



Summary of IASB October 2018 Board papers

22 October 2018

Introduction

- The IASB's October meeting is intended to be an educational session for the Board only. Topics for discussion include:
 1. A summary of the September TRG meeting and TRG submissions log
 2. Criteria for evaluating possible amendments to IFRS 17
 3. Concerns and implementation challenges noted by various stakeholders

- The paper on concerns and implementation challenges includes the IASB staff's views on whether or not it may be appropriate to amend IFRS 17 to resolve these concerns
- The paper discusses most of the CFO Forum's issues with the standard, but not all
- The paper also includes additional issues raised by other stakeholders that are not included in the CFO Forum's issues
- A summary of the concerns and the IASB staff analysis is provided in the following slides

- **The Board is not expected to make any decisions at October's meeting**
- **NOTE: This Staff paper was issued prior to the CFO Forum's proposed solutions being issued to the IASB**

Summary (1)

IASB Topic	Covers CFOF issue?	Staff recommend potential change to the standard?
Acquisition Cash Flows	Yes: Amortisation of acquisition cash flows for renewals	√
CSM Amortisation	Yes: broader definition of coverage units for CSM amortisation	√
Discount rates	Yes: CSM at current rate for FVPL model	X
Multi-component contracts	Yes: Loan type contracts No: Contracts whose nature changes significantly during contract lifetime	√ N/A
Scope of hedging adjustment	Yes	X
Reinsurance	Yes: Mismatch for onerous contracts Yes: Eligibility for VFA, contract boundaries No: Retroactive reinsurance	√ X N/A
Transition	Yes: Modified retrospective Yes: OCI at transition	√ X
Business combinations	Yes: Classification and Contracts acquired during settlement period	X
Level of aggregation	Yes: Annual cohorts	X

Summary (2)

IASB Topic	Covers CFOF issue?	Staff recommend potential change to the standard?
Presentation	Yes: Separate presentation of insurance contract assets and liabilities Yes: Premiums receivable Yes: Dual accounting (interim financial reporting) No: Non-distinct investment components	✓ X X N/A
Discount rates, risk adjustment	Additional IASB issue	X
Risk adjustment in a Group	Additional IASB issue	X
PAA – premiums received	Additional IASB issue	X
OCI optionality	Additional IASB issue	X
Effective date	Additional IASB issue: Date of initial application Additional IASB issue: Comparative information Additional IASB issue: Temporary exemption from IFRS 9	Neutral X X

CFO Forum issues addressed in IASB staff analysis

(1/6)

Topic	IASB covers CFOF issues (if not what is missing)	Summary of staff analysis
Acquisition Cash Flows	Yes	<p>Amending IFRS 17 to require or allow an entity to allocate insurance acquisition cash flows directly attributable to a contract not just to that contract, but also to expected renewals of that contract, while inconsistent with the measurement model in IFRS 17:</p> <ul style="list-style-type: none"> a) could still provide useful information for users of financial statements, without unacceptably reducing understandability; and b) might not unduly disrupt implementation processes that are already under way if entities were allowed, rather than required, to make an allocation. However, the staff note that introducing an option may impair comparability.
CSM Amortisation	Yes	<p>The staff are exploring further analysis which might indicate possible amendments to IFRS 17 that could be made without:</p> <ul style="list-style-type: none"> a) causing significant loss of useful; or b) unduly disrupting implementation processes that are already under way
Discount rates	Yes	<p>The staff note that requiring the use of current discount rates for the adjustment to the contractual service margin for changes in future cash flows, rather than locked-in discount rates, would not preserve the consistency between unearned profit on initial recognition of a policy and subsequent changes in that profit, and the amount recognised as revenue for the contract would be affected by an arbitrary amount arising from changes in interest rates.</p> <p>The staff also note that under the existing approach in IFRS 17 there are sufficient disclosure requirements around the changes in the contractual service margin and its expected recognition in profit and loss.</p> <p>The staff think that any amendment to the discount rate used to determine the adjustment to the contractual service margin could unduly disrupt implementation processes that are already under way.</p>

CFO Forum issues addressed in IASB staff analysis (2/6)

Topic	IASB covers CFOF issues (if not what is missing)	Summary of staff analysis
Multi-component contracts	<p>Yes:</p> <ul style="list-style-type: none"> • Loan type contracts <p>No:</p> <ul style="list-style-type: none"> • Contracts whose nature changes significantly during contract lifetime 	<p>The staff think that it might be possible to amend IFRS 17 to exclude from its scope some or part of insurance contracts that have as their primary purpose the provision of loans or other forms of credit in a way that would:</p> <ol style="list-style-type: none"> a) avoid significant loss of useful information; and b) The staff observe that an amendment to the scope of IFRS 17 that results in entities issuing those contracts accounting for them entirely applying IFRS 9 would also require consequential amendments to IFRS 9, IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation
Scope of hedging adjustment	Yes	<p>The staff think that an amendment to IFRS 17 to extend a deliberately narrow exception from the appropriate accounting for insurance contracts to additional circumstances would cause a significant loss of useful information by increasing complexity and by reducing comparability between entities. Such an amendment would also introduce inconsistencies with, and potentially override the requirements of, IFRS 9.</p> <p>The staff also think that an amendment to IFRS 17 to permit retrospective application of the risk mitigation option would cause significant loss of useful information by creating a further inconsistency with IFRS 9. In addition, it may enable entities to 'cherry pick' favourable outcomes for designation and retrospective application.</p>

CFO Forum issues addressed in IASB staff analysis (3/6)

Topic	IASB covers CFOF issues (if not what is missing)	Summary of staff analysis
Reinsurance	<p>Yes:</p> <ul style="list-style-type: none"> • Mismatches from onerous underlying contracts • Eligibility for variable fee approach • Reinsurance contract boundaries <p>No:</p> <ul style="list-style-type: none"> • Treatment of retroactive reinsurance 	<p><u>Initial recognition when underlying contracts are onerous</u> The staff think that it might be possible to amend IFRS 17 to extend to initial recognition a modification for onerous underlying groups of insurance contracts.</p> <p><u>Ineligibility for variable fee approach</u> The staff think that amending IFRS 17 to make reinsurance contracts held eligible for the variable fee approach would result in the approach being applied to contracts for which it was not developed and is not suited and would, therefore, reduce the usefulness of the information provided.</p> <p><u>Expected cash flows arising from underlying insurance contracts not yet issued</u> The staff think that amending the IFRS 17 contract boundary requirements would result in internal inconsistencies in IFRS 17 because it would require entities to ignore rights and obligations arising from the reinsurance contract. It would also introduce inconsistencies between rights and obligations recognised by the reinsurer and those recognised by the cedant. The staff also think that amending the IFRS 17 contract boundary requirements would add complexity to the contract boundary requirements.</p>

CFO Forum issues addressed in IASB staff analysis (4/6)

Topic	IASB covers CFOF issues (if not what is missing)	Summary of staff analysis
Transition	Yes	<p><u>Optionality</u> The staff think that amending IFRS 17 to require entities to use only one transition approach—such as the fair value approach that entities would be able to apply to all insurance contracts they issue—would not cause significant loss of useful information and would, instead, increase the comparability of financial information of entities applying IFRS 17.</p> <p>However, the staff think that such a change to IFRS 17 transition requirements would unduly disrupt implementation processes that are already under way and may increase implementation costs for entities.</p> <p><u>Modified retrospective approach</u> The staff think that it might be possible to amend the requirements in IFRS 17 for the modified retrospective approach by introducing additional modifications.</p> <p><u>OCI on related financial assets</u> The staff note that the lack of an option for an entity to set OCI to nil at transition for assets classified at fair value through OCI is not a concern arising from IFRS 17 requirements. The staff think that amending IFRS 9 to allow entities issuing insurance contracts to determine the amount recognised in OCI for financial assets that are measured at fair value through OCI as nil at transition would result in a significant loss of useful information for users of financial statements.</p>

CFO Forum issues addressed in IASB staff analysis (5/6)

Topic	IASB covers CFOF issues (if not what is missing)	Summary of staff analysis
Business combinations	Yes	<p><u>Classification of contracts</u> The staff think that an amendment to IFRS 3 to re-introduce an exception to the general classification requirements in IFRS 3 would cause significant loss of useful information relative to that which would be provided by IFRS 17, by increasing the complexity for users of financial statements and by reducing comparability with the requirements for other transactions.</p> <p><u>Contracts acquired during the settlement period</u> The staff think that amending IFRS 17 to address the concerns expressed by stakeholders would create inconsistencies in how insurance contracts and other contracts are treated in a business combination.</p>
Level of aggregation	Yes	The staff think that amending the level of aggregation requirements in IFRS 17—for example, by removing the prohibition to include in a group contracts that are issued more than one year apart or by adding optionality—would cause significant loss of useful information.

CFO Forum issues addressed in IASB staff analysis (6/6)

Topic	IASB covers CFOF issues (if not what is missing)	Summary of staff analysis
Presentation	<p>Yes:</p> <ul style="list-style-type: none"> • Separate presentation of insurance contract assets and liabilities • Premiums receivable • Dual accounting (interim financial reporting) <p>No:</p> <ul style="list-style-type: none"> • Non-distinct investment components 	<p><u>Separate presentation of insurance contract assets and liabilities</u> The staff think that it might be possible to amend IFRS 17 to enable entities to offset groups of insurance contracts that are in a liability position with groups of insurance contracts that are in an asset position in a way that would avoid significant loss of useful information. To limit the possible loss of useful information, the staff think that IFRS 17 could be amended to permit offsetting only at portfolio level, rather than at an entity level.</p> <p><u>Premiums receivable</u> The staff think that amending IFRS 17 to measure and present premiums receivable separately from insurance contracts would:</p> <ol style="list-style-type: none"> a) result in internal inconsistencies in IFRS 17—IFRS 17 model recognises that contracts, and by extension groups of contracts, create a single bundle of rights and obligations. Measuring premiums receivable separately from the corresponding obligations is inconsistent with this model; and b) reduce comparability between entities—the staff understand that systems currently used by entities recognise premiums receivable over different periods. Therefore, the staff think that such amendment to IFRS 17 would cause significant loss of useful information. <p><u>Dual accounting (interim financial reporting)</u> The staff think that extending the requirements to any type of reporting that is not defined elsewhere in IFRS Standards such as monthly management reports or internal reports provided by subsidiaries to a parent entity would add complexity for both preparers and users of financial statements. In addition, it would result in a significant loss of useful information because it would reduce comparability among entities</p>

Issued included in the IASB staff analysis but not raised by the CFO Forum (1/2)

Topic	Summary of the issue	Summary of staff analysis
Subjectivity in discount rates and risk adjustment	Some investors and analysts have expressed concerns that the principle-based nature of IFRS 17 could limit comparability between insurance entities	The staff think that amending IFRS 17 to prescribe the discount rates used to measure insurance contracts or to limit the number of risk adjustment techniques would conflict with the Board's desire to set principle-based IFRS Standards and might reduce the relevance and faithful representation of the financial statements of entities issuing insurance contracts.
Risk adjustment in a group of entities	Some stakeholders are concerned that, when determining the risk adjustment for non-financial risk for contracts issued by an entity in a group structure, the requirements in IFRS 17 could be read in different ways and, therefore, might result in diversity in practice	<p>The staff think that amending IFRS 17 to require or allow different measurement of the risk adjustment for non-financial risk for a group of insurance contracts at different reporting levels would add complexity for entities within a group.</p> <p>In contrast, the staff think that amending IFRS 17 to clarify that only the issuing entity that is party to the contract determines the compensation the entity would require for bearing non-financial risk would help entities to apply IFRS 17 in a consistent way and would increase comparability.</p> <p>However, the staff think that an amendment to IFRS 17 to provide such a clarification might unduly disrupt implementation processes that are already under way..</p>
PAA – premiums received	Stakeholders noted that the receipt of premiums during each reporting period affects the measurement of the liability for remaining coverage of a group of contracts. Accordingly, the requirements in IFRS 17 require entities to identify premiums received for a group of insurance contracts.	The staff think that the concerns expressed about the premiums received applying the premium allocation approach are related to the concerns about the level of aggregation requirements in IFRS 17 and that any possible change to the level of aggregation requirements for measurement purposes would cause significant loss of useful information

Issued included in the IASB staff analysis but not raised by the CFO Forum (2/2)

Topic	Summary of the issue	Summary of staff analysis
OCI option	<p>Many investors and analysts have expressed concerns that permitting, but not requiring, a presentation of the effect of some changes in financial assumptions in OCI could impair comparability between entities.</p>	<p>The staff think that amending IFRS 17 to require entities to present insurance finance income or expenses either entirely in profit or loss or partly in OCI would increase comparability between entities.</p> <p>However, the staff believe that such an amendment would unduly disrupt implementation processes that are already under way.</p>
<p>Effective date:</p> <ul style="list-style-type: none"> • Date of initial application • Comparative information • Temporary exemption from IFRS 9 	<p><u>Date of initial application</u> Some stakeholders expressed the view that there is insufficient time to implement IFRS 17 before its effective date</p> <p><u>Comparative information</u> Some stakeholders suggested that concerns expressed about the effective date could be addressed by permitting entities not to present adjusted comparative information.</p> <p><u>Temporary exemption from IFRS 9</u> If the Board were to defer the mandatory effective date of IFRS 17, preparers and users of financial statements will experience two sets of major accounting changes in a short period of time resulting in significant cost and effort for preparers and users</p>	<p><u>Date of initial application</u> The staff note that deferring the effective date of IFRS 17 would defer the benefits that it will introduce, but not change the benefits themselves. The staff observe that the extent of disruption to implementation depends on the period of any deferral. Some stakeholders expressed concerns that deferring the Standard further could increase costs, without a corresponding benefit.</p> <p><u>Comparative information</u> The staff think that amending IFRS 17 to permit entities not to present adjusted comparative information when first applying IFRS 17 would increase the complexity for users of financial statements and, therefore, would cause significant loss of useful information.</p> <p><u>Temporary exemption from IFRS 9</u> If the Board were to defer the effective date of IFRS 17 by one year and extend the temporary exemption from applying IFRS 9 at the same time, then some entities would be permitted not to apply IFRS 9 up to four years after other entities, i.e. potentially eight years after IFRS 9 was issued. A further delay might result in a loss of useful information.</p>