:

(a) when the entity has the information available to apply a fully retrospective approach would have the effect that the entity would not be applying a fully retrospective approach; and

(b) when the entity has reasonable and supportable information to apply that requirement in the modified retrospective approach would be inconsistent with the objective of the modified retrospective approach.

A footnote is added to the end of the first sentence of paragraph BC393 and to the end of the heading above paragraph BC393. For ease of reading new text is not underlined.

* In June 2020, the Board extended the risk mitigation option to be applicable when an entity uses reinsurance contracts held and non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk (see paragraphs BC256A–BC256F).

A footnote is added to the end of paragraph BC393. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require prospective application of the risk mitigation option from the transition date instead of the date of initial application (see paragraph BC393A).

Paragraphs BC393A–BC393E and the heading above paragraph BC393A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—the prohibition from applying the risk mitigation option retrospectively (paragraphs C3(b) and C5A of IFRS 17)

BC393A In June 2020, the Board amended the transition requirements relating to the risk mitigation option to:

(a) permit an entity to apply the risk mitigation option in paragraph B115 of IFRS 17 prospectively from the transition date instead of the date of initial application; and

(b) permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts to instead apply the fair value approach if, and only if:

(i) the entity chooses to apply the risk mitigation option to the group prospectively from the transition date; and

(ii) before the transition date, the entity had been using derivatives, reinsurance contracts held or non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk arising from the group of insurance contracts.

BC393B The amendments described in paragraph BC393A respond to concerns that prohibiting retrospective application of the risk mitigation option reduces comparability between risk mitigation activities that took place before the date of initial application and those that take place after that date. Most stakeholders agreed with the Board that the amendments described in paragraph BC393A resolve these concerns.

BC393C Nonetheless, some stakeholders suggested the Board amend IFRS 17 to permit retrospective application of the risk mitigation option, and so the Board considered whether it should make such an amendment. The Board observed that if an entity were permitted to apply the option retrospectively, it could decide the extent to which it reflects risk mitigation activities in the contractual service margin based on known accounting outcomes. The entity could apply the option in a way that differs from how the entity would have applied the option in previous periods without hindsight, had it always applied IFRS 17. Permitting retrospective application of the option would therefore affect the credibility of information presented on transition to IFRS 17 and in subsequent periods in which those groups of insurance contracts exist. The Board therefore reaffirmed its decision to prohibit retrospective application of the option because of the risk of the use of hindsight.

BC393D Some stakeholders suggested the Board amend IFRS 17 to permit an entity to apply the risk mitigation option retrospectively if, and only if, the entity applies the option for all risk mitigation relationships that would meet the conditions in paragraphs B115–B116 of IFRS 17 (an 'all or nothing' approach). These stakeholders thought such an amendment would avoid the risk of hindsight. The Board considered what an 'all or nothing' approach would be and whether the Board should add such an approach to the IFRS 17 transition requirements. The Board noted that an 'all or nothing' approach would require:

(a) 'all' to mean all insurance contracts issued by the entity that exist at the transition date (that is, all would be at a reporting entity level);

(b) 'all' to mean all past and current risk mitigation relationships that meet the criteria in paragraph B116 of IFRS 17 at any point between initial recognition of a group of insurance contracts and the transition date;

(c) an entity to hold historical documentation of each of those risk mitigation relationships described in (b), and that documentation to have existed at the beginning of the first reporting period that the entity would have met the criteria in paragraph B116 of IFRS 17; and

(d) an entity to retrospectively determine the effect of applying the risk mitigation option for all relationships described in (b) at each reporting date between initial recognition of a group of insurance contracts and the transition date.

BC393E The Board noted that any approach other than the one described in paragraph BC393D would involve the risk of hindsight. The approach described in paragraph BC393D would not involve the risk of hindsight. However, the Board concluded that applying that approach would be impracticable in almost all cases. Meeting the conditions necessary for an 'all or nothing' approach would be a high hurdle that entities would overcome in only a narrow set of circumstances. Accordingly, the Board decided not to add those requirements to IFRS 17.

Paragraphs BC398A–BC398F and the headings above paragraphs BC398A and BC398C are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on redesignation of financial assets

BC398A The Board considered but rejected a suggestion from entities implementing IFRS 17 that on initial application of IFRS 17 an entity that:

(a) first applied IFRS 9 before IFRS 17 be permitted to apply the transition relief in paragraph C29 of IFRS 17 to redesignate financial assets that were derecognised during the IFRS 17 comparative period; and

(b) first applied IFRS 9 at the same time it first applied IFRS 17 be permitted to apply IFRS 9 to financial assets that were derecognised during the IFRS 17 comparative period.

BC398B The Board extensively discussed and consulted on the requirements in IFRS 9 relating to transition when IFRS 9 was being developed. Such requirements include prohibiting an entity from applying IFRS 9 to derecognised items, and permitting but not requiring an entity to restate comparative periods in some circumstances.

Amendments to IFRS 17—transition requirements when an entity chooses to apply IFRS 9 to contracts specified in paragraph 8A of IFRS 17 (paragraphs 7.2.36–7.2.42 of IFRS 9)

BC398C Some entities will first apply IFRS 17 after they first apply IFRS 9. In June 2020, the Board amended IFRS 9 to provide transition requirements for such entities that apply paragraph 8A of IFRS 17 and choose to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (see paragraphs BC94D–BC94F). The amendment enables those entities to use the transition requirements in Section 7.2 of IFRS 9 (as issued in 2014) when first applying IFRS 9 to those contracts.

BC398D The Board also considered transition requirements related to the fair value option in IFRS 9. An entity's decision to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract could change, either partially or in full, the classification and measurement of such contracts. Such changes may create or eliminate accounting mismatches between the contracts and financial liabilities an entity might consider to be related to the contracts. Therefore, the Board amended the IFRS 9 transition requirements to permit an entity to designate, or require an entity to revoke its previous designation of, a financial liability at the date of initial application of these amendments to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists, as a result of the application of these amendments.

BC398E Consistent with the transition requirements in IFRS 9 and IFRS 17, the Board decided to specify that when an entity applies the amendment described in paragraph BC398C and chooses to apply IFRS 9 to such contracts, the entity:

(a) can choose to restate prior periods to reflect the effect of applying these amendments only if the entity can do so without the use of hindsight and if the restated financial statements reflect all the requirements in IFRS 9 for the affected financial instruments;

(b) will be required to disclose information about the changes in the classification and measurement of contracts as a result of applying these amendments in addition to any disclosures required by other IFRS Standards; and

(c) can choose to not disclose the quantitative information otherwise required by paragraph 28(f) of IAS 8 for the current period or any prior period presented.

BC398F The Board added these transition requirements as a consequence of adding paragraph 8A to the requirements of IFRS 17 (see paragraph BC398C). In June 2020, the Board also added a scope exclusion in paragraph 7(h) of IFRS 17 for some contracts that provide credit or payment arrangements such as particular credit card contracts (see paragraphs BC94A–BC94C). Stakeholders said that, for such contracts, many entities already apply IFRS 9 to the credit or payment arrangement component applying the separation requirements in IFRS 4. However, some may not have. Accordingly, the transition requirements discussed in paragraphs BC398A–BC398E will apply if an entity has already applied IFRS 9 but has not applied IFRS 9 to those components.

A footnote is added to the end of paragraph BC403. For ease of reading new text is not underlined.

* In June 2020, the Board deferred the effective date of IFRS 17 by two years to require entities to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023 (see paragraphs BC404A–BC404F).

Paragraphs BC404A–BC404F and the heading above paragraph BC404A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—deferral of the effective date

BC404A In June 2020, the Board deferred the effective date of IFRS 17 by two years to require entities to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023.

BC404B In the 2019 Exposure Draft, the Board proposed a one-year deferral of the effective date to balance:

(a) providing certainty about the effective date considering the uncertainty caused by the Board's decision in October 2018 to explore possible amendments to IFRS 17 (see paragraphs BC6A–BC6C); and

(b) requiring IFRS 17 implementation as soon as possible because:

(i) IFRS 17 is a Standard urgently needed to address many inadequacies in previous accounting practices for insurance contracts; and

(ii) undue delay in the effective date of the Standard may increase workload and costs, particularly for entities that are advanced in their implementation projects.

BC404C Feedback on the 2019 Exposure Draft generally supported the proposed deferral of the effective date. Some stakeholders, particularly users of financial statements and regulators, expressed concern about any deferral of the effective date beyond one year, but other stakeholders suggested a longer deferral was necessary.

BC404D Some stakeholders said a longer deferral was necessary because some entities required more time to implement IFRS 17, for example because of challenges in developing systems and determining appropriate accounting policies, and because of the effect on implementation projects already under way of the amendments proposed in the 2019 Exposure Draft. The Board acknowledged that implementing IFRS 17 is a major undertaking. However, it noted that it had allowed an implementation period of three and a half years when it issued IFRS 17. Furthermore, given that IFRS 17 is urgently needed, the Board thought that a year's deferral of the effective date as proposed in the 2019 Exposure Draft ought to be sufficient to allow for the effects of any disruption caused by amending the Standard before its effective date. The Board was careful to propose only targeted amendments and not to reopen fundamental aspects of the Standard. The Board acknowledged, however, that implementing the Standard by 2022, as proposed in the 2019 Exposure Draft, would be demanding, in particular for smaller insurers.

BC404E Some stakeholders suggested a longer deferral was necessary to ensure that the initial application of IFRS 17 would be aligned in major markets around the world. These stakeholders were uncertain whether such an alignment would occur if the Board confirmed a one-year deferral. They commented on uncertainties and delays in jurisdictional endorsement and adoption processes and the consequential uncertainty about the effective dates that might be set in some jurisdictions. The Board noted that it had set the effective date of IFRS 17 so that jurisdictions would have sufficient time to adopt the new Standard. However, the Board acknowledged that considering amendments to the Standard before its effective date inevitably caused some disruption to those processes. The Board noted that the initial application of IFRS 17 will significantly affect insurers' financial statements and acknowledged that users of financial statements would benefit if the initial application of IFRS 17 were aligned around the world.

BC404F Accordingly, although the Board was aware of the costs of delaying the implementation of IFRS 17, particularly for users of financial statements, the Board decided to defer the effective date by two years to annual reporting periods beginning on or after 1 January 2023. The Board concluded that a two-year deferral should allow time for an orderly adoption of the amended IFRS 17 by jurisdictions. It should therefore enable more entities to initially apply IFRS 17 around the same time for the benefit of users of financial statements. The additional year's deferral compared to that proposed in the 2019 Exposure Draft should also assist those entities for whom implementing IFRS 17 by 2022 would have been challenging, including those entities for whom implementation projects were affected by the covid-19 pandemic in 2020. The deferral should thereby help to improve the quality of the initial application of the Standard.

A footnote is added to the end of paragraph BC406. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17. The reference to IFRS 15 in paragraph C1 of IFRS 17 was deleted, because IFRS 15 was effective at the time the June 2020 amendments were issued.

Appendix A
Summary of changes since the 2013 Exposure Draft

A footnote is added to 'The following table summarises the main differences between the 2013 Exposure Draft and IFRS 17 *Insurance Contracts*.' For ease of reading new text is not underlined.

* This appendix compares IFRS 17 as issued in May 2017 with the 2013 Exposure Draft. In June 2020, the Board amended IFRS 17. A list summarising the June 2020 amendments, including references to the relevant paragraphs of this Basis for Conclusions, is included in Appendix C.

Appendix C is added. For ease of reading new text is not underlined.

Appendix C
List of amendments issued in 2020

Table C lists the main amendments to IFRS 17 issued in June 2020 with a reference to the rationale for those amendments included in this Basis for Conclusions (see paragraphs BC6A–BC6C).

The Board also:

(a) made minor amendments to correct cases in which the drafting of IFRS 17 did not achieve the Board's intended outcome; and

(b) considered but rejected other amendments suggested by stakeholders—for example, suggestions to amend the annual cohort requirement (see paragraphs BC139A–BC139T).

Table C Main amendments to IFRS 17 issued in June 2020

Area of amendment	**Paragraphs in Basis for Conclusions on IFRS 17**
Scope exclusions—credit card contracts and similar contracts that provide credit or payment arrangements	BC94A–BC94C
Scope exclusions—specified contracts such as loan contracts with death waivers	BC94D–BC94F
Insurance acquisition cash flows	BC184A–BC184K BC327H–BC327I
The effect of accounting estimates made in interim financial statements	BC236A–BC236D
Risk mitigation option using instruments other than derivatives	BC256A–BC256F
Contractual service margin attributable to investment-return service and investment-related service	BC283A–BC283J
Reinsurance contracts—recovery of losses on underlying insurance contracts	BC315A–BC315L
Presentation in the statement of financial position	BC330A–BC330D
Applying the Standard for the first time—classification of contracts acquired in their settlement period	BC382A–BC382B
Applying the Standard for the first time—the prohibition from applying the risk mitigation option retrospectively	BC393A–BC393E
Applying the Standard for the first time—deferral of the effective date	BC404A–BC404F

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