CFO FORUM

IFRS 17 Priorities

June 2019

IFRS 17 Next steps (1/2)

The CFO Forum and its member companies invested significant time and effort in the field testing of IFRS 17. This resulted in a list of issues and related proposed solutions. These have been considered by the IASB but, based on recent IASB Board meetings, it is expected that these will only be partly addressed.

The CFO Forum continues to believe that addressing these issues will significantly improve the quality of IFRS 17. It would result in better and more understandable financial reporting and/or reduce the implementation complexity and cost.

Therefore, the CFO Forum will analyse the upcoming IASB Exposure Draft of amendments to IFRS 17 against the list of issues and solutions and comment on all areas where further improvements to IFRS 17 can be achieved.

IFRS 17 Next steps (2/2)

At the same time, members of the CFO Forum understand that the process is increasingly focussing on a compromise solution that would focus on a smaller subset of the current issues.

Therefore, the CFO Forum selected a subset of key issues that should be the focus of the discussions in finalising the Exposure Draft.

IFRS 17: Selection of key issues

The 11 issues presented by the CFO Forum are all of material importance to at least some members of the Forum. Different issues are a key priority to different members of the Forum, based on differences in geography, product and/or history. Therefore, issues cannot be prioritised based on importance. However, the CFO Forum agreed to select a subset of key issues on the following basis:

- these are issues that are not being addressed by the IASB based on latest discussions;
- these issues are of widespread relevance to the entire industry; and
- resolving these issues provides the most benefit in terms of implementation complexity and cost.

This results in 3 key issues for which solutions are included in this presentation: Level of aggregation, Transition and Presentation

Background on selected issue 1: Level of aggregation

1. **Level of aggregation**

   The CFO Forum proposed to remove the requirement to group contracts by annual cohorts. This change was proposed as the current prohibition to aggregate contracts issued more than one year apart results in groupings that are inconsistent with the way firms manage their business and introduces significant implementation efforts and undue costs.

   Considering the strong views at the IASB, we have now, in the interest of finding compromise solutions, limited the proposed amendments to:

   - business where conceptually annual cohorts are most inconsistent with how the business is managed, i.e. VFA business with mutualisation
   - the largest operational impact for other businesses, i.e. no annual cohorts at transition for in-force business (but no change for new business)

Background on selected issue 2: Transition

2. Transition

Both the full and modified retrospective transition approaches are expected to be only applicable in limited circumstance. The restrictive nature of the modified retrospective approach makes it not possible to apply in a number of areas and this is likely to lead to increased use of the fair value approach. The CFO Forum is proposing to extend the relief available to enable more wide spread capability to use the modified retrospective model.

For businesses in the General Model, an accounting mismatch emerges (both at transition and going forward) as there is the ability to set cumulative OCI on liabilities on transition to nil, whereas under IFRS 9 cumulative OCI is carried forward on transition. The CFO Forum proposes to extend the 'matching' of cumulative OCI on assets and liabilities that already exists in IFRS 17 for VFA to the General Model.

Background on selected issue 2: Transition

Transition (continued)

Insurance contracts that were issued by the reporting entity are treated differently from insurance contracts that were acquired in a business combination. This introduces significant complexities for the in force business at transition to IFRS 17 if that is a mix of issued and acquired businesses. The CFO Forum proposes to remove the need to distinguish, at the transition to IFRS 17, contracts acquired in historical business combination from own issued contracts.

The CFO Forum also proposed in its earlier solutions to remove the prohibition to apply the “risk mitigation option” retrospectively. Although the IASB has tentatively decided not to resolve this issue in the upcoming ED, we understand that the IASB is open to reconsider this issue. Therefore, we have included it in the proposed solutions.

Background on selected issue 3: Presentational Matters

3. Presentation

The CFO Forum proposes changes in 2 areas. These are items which do not impact the consolidated results (neither shareholders' equity nor net result, neither at transition nor going forward) of insurance groups, but would:

- eliminate differences between solo statutory IFRS 17 results and the results included in the Group consolidation that are solely caused by different reporting frequencies (quarterly, semi-annual, annual), hence eliminating the need for dual accounting processes; and
- provide additional implementation time by not having to restate the comparative information for IFRS 17 in the first audited financial statements (similar to the existing relief in IFRS 9).

Appendix:

Detailed wording of proposed solutions

(The proposed edits to IFRS 17 are marked in red font)

Issue #1: Level of Aggregation

Issue 1a:
IFRS 17 para 22 is modified as follows:
An entity shall not include contracts issued more than one year apart in the same group except as either permitted in paragraph C5A or for contracts with direct participating features when when i) the cash flows of contracts belonging to one cohort are significantly affected by the cash flows of other cohorts according to paragraphs B67-B71; and ii) the contracts share the same pool of underlying items. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16-21.

Issue 1b:
IFRS 17 para C5A is added as follows:
C5 A Regardless of the transition approach applied, an entity is not required at the transition date to apply paragraphs 15-24, and may include in a group:

(i) contracts issued more than one year apart; and

(ii) contracts which would otherwise be divided by applying paragraph 16.

Issue #2: Transition

Issue 2a:

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

(a) assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition;

(b) amounts related to the contractual service margin or loss component for insurance contracts without direct participation features;

(c) amounts related to the contractual service margin or loss component for insurance contracts with direct participation features; and

(d) insurance finance income or expenses.

C8 To achieve the objective of the modified retrospective approach, an entity is permitted to make ~~use each~~ modifications, including but not limited to those set out in paragraphs C11~~9~~–C19, only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach. For the modified retrospective approach, the use of estimates, simplifications and approximations are permitted to the extent they are consistent with the objective of the modified retrospective approach.

C9 In applying the modified retrospective approach, an entity may apply paragraph C10 to determine:
~~To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date~~

(a) how to identify groups of insurance contracts, applying paragraphs 14–24;

(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.

Issue #2: Transition (continued)

C10 An entity may choose to determine the matters in paragraph C9 using:

(a) reasonable and supportable information for what the entity would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate; or

(b) reasonable and supportable information available at the transition date.

(c) Where the transition date determinations are being made under C9 (a) and (b), entities are permitted to determine the date of initial recognition as being the date when the contract became eligible for the group or measurement approach determined using the information available at the transition date.

C11 To the extent permitted by paragraph C8~~, for contracts without direct participation features,~~ an entity ~~shall~~ may 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–C16.

C17 To the extent permitted by paragraph C8, for contracts with direct participation features an entity ~~shall~~ may choose to make specific modifications (for example, by applying paragraphs C12-C16) or may 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 relating to service provided before that date. The entity shall estimate this amount taking into account distributions to the entity from the underlying items before that date and by comparing the remaining coverage units with the total coverage units of the group of contracts ~~for~~

(i) This adjustment can be determined as:

- amounts charged by the entity to the policyholders (including amounts deducted from the underlying items) before that date.
- amounts paid before that date that would not have varied based on the underlying items.
- the change in the risk adjustment for non-financial risk caused by the release from risk before that date. The entity shall estimate this amount by reference to the release of risk for similar insurance contracts that the entity issues at the transition date

Issue #2: Transition (continued)

(ii~~d~~) if (a), (b) and (c)(i)~~(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

(iii~~e~~) if (a), (b) and (c)(i)~~(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.

Issue 2b:
IFRS 17.C18 “For groups of insurance contracts that, applying paragraph C10, include contracts issued more than one year apart:
….
(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity is permitted to determine that cumulative difference either by applying paragraph C19(b) or:

Issue #2: Transition (continued)

(i) as nil, unless (ii) applies; and
(ii) ~~for insurance contracts with direct participation features to which paragraph B134 applies,~~ as equal to the proportionate share of the cumulative amount recognised in other comprehensive income on the assets which the entity has allocated to back the related contract liabilities.
…
IFRS 17.C19 "For groups of insurance contracts that do not include contracts issued more than one year apart:

(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income, applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative difference:

> (i) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B131—if the entity applies paragraph C13 to estimate the discount rates at initial recognition—using the discount rates that applied at the date of initial recognition, also applying paragraph C13;
> (Ii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B132—on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, i.e. as nil unless paragraph C19(b)(iv) applies;
> (iii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B133—if the entity applies paragraph C13 to estimate the discount rates at initial recognition (or subsequently)—using the discount rates that applied at the date of the incurred claim, also applying paragraph C13; and
> ((iv) ~~for insurance contracts with direct participation features to which paragraph B134 applies,~~—as equal to the proportionate share of the cumulative amount recognised in other comprehensive income on the ~~underlying items~~ assets which the entity has allocated to back the related contract liabilities. "

Issue #2: Transition (continued)

C24 In applying the fair value approach …
(c) ~~for insurance contracts with direct participation features to which paragraph B134 applies,~~ — as equal to the proportionate share of the cumulative amount recognised in other comprehensive income from the assets which the entity has allocated to back the related contract liabilities.

Issue 2c:
IFRS 17.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, 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. When an entity acquires insurance contracts issued or reinsurance contracts held in a business combination that was completed before the initial application of this Standard, the entity is allowed to identify the groups of contracts acquired on the basis of the contractual terms and other factors at the inception of the contract.

Along with the consequential amendment to IFRS 3 to align with the proposed change to IFRS 17.B93:

Appendix D Amendments to other standards: IFRS 3.17
This IFRS provides two exceptions to the principle in paragraph 15:

(a)…
(b) classification of ~~a~~ insurance contracts ~~as an insurance contract~~ and the determination of the insured event in accordance with IFRS 17 Insurance Contracts.

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract […].

Issue #2: Transition (continued)

Issue 2d:
IFRS 17 para C3
C3 An entity shall apply IFRS 17 retrospectively unless impracticable, except that:
(a) an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
(b) an entity shall not apply the option~~s~~ in paragraph B115 for periods before the date of initial application of IFRS 17 unless it can do so without the use of hindsight, for example where documentation exists that describes the hedging strategy and the hedge objective targets prior to the date of initial application of IFRS 17 and where the entity can compute the cumulative risk mitigation impact in the contractual service margin using reasonable methods that will result in reliable and relevant financial results.

Issue #3: Presentational Matters

Issue 3a:

B137 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~~ is not required to 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.

Issue 3b:

C3 An entity shall apply IFRS 17 retrospectively unless impracticable, except that:

(a) an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;~~ and~~

(b) an entity shall not apply the option in paragraph B115 for periods before the date of initial application of IFRS 17; and

(c) in an entity's first financial statements after initial adoption of IFRS 17, an entity is not required to restate prior periods to reflect the application of this Standard. The entity may restate prior periods if, and only if, the restated financial statements reflect all the requirements in this Standard. 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 this Standard 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 this Standard.