

## STAFF PAPER

April 2019

## IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Cover note		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Background for the papers to this meeting**

1. In May 2017, the International Accounting Standards Board (Board) issued IFRS 17 *Insurance Contracts* which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 replaces IFRS 4 *Insurance Contracts*, an interim Standard that allowed entities to use a wide variety of accounting practices for insurance contracts.
2. Throughout the development of IFRS 17, the Board was aware that applying IFRS 17 for the first time will result in significant costs for some entities, but overall considered that the benefits of IFRS 17 would outweigh the costs (for discussion of the costs and benefits of IFRS 17 refer to the *Effects Analysis on IFRS 17*).
3. The Board engaged with stakeholders extensively when developing IFRS 17. However, despite the Board's and stakeholders' best efforts to understand all likely challenges of implementing IFRS 17, the Board was aware that because IFRS 17 is such a major change for some entities, it was inevitable that some challenges would not emerge until entities began implementation. The Board might have responded to some of those challenges during the development of the Standard if it had been aware of them. Therefore, the Board indicated that it would consider whether additional action was needed to address matters identified as entities began their implementation efforts.

4. Consequently, after IFRS 17 was issued, the Board initiated a comprehensive programme of stakeholder engagement. One objective of this engagement was to understand the practical challenges of implementing IFRS 17 and identify possible ways the Board could ease the burden of transition to IFRS 17. In addition, the Board has established a Transition Resource Group for IFRS 17, which provides a public forum for stakeholders to follow the discussion of questions raised on implementation and inform the Board in order to help the Board determine what, if any, action will be needed to address those questions.
5. In October 2018, the Board considered the concerns and implementation challenges arising for stakeholders during their implementation processes, including those related to the balance of costs and benefits from applying IFRS 17. The Board noted that it would consider whether any amendments to IFRS 17 to address those concerns and implementation challenges might be justified. At the same time, the Board noted:
  - (a) that making amendments to a recently issued Standard carries a risk of disruption to implementation processes that are already underway; and
  - (b) that there is the need to ensure that any amendments do not unduly delay the effective date of the Standard.
6. Accordingly, the Board tentatively decided that any amendments to IFRS 17 should meet the following criteria:
  - (a) the amendments would not result in significant loss of useful information relative to that which would otherwise be provided by IFRS 17 for users of financial statements—any amendments would avoid:
    - (i) reducing the relevance and faithful representation of information in the financial statements of entities applying IFRS 17;
    - (ii) causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17; or
    - (iii) increasing complexity for users of financial statements, thus reducing understandability.
  - (b) the amendments would not unduly disrupt implementation already under way or risk undue delays in the effective date of IFRS 17, which is needed to

address many inadequacies in the existing wide range of insurance accounting practices.

7. Mindful of those criteria, between October 2018 and March 2019, the Board evaluated whether any of the concerns and implementation challenges identified justify amendments to the Standard that would meet these criteria. As part of that work, the staff and the Board have reviewed possible approaches developed by stakeholders in different forms and have held extensive dialogue with stakeholders to further understand those approaches and their implications in more detail. The feedback from this dialogue was reflected in the staff's development of the papers for the Board during that period.
8. The Board substantively completed its review of possible amendments to IFRS 17 at its March 2019 meeting. The staff note that entities, auditors and others have had 22 months since the issuance of IFRS 17 to identify implementation issues. As a result, although it is possible that further implementation issues could arise, the staff expect any substantive implementation issues to have been identified in that time period. Furthermore, any further changes to IFRS 17 could disrupt, rather than help, the implementation process. Accordingly, the staff think that after the amendments are finalised, the Board should avoid standard-setting for any further issues identified before it undertakes the post-implementation review of IFRS 17.

## Papers for this meeting

9. The papers for this meeting comprise:
- (a) Agenda Paper 2A *Overview of the amendments to IFRS 17*, which:
    - (i) considers the proposed amendments as a whole;
    - (ii) evaluates each of the proposed amendments against the criteria the Board set in October 2018; and
    - (iii) considers the likely effects of the proposed amendments to IFRS 17.
  - (b) Agenda Paper 2B *Due process steps and permission for balloting*, which:
    - (i) asks the Board to confirm its tentative decisions from the November 2018 meeting relating to the mandatory effective date of IFRS 17 and the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 *Financial Instruments*;
    - (ii) considers the due process steps undertaken by the Board in completing the narrow-scope project on the amendments to IFRS 17 and asks the Board to confirm that it wishes to proceed with an Exposure Draft to amend IFRS 17; and
    - (iii) asks if there are any planned dissents at this stage.
  - (c) Agenda Paper 2C *Sweep issues*, which discusses additional stakeholder concerns relating to IFRS 17 (and IFRS 9) which have arisen in the project on the amendments to IFRS 17. In Agenda Paper 2C, the staff recommend that the effective date of proposed amendments should be aligned with the effective date of IFRS 17, so that entities would be required to apply IFRS 17, and any proposed amendments, for annual periods beginning on or after 1 January 2022. Entities would be permitted to apply IFRS 17, together with any proposed amendments, for earlier periods.
  - (d) Agenda Paper 2D *Annual improvements* which includes recommendations for other minor changes that would fall within the scope of the annual improvements process but could also be addressed in the Exposure Draft of proposed amendments to IFRS 17.

## Next steps

10. If the Board gives the staff permission to begin the balloting process at this meeting, the staff plan to ask the Due Process Oversight Committee permission for a reduced comment period. The staff plan to ask the Board to set the comment period at its May 2019 meeting. At that meeting, the Board will also consider any additional sweep issues.
11. The staff expect that the Exposure Draft of proposed amendments to IFRS 17 will be published at the end of June 2019.

## STAFF PAPER

April 2019

IASB<sup>®</sup> meeting

<b>Project</b>	<b>Amendments to IFRS 17 <i>Insurance Contracts</i></b>		
<b>Paper topic</b>	Overview of the amendments to IFRS 17		
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**Purpose of this paper**

1. This paper:
  - (a) considers as a whole the amendments to IFRS 17 *Insurance Contracts* that the International Accounting Standards Board (Board) has tentatively decided to propose (paragraph 3 of this paper);
  - (b) evaluates the proposed amendments against the criteria the Board set in October 2018<sup>1</sup> (paragraphs 4–5 of this paper); and
  - (c) considers the likely effects of the proposed amendments to IFRS 17 (paragraphs 6–8 of this paper).
2. This paper is provided to assist the Board in assessing its response to Agenda Paper 2B *Due process steps and permission for balloting*, which asks the Board for permission to start the balloting process for an Exposure Draft of proposed amendments to IFRS 17.

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<sup>1</sup> Refer to Agenda Paper 2C *Criteria for evaluating possible amendments to IFRS 17* for the October 2018 Board meeting.

## Overview of proposed amendments to IFRS 17

3. The following table summarises the Board’s tentative decisions about possible amendments to IFRS 17.

Topic	Amendment tentatively decided by the Board
<p>1—Additional optional scope exclusion for loan contracts that transfer significant insurance risk and related transition requirements (February 2019, March 2019)</p>	<p>Amendment of the scope of IFRS 17 and IFRS 9 <i>Financial Instruments</i> for insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract to enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9.</p> <p>Amendment of the transition requirements in IFRS 9 for such contracts, if an entity:</p> <ul style="list-style-type: none"> <li>(a) elects to apply the requirements in IFRS 9 to a portfolio of such contracts; and</li> <li>(b) has applied IFRS 9 before it initially applies IFRS 17.</li> </ul>
<p>2—Additional scope exclusion for credit card contracts that provide insurance coverage (March 2019)</p>	<p>Amendment of the scope of IFRS 17 to exclude from the scope of the Standard credit card contracts that provide insurance coverage for which 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.</p>

Topic	Amendment tentatively decided by the Board
<p>3—Insurance acquisition cash flows relating to expected contract renewals and related disclosure requirements (January 2019, March 2019)</p>	<p>Amendment to require an entity to:</p> <ul style="list-style-type: none"> <li>(a) allocate insurance acquisition cash flows to related contract renewals;</li> <li>(b) recognise those cash flows as an asset until the entity recognises contract renewals; and</li> <li>(c) assess the recoverability of the asset each reporting period until the entity recognises the renewed contracts.</li> </ul> <p>Amendment of the disclosure requirements to require an entity to provide:</p> <ul style="list-style-type: none"> <li>(a) a reconciliation of the asset at the beginning and the end of the reporting period and its changes, specifically recognition of any impairment loss or reversals; and</li> <li>(b) quantitative disclosure, in appropriate time bands, of the expected timing of the inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts.</li> </ul>
<p>4—Contractual service margin allocation relating to investment components and related disclosure requirements (June 2018, January 2019, March 2019)</p>	<p>Amendment to:</p> <ul style="list-style-type: none"> <li>(a) clarify that the definition of the coverage period for insurance contracts with direct participation features includes periods in which an entity provides investment-related services; and</li> <li>(b) require an entity to allocate the contractual service margin for insurance contracts without direct participation features based on coverage units determined considering both insurance coverage and any investment-return service.</li> </ul> <p>Amendment of the disclosure requirements to require an entity to provide:</p> <ul style="list-style-type: none"> <li>(a) quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period; and</li> <li>(b) specific disclosure of the approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment-return services.</li> </ul>

Topic	Amendment tentatively decided by the Board
5—Extension of the risk mitigation option (January 2019)	Amendment to permit an entity to apply the risk mitigation option for insurance contracts with direct participation features when the entity uses reinsurance contracts held to mitigate financial risks.
6—Reinsurance contracts held when underlying contracts are onerous (January 2019)	Amendment to require an entity that recognises losses on onerous insurance contracts at initial recognition to also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts held: <ul style="list-style-type: none"> <li>(a) cover the losses of the underlying contracts on a proportionate basis; and</li> <li>(b) are entered into before or at the same time that the onerous underlying contracts are issued.</li> </ul>
7—Simplified presentation of insurance contracts in the statement of financial position (December 2018)	Amendment to require an entity to present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.
8—Deferral of the date of initial application of IFRS 17 by one year (November 2018)	Amendment of the mandatory effective date of IFRS 17, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.
9—Deferral of the expiry date for the temporary exemption from applying IFRS 9 by one year (November 2018)	Amendment of the fixed expiry date for the temporary exemption in IFRS 4 <i>Insurance Contracts</i> from applying IFRS 9, so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.

Topic	Amendment tentatively decided by the Board
10—Additional transition relief for business combinations (February 2019)	Amendment of the transition requirements to add a specified modification to the modified retrospective approach and a relief to the fair value transition approach for the classification of a liability that relates to the settlement of claims incurred before an insurance contract was acquired.
11—Additional transition relief for the date of application of the risk mitigation option (March 2019)	Amendment of the transition requirements in IFRS 17 to permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date, provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date.
12—Additional transition relief for the application of the risk mitigation option and the use of the fair value transition approach (March 2019)	Amendment of the transition requirements in IFRS 17 to permit an entity to use the fair value transition approach for a group of insurance contracts with direct participating features if, and only if, the entity: <ul style="list-style-type: none"> <li>(a) can apply IFRS 17 retrospectively to the group;</li> <li>(b) chooses to apply the risk mitigation option to the group prospectively from the transition date; and</li> <li>(c) has used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date.</li> </ul>
13—Annual improvements (June 2018, April 2019)	Minor amendments introduced to either clarify the wording in the Standard or to correct relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards.

## Evaluating proposed amendments against criteria for change

4. In October 2018, the Board tentatively decided that any amendments to IFRS 17 would need to meet the criteria that they would not:
  - (a) result in significant loss of useful information relative to that which would otherwise be provided by IFRS 17 for users of financial statements—ie any amendments would avoid:
    - (i) reducing the relevance and faithful representation of information in the financial statements of entities applying IFRS 17;
    - (ii) causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17; or
    - (iii) increasing complexity for users of financial statements, thus reducing understandability.
  - (b) unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.
5. The following table evaluates each of the proposed amendments against those criteria. Those criteria do not apply to the annual improvements.

Topic	(a) Avoid significant loss of useful information for users of financial statements	(b) Not unduly disrupt implementation processes already under way or not risk undue delays in the effective date of IFRS 17
<p>1—Additional optional scope exclusion for loan contracts that transfer significant insurance risk and related transition requirements (February 2019, March 2019)</p>	<p>The amendment is not expected to result in a significant loss of useful information for users of financial statements because an entity would be permitted to measure those contracts applying IFRS 9 (for example, at fair value through profit or loss) or IFRS 17. This is expected to provide useful information to users of financial statements in both cases, without unduly reducing comparability.</p>	<p>The amendment is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because it is optional, and many loan contracts that transfer significant insurance risk are issued by non-insurance entities that may be at a less advanced stage of IFRS 17 implementation or may not otherwise be applying IFRS 17.</p>
<p>2—Additional scope exclusion for credit card contracts that provide insurance coverage (March 2019)</p>	<p>The amendment is not expected to result in a significant loss of useful information for users of financial statements because entities would apply other relevant IFRS Standards to such credit card contracts. Those Standards would provide relevant information about the components of those contracts to users of financial statements.</p>	<p>The amendment is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because entities that issue such credit card contracts typically do not issue other contracts within the scope of IFRS 17 and may not otherwise be applying IFRS 17.</p>

Topic	(a) Avoid significant loss of useful information for users of financial statements	(b) Not unduly disrupt implementation processes already under way or not risk undue delays in the effective date of IFRS 17
<p>3—Insurance acquisition cash flows relating to expected contract renewals and related disclosure requirements (January 2019, March 2019)</p>	<p>The amendment is expected to reduce the number of insurance contracts that are determined to be onerous at initial recognition. However, some believe that the amendment could provide additional useful information for users of financial statements about expected contract renewals. The additional disclosure requirements are intended to ensure that the amendment does not result in a significant loss of useful information for users of financial statements.</p>	<p>The amendment is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because it is based on the existing requirements of IFRS 17.</p>

Topic	(a) Avoid significant loss of useful information for users of financial statements	(b) Not unduly disrupt implementation processes already under way or not risk undue delays in the effective date of IFRS 17
<p>4—Contractual service margin allocation relating to investment components and related disclosure requirements (June 2018, January 2019, March 2019)</p>	<p>Including investment-related services (for variable fee contracts) or investment-return services (for general model contracts) as well as insurance coverage in determining the amount of the contractual service margin to recognise in profit or loss makes the determination more subjective and complex. However, the amendment is expected to provide relevant information about the services the entity regards itself as providing to the policyholder.</p> <p>The accompanying amendment to the disclosure requirements is intended to enhance the usefulness of information for users of financial statements.</p>	<p>The amendment might disrupt implementation processes already under way. However, on balance, the potential disruption is expected to be justified given the stakeholder feedback about the usefulness of information given by the existing requirements in IFRS 17.</p>
<p>5—Extension of the risk mitigation option (January 2019)</p>	<p>Although the amendment to extend the risk mitigation option to cover the use of reinsurance would change the accounting for the underlying insurance contracts, the amendment is an expansion of the option that already exists in IFRS 17. Some suggest that the amendment would permit an entity to better reflect its risk management activities.</p>	<p>The expanded option is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because it is optional, and would only apply when reinsurance contracts held meet the existing conditions for the risk mitigation option in IFRS 17.</p>

Topic	(a) Avoid significant loss of useful information for users of financial statements	(b) Not unduly disrupt implementation processes already under way or not risk undue delays in the effective date of IFRS 17
6—Reinsurance contracts held when underlying contracts are onerous (January 2019)	Although the amendment would change the accounting for reinsurance contracts held, the amendment is not expected to result in a significant loss of useful information for users of financial statements because IFRS 17 already provides an exception to the general requirements for reinsurance contracts held to avoid some accounting mismatches.	The amendment might disrupt implementation for entities that have already begun to develop their systems. However, the disruption is expected to be justified given stakeholder feedback about the likely significant impact of the accounting mismatch which some stakeholders suggest reduces the usefulness of the information provided by IFRS 17.
7—Simplified presentation of insurance contracts in the statement of financial position (December 2018)	Although offsetting groups in the statement of financial position would result in a loss of useful information for users of financial statements, the presentation of insurance contracts at portfolio level is still expected to provide useful information to users of financial statements because it is expected to be representative of how the entities manage their portfolios.	The amendment is expected to provide significant cost relief for entities applying IFRS 17. It is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because the amendment does not affect the measurement of insurance contracts.

Topic	(a) Avoid significant loss of useful information for users of financial statements	(b) Not unduly disrupt implementation processes already under way or not risk undue delays in the effective date of IFRS 17
8—Deferral of the date of initial application of IFRS 17 by one year (November 2018)	The amendment will not result in loss of useful information for users of financial statements when IFRS 17 is applied. However, the significant improvements to the accounting requirements for insurance contracts introduced by IFRS 17 will be delayed by one year.	Although limiting a deferral to one year is expected to minimise disruption, the amendment may disrupt implementation processes for entities that are furthest advanced in the implementation of IFRS 17.  However, in the light of the amendments proposed, the proposed deferral of the date of initial application of IFRS 17 is expected to assist many entities in implementing IFRS 17.
9—Deferral of the expiry date for the temporary exemption from applying IFRS 9 by one year (November 2018)	The significant improvements to the accounting requirements for financial instruments introduced by IFRS 9 will be delayed by one year.	The amendment is not expected to unduly disrupt implementation processes already under way because many insurance entities are expected to apply IFRS 17 and IFRS 9 at the same time.

Topic	(a) Avoid significant loss of useful information for users of financial statements	(b) Not unduly disrupt implementation processes already under way or not risk undue delays in the effective date of IFRS 17
10—Additional transition relief for business combinations (February 2019)	<p>The amendment treats liabilities acquired inconsistently with the principles of business combination accounting by not reflecting the terms and conditions that exist at the acquisition date.</p> <p>Although this transition relief impairs comparability between contracts acquired in business combinations that occur before and after the date of transition, the loss of comparability could be regarded as acceptable when balanced against the significant relief for entities.</p>	<p>The amendment is not expected to unduly disrupt implementation processes already under way. The amendment is expected to provide additional transition relief and support implementation processes already underway.</p>
11—Additional transition relief for the date of application of the risk mitigation option (March 2019)	<p>A prospective application of the risk mitigation option from the transition date is expected to reduce accounting mismatches in the comparative periods presented and to achieve comparability over time. This is regarded as improving the usefulness of information for users of financial statements.</p>	<p>The amendment is not expected to unduly disrupt implementation processes already under way. This is because the risk mitigation option can be applied whenever the criteria are met and if an entity prefers the entity can still start to apply the risk mitigation option prospectively from the date of initial application rather than from the transition date.</p>

Topic	(a) Avoid significant loss of useful information for users of financial statements	(b) Not unduly disrupt implementation processes already under way or not risk undue delays in the effective date of IFRS 17
<p>12—Additional transition relief for the application of the risk mitigation option and the use of the fair value transition approach</p> <p>(March 2019)</p>	<p>While the fair value approach for transition provides useful information to users of financial statements by reducing accounting mismatches, introducing additional optionality may decrease comparability between entities on transition.</p>	<p>The amendment is not expected to unduly disrupt implementation processes already under way. This is because the amendment introduces an option, rather than a requirement, for entities to apply the fair value transition approach to a group of insurance contracts with direct participating features.</p>

## Effects of the proposed amendments

6. In developing the proposed amendments, the Board considered papers that allowed it to assess the likely effects of the amendments. The staff observe that the proposed amendments to IFRS 17 are, by design, narrow in scope and intended to ease implementation for entities issuing insurance contracts. Furthermore, as shown in the table in paragraph 5 of this paper, the staff believe that each amendment also meet the criteria described in paragraph 5 of this paper.
  
7. Paragraph 3.75 of the Due Process Handbook provides examples of the issues the Board considers in forming its judgement on the evaluation of the likely effects of proposed requirements, as follows:
  - (a) how the proposed changes are likely to affect how activities are reported in the financial statements of those applying IFRS Standards;
  - (b) how those changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period
  - (c) how the changes will improve users' ability to assess the future cash flows of an entity;
  - (d) how the improvements to financial reporting will result in better economic decision-making;
  - (e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and
  - (f) how the likely costs of analysis for users are affected, taking into account the costs incurred by users of financial statements when information is not available and the comparative advantage that preparers have in developing information, when compared with the costs that users would incur to develop surrogate information.
  
8. The following table considers the likely effects of the proposed amendments compared to the requirements in IFRS 17 as issued in May 2017.

Topic	Financial statements effects	Cost-benefit analysis
<p>1—Additional optional scope exclusion for loan contracts that transfer significant insurance risk and related transition requirements (February 2019, March 2019)</p>	<p>No change for the entities that would elect to apply IFRS 17 to such contracts.</p> <p>Entities that would elect to apply IFRS 9 to such contracts are expected to account for those contracts in the same way as other financial instruments, for example by measuring them at fair value through profit or loss.</p>	<p>The amendment is expected to enable an entity to apply either:</p> <ul style="list-style-type: none"> <li>(a) IFRS 17 to such contracts, permitting comparability with the other insurance contracts issued by the same entity; or</li> <li>(b) IFRS 9 to such contracts, permitting comparability with the financial instruments issued by the same entity.</li> </ul> <p>The amendment is expected to reduce IFRS 17 implementation costs for entities that do not typically issue other contracts within the scope of IFRS 17. Those entities would not need to implement IFRS 17 because they could apply IFRS 9 to such contracts.</p> <p>Measuring those contracts applying IFRS 9 or IFRS 17 is expected to provide useful information to users of financial statements in both cases, without reducing comparability or unduly increasing the costs of analysis for users of financial statements.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>2—Additional scope exclusion for credit card contracts that provide insurance coverage (March 2019)</p>	<p>Entities issuing credit card contracts that provide insurance coverage that would be excluded from the scope of IFRS 17 are expected to apply other relevant IFRS Standards to such contracts. In particular, if entities issue credit card contracts that provide insurance coverage required by regulation, no significant change in accounting is expected. Those entities are expected to continue to account for loan or loan commitments in credit card contracts applying IFRS 9 and any insurance obligation in those contracts applying IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> in a way similar to the way they apply IFRS 4 today.</p>	<p>Accounting for such contracts in the same way as credit card contracts that do not provide insurance coverage is expected to provide comparable information for the users of financial statements for the entities that issue credit card contracts.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>3—Insurance acquisition cash flows relating to expected contract renewals and related disclosure requirements (January 2019, March 2019)</p>	<p>The continuing recognition of insurance acquisition cash flows allocated to expected contract renewals as an asset, rather than as part of the measurement of the fulfilment cash flows of the initial contracts, is expected to reduce the number of insurance contracts that are determined to be onerous at initial recognition. It is also expected to increase the size and duration of the asset recognised for those cash flows.</p>	<p>Users of financial statements are expected to benefit from obtaining additional information about expected contract renewals and related disclosure—ie the reconciliation of the asset at the beginning and the end of the reporting period showing changes for any impairment loss or reversals and the quantitative disclosure of the expected timing of the inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts.</p> <p>The requirement to assess the recoverability of the asset, based on the fulfilment cash flows of the related contracts, on a group of insurance contracts basis, is expected to increase ongoing costs of IFRS 17 for entities that would need to perform such assessment each reporting period before the related contracts are recognised.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>4—Contractual service margin allocation relating to investment components and related disclosure requirements (June 2018, January 2019, March 2019)</p>	<p>The pattern of recognition of contractual service margin for different insurance contracts and between different entities can vary significantly.</p> <p>For example, applying IFRS 17 to contracts that provide insurance coverage that ends significantly before the investment-related services is expected to result in a front-end revenue and profit recognition. The amendment is expected to change the pattern of recognition of revenue and profit to align it with the provision of different services.</p>	<p>The amendment might disrupt implementation processes already under way and therefore increase implementation costs, particularly for entities that are at an advanced stage of IFRS 17 implementation.</p> <p>However, the amendment is expected to provide relevant information about the services the entity regards itself as providing to the policyholder.</p> <p>The disclosures required about the contractual service margin are expected to mitigate the costs of analysis for users of financial statements that might be created by any increase in subjectivity and reduction in comparability between entities.</p> <p>Requiring an entity to provide quantitative information about the expected recognition of the contractual service margin in profit or loss in the future periods is not expected to be burdensome for entities. This is because in deciding the amount of the services provided in the period, an entity needs to consider what coverage units are expected to be provided in the future and therefore already has the information that the entity would be required to disclose.</p> <p>On balance, the potential disruption is expected to be justified given the stakeholder feedback about the increased usefulness of information.</p>

<b>Topic</b>	<b>Financial statements effects</b>	<b>Cost-benefit analysis</b>
5—Extension of the risk mitigation option (January 2019)	Entities that use reinsurance contracts to mitigate financial risks are expected to use the risk mitigation option to recognise changes in underlying insurance contracts in profit or loss, rather than as adjustments to the contractual service margin, to offset the changes in the reinsurance contracts held.	<p>The extension of the risk mitigation option is expected to reduce accounting mismatches and therefore the complexity for users of financial statements in understanding the accounting.</p> <p>The extension of the option is not expected to unduly increase implementation costs for entities because it is optional.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>6—Reinsurance contracts held when underlying contracts are onerous (January 2019)</p>	<p>The accounting for the underlying insurance contracts issued is unaffected.</p> <p>The accounting for the reinsurance contracts held would change. An entity would recognise the recovery of a loss (ie the expected reinsurance claims) immediately and the cost of recovering that loss (ie the reinsurance premiums) as reinsurance services are received.</p>	<p>The amendment is expected to reduce the complexity:</p> <ul style="list-style-type: none"> <li>(a) in applying the requirements in IFRS 17. This is because it is expected to introduce consistency between the accounting treatment relating to the initial recognition of underlying onerous contracts and subsequent adverse changes in underlying onerous contracts.</li> <li>(b) for users of financial statements in understanding the accounting, by reducing accounting mismatches.</li> </ul> <p>The amendment might disrupt implementation processes for entities that have already started their implementation processes and might therefore increase implementation costs for those entities.</p> <p>The amendment is not expected to unduly increase ongoing costs of IFRS 17 for entities or costs of analysis for users of financial statements because it expands an existing exception in IFRS 17 to the general requirements for reinsurance contracts held.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>7—Simplified presentation of insurance contracts in the statement of financial position (December 2018)</p>	<p>Requiring entities to present insurance contracts at portfolio level rather than at group level is expected to reduce the size of insurance contracts assets presented in the statement of financial position.</p> <p>This is because it is expected that many groups of insurance contracts will switch between asset and liability positions, whereas most portfolios of insurance contracts are expected to consistently be in a liability position.</p>	<p>Although offsetting groups in the statement of financial position would result in a loss of useful information for users of financial statements, the loss of information could be regarded as acceptable when balanced against the significant cost relief for entities.</p> <p>Requiring entities to present insurance contracts at a higher level of aggregation than the group level is expected to significantly reduce IFRS 17 implementation costs and simplify implementation for many entities. This is because an entity would not need to identify cash flows to each individual group of contracts.</p> <p>Investor outreach indicates that the loss of useful information caused by this amendment would be acceptable. Impact on the costs of analysis for users is not expected to be significant.</p>
<p>8—Deferral of the date of initial application of IFRS 17 by one year (November 2018)</p>	<p>Not applicable.</p>	<p>The amendment would allow more time to entities and users of financial statements to prepare for IFRS 17 implementation.</p> <p>Although limiting a deferral to one year is expected to minimise disruption, the amendment is expected to increase implementation costs for entities that are furthest advanced in the implementation of IFRS 17.</p> <p>The amendment is expected to further delay the benefits introduced by IFRS 17.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>9—Deferral of the expiry date for the temporary exemption from applying IFRS 9 by one year (November 2018)</p>	<p>Not applicable.</p>	<p>In the light of the one-year deferral of the mandatory effective date of IFRS 17, the amendment is expected to reduce accounting mismatches for entities that are expected to apply IFRS 17 and IFRS 9 at the same date.</p> <p>The amendment is expected to further delay the benefits introduced by IFRS 9 for some entities, particularly relating to the information about expected credit losses. Those entities will first apply IFRS 9 up to eight years after the Standard was issued and up to four years after other entities first applied IFRS 9, resulting in costs of analysis for users of financial statements. To mitigate those costs, entities that continue to apply IAS 39 <i>Financial Instruments: Recognition and Measurement</i> would provide the additional disclosures required by IFRS 4 to enable users of financial statements to make comparisons with entities applying IFRS 9 for one additional year.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>10—Additional transition relief for business combinations (February 2019)</p>	<p>The amendment is expected to reduce revenue and expenses recognised by entities. This is because an entity would account for liabilities for claims settlement acquired in a business combination as a liability for incurred claims, rather than as a liability for remaining coverage. Liabilities for incurred claims do not give rise to revenue and expenses for the expected claims.</p>	<p>The amendment treats liabilities acquired inconsistently with the principles of business combination accounting by not reflecting the terms and conditions that exist at the acquisition date. This adds complexity for users of financial statements.</p> <p>Permitting an entity to account for liabilities for claims settlement acquired in a business combination as a liability for incurred claims is expected to reduce IFRS 17 implementation costs for entities that have acquired contracts before the transition date. This is because this amendment:</p> <ul style="list-style-type: none"> <li>(a) may allow more entities to use the modified retrospective approach, instead of the fair value approach; and</li> <li>(b) provides additional relief within the fair value approach.</li> </ul> <p>Although this transition relief impairs comparability between contracts acquired in business combinations that occur before and after the date of transition, the loss of comparability could be regarded as acceptable when balanced against the significant relief for entities.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>11—Additional transition relief for the date of application of the risk mitigation option (March 2019)</p>	<p>Entities that opt to use the risk mitigation option from the date of transition to IFRS 17—ie the beginning of the annual reporting period immediately before the date of initial application—will reflect the effects of risk mitigation on comparative information when first applying IFRS 17.</p>	<p>A prospective application of the risk mitigation option from the transition date is expected to reduce accounting mismatches in the comparative periods presented and to achieve comparability over time.</p> <p>The application of the risk mitigation option is optional. Therefore, the amendment is not expected to unduly increase implementation costs for entities.</p> <p>The disclosures required at transition are expected to mitigate the costs of analysis for users of financial statements introduced by the additional optionality.</p>
<p>12—Additional transition relief for the application of the risk mitigation option and the use of the fair value transition approach (March 2019)</p>	<p>At the transition date, the equity of an entity is expected to reflect previous changes in the fulfilment cash flows due to changes in financial assumptions and changes in the fair value of the derivatives, if the entity has used derivatives or reinsurance to mitigate financial risk before the date of transition, can apply IFRS 17 retrospectively and chooses to use the fair value approach to transition.</p>	<p>The information provided applying the fair value transition approach is expected to be useful to the users of financial statements by reducing accounting mismatches.</p> <p>The amendment introduces an option, rather than a requirement, for entities to apply the fair value transition approach to a group of insurance contracts with direct participating features. Therefore, the amendment is not expected to unduly increase implementation costs for entities.</p> <p>The disclosures required at transition are expected to mitigate the costs of analysis for users of financial statements introduced by the additional optionality.</p>

<b>Topic</b>	<b>Financial statements effects</b>	<b>Cost-benefit analysis</b>
13—Annual improvements (June 2018, April 2019)	Annual improvements are minor amendments which have been introduced to either clarify the wording in the Standard or to correct relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards. The likely effects of those amendments are not expected to be significant.	

## STAFF PAPER

April 2019

IASB<sup>®</sup> meeting

<b>Project</b>	<b>Amendments to IFRS 17 <i>Insurance Contracts</i></b>		
<b>Paper topic</b>	Due process steps and permission for balloting		
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## Introduction

1. This paper:
  - (a) asks the International Accounting Standards Board (Board) to confirm its tentative decisions from the November 2018 meeting relating to the mandatory effective date of IFRS 17 *Insurance Contracts* and the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments*.
  - (b) seeks the Board's permission for the staff to begin the balloting process for an Exposure Draft to amend IFRS 17; and
  - (c) asks if, at this stage, any Board member plans to dissent from the proposals in the Exposure Draft.

## Mandatory effective dates

2. At its November 2018 meeting, the Board noted plans to consider whether to explore amendments to IFRS 17 and set criteria for assessing any such potential amendments. In the light of those criteria, the Board tentatively decided that:
  - (a) the mandatory effective date of IFRS 17 should be deferred by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022; and

- (b) consequently, the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 should be amended so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.
3. In making these decisions, the Board noted that any uncertainty that might arise because it is considering amendments to IFRS 17, together with the significant and pervasive change that IFRS 17 will cause for many entities that issue insurance contracts, represent exceptional circumstances surrounding the implementation of IFRS 17. Nonetheless, the Board noted that its criteria that any amendment should not unduly disrupt implementation already under way, or risk undue delays in the effective of IFRS 17, would allow it to limit the deferral to one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022. At the same time, the Board concluded there would be benefit in extending the cost relief that it provided to some entities when it permitted a temporary exemption from applying IFRS 9, provided that the extension would be no more than one additional year. The Board noted that limiting a deferral to one year would also minimise disruption to entities that are furthest advanced in implementation.
4. The Board has now substantially concluded its deliberations of proposed amendments to IFRS 17. Agenda paper 2A *Overview of the amendments to IFRS 17* considers as a whole the Board's tentative decisions to propose amendments to IFRS 17, evaluates each of the proposed amendments against the criteria the Board set in October 2018 and considers the likely effects of the proposed amendments to IFRS 17.
5. In the staff view, the proposed amendments as a whole meet the criteria the Board set in October 2018, and therefore recommend that Board confirm its decisions in paragraph 2 of this paper.

**Question 1 for Board members**

1. Do you confirm the November 2018 tentative decisions that:
  - (a) the Board should defer the mandatory effective date of IFRS 17 by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022; and
  - (b) the Board should amend the fixed expiry date for the temporary exemption to IFRS 9 in IFRS 4 so that all entities must apply IFRS 9 for annual periods beginning on or after 1 January 2022?

**Permission to begin the balloting process and possible dissents**

6. Appendix A to this paper sets out a summary of the due process steps taken in developing the proposed amendments to IFRS 17. This appendix demonstrates that the required due process steps to date, and some of the optional steps, for the publication of the proposed amendments have been completed. The remaining due process steps will be completed before publication of the Exposure Draft. The staff note that the proposed amendments are narrow in scope and intend to ease implementation for entities implementing IFRS 17. Consequently, the staff believe that the due process steps undertaken are commensurate with the nature of the amendments, which are summarised in Agenda Paper 2A.
7. Therefore, the staff request permission to start the balloting process.
8. In accordance with paragraph 6.9 of the Due Process Handbook, the staff are asking whether any Board member intends to dissent from the proposed amendments to IFRS 17.

**Questions 2 and 3 for Board members**

2. **Permission to ballot:** is the Board satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the Exposure Draft?
3. **Dissents:** does any Board member intend to dissent from the publication of the Exposure Draft?

## Appendix A—Due process steps taken in the development of the Exposure Draft of amendments to IFRS 17

<i>Step</i>	<i>Actions</i>
<b>Board meetings held in public, with papers available for observers. All decisions are made in public session.</b>	The Board discussed proposed amendments to IFRS 17 between October 2018 and March 2019. Details are available on the website. Agenda Papers for meetings have all been posted in a timely fashion and there were no late posting of Agenda Papers to be reported to the Due Process Oversight Committee (DPOC).
<b>Consultation with the Trustees and the IFRS Advisory Council.</b>	The Trustees were informed about the proposed amendments to IFRS 17 as part of the regular reporting to them (October 2018 and January 2019).  The IFRS Advisory Council was informed about the proposed amendments to IFRS 17 at its meeting in March 2019.
<b>Consultative groups used, if formed.</b>	Although we have not established a consultative group, many of the implementation topics were discussed by the Transition Resource Group (TRG) for IFRS 17. The members of the TRG include financial statement preparers and auditors with both practical and direct knowledge of implementing IFRS 17. TRG members work in different countries and regions.  The Board sought the advice of the Accounting Standards Advisory Forum (ASAF) on most topics the Board was considering for possible amendments to IFRS 17 at the ASAF meeting in December 2018.
<b>Outreach meetings with a broad range of stakeholders, with special effort to consult investors.</b>	Since IFRS 17 was issued, the Board has undertaken a comprehensive programme of stakeholder engagement to help it understand the practical challenges of implementing IFRS 17 and identify possible ways the Board could ease the burden of transition. In addition, the Board established the TRG for IFRS 17.  The staff have performed targeted outreach with users of financial statements on the proposal to amend the presentation requirements in the Standard.
<b>Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects.</b>	Staff and Board members have published podcasts after each Board meeting on the website to provide a high-level update on the discussion at each Board meeting.

<b>Step</b>	<b>Actions</b>
<b>Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.</b>	Agenda paper 2A considers the effects of the proposed amendments. The staff have assessed the likely effects of the proposed amendments as reducing the costs of implementing IFRS 17 without an unacceptable loss of the usefulness of information that entities will provide. A description of the expected effects will be included in the Basis for Conclusions on the Exposure Draft.
<b>Due process steps reviewed by the IASB.</b>	This paper asks the Board to review the due process steps and whether the Board is satisfied that it has complied with the applicable due process steps.
<b>The ED has an appropriate comment period.</b>	The staff plan to seek approval from the DPOC for a shortened comment period. The Board is expected to decide the comment period at its meeting in May 2019.
<b>Drafting</b>	
<b>Drafting quality assurance steps are adequate.</b>	The translations, taxonomy and editorial teams will review drafts during the balloting process.
<b>Publication</b>	
<b>ED published.</b>	The Exposure Draft will be made available on the IFRS Foundation website when published.
<b>Press release to announce publication of ED.</b>	A press release and other communications materials will be published with the Exposure Draft.
<b>Snapshot document to explain the rationale and basic concepts included in the ED.</b>	

## STAFF PAPER

April 2019

## IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Sweep issues		
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**Purpose**

1. This paper discusses additional stakeholder concerns relating to IFRS 17 *Insurance Contracts* which have arisen in the project on the amendments to IFRS 17, as follows:
  - (a) effective date of proposed amendments to IFRS 17 (paragraphs 4–7 of this paper);
  - (b) applying the option to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (OCI) in the general model and using derivatives to mitigate financial risks (paragraphs 8–15 of this paper);
  - (c) applying the option to disaggregate insurance finance income or expenses between profit or loss and OCI in the variable fee approach and applying the risk mitigation option (paragraphs 16–20 of this paper); and
  - (d) reconciliations related to the liability for remaining coverage and the liability for incurred claims when cash flows are net settled (paragraphs 21–26 of this paper).

2. This paper also discusses a stakeholder concern relating to IFRS 9 *Financial Instruments* which relates to the restatement of comparative information when an entity initially applies IFRS 17 and IFRS 9 at the same time (paragraphs 27–35 of this paper).

### **Summary of staff recommendations**

3. The staff recommend the International Accounting Standards Board (Board):
  - (a) propose that the effective date of proposed amendments should be aligned with the effective date of IFRS 17, so that entities would be required to apply IFRS 17, and any proposed amendments, for annual periods beginning on or after 1 January 2022, and be permitted to apply IFRS 17 together with any proposed amendments, for earlier periods; and
  - (b) retain the requirements in IFRS 17 (and IFRS 9) relating to the other issues in this paper.

### **Staff analysis**

#### ***1—Effective date of proposed amendments to IFRS 17***

##### *Issue*

4. The Board needs to propose an effective date for the proposed amendments.

##### *Staff analysis and recommendation*

5. The Board developed the proposed amendments, and set the timeline for finalising those amendments, to ease implementation process of IFRS 17. Therefore, the staff think that the effective date of the proposed amendments should align with the effective date of IFRS 17.

6. The staff considered whether the Board should permit entities to apply IFRS 17 (earlier than its mandatory effective date) without applying the proposed amendments, once they are finalised, given that IFRS 17 can be applied without the proposed amendments today. The staff think that allowing entities to implement the existing IFRS 17 requirements and then the amended requirements subsequently may impair comparability, add complexity for users of financial statements and would not be consistent with the Board's intention that the proposed amendments should ease implementation processes where possible. Therefore, the staff think that once the proposed amendments are finalised, entities should be permitted to early apply the amended Standard only.
7. Therefore, the staff recommend that the effective date of proposed amendments should be aligned with the effective date of IFRS 17, so that entities would be required to apply IFRS 17, and any proposed amendments, for annual periods beginning on or after 1 January 2022, and be permitted to apply IFRS 17 together with any proposed amendments, for earlier periods.

***2—Applying the option to disaggregate insurance finance income or expenses between profit or loss and OCI in the general model and using derivatives to mitigate financial risks (paragraph 88(b) of IFRS 17)***

*Issue*

8. Some stakeholders are concerned with accounting mismatches that could arise between:
  - (a) the effect of financial risks in the measurement of insurance contracts applying the general model; and
  - (b) derivatives an entity uses to mitigate those risks, which are measured at fair value through profit or loss (FVPL) applying IFRS 9.
9. Such accounting mismatches might occur when, applying paragraph 88(b) of IFRS 17, an entity chooses to disaggregate insurance finance income or expenses

between profit or loss and OCI (OCI option), while recognising all changes in the fair value of the derivatives in profit or loss.

10. Those stakeholders suggest the Board should amend the requirements of IFRS 17 to introduce a risk mitigation option for insurance contracts accounted for applying the general model. This option would permit an entity to recognise some or all of the effect of financial risks in profit or loss, instead of in OCI, in order to reduce accounting mismatches.

*Staff analysis and recommendation*

11. IFRS 17 allows an accounting policy choice between including all insurance finance income or expenses in profit or loss and applying the OCI option on a portfolio basis.
12. This issue only arises when an entity has *chosen* to apply this option to a portfolio. While this choice has to be made at a portfolio level an entity can minimise the accounting mismatches described by stakeholders by choosing to include all of the effect of changes in financial risks in profit or loss, where the entity will also recognise changes in the fair value of the derivatives.
13. In developing IFRS 17, the Board considered requests from stakeholders to create a hedge accounting solution for insurance contracts without direct participation features. However, the Board concluded that it would not be appropriate to develop a bespoke solution for all hedging activities for insurance contracts. The Board developed the risk mitigation option in the variable fee approach only to address a potential new mismatch created by variable fee approach itself.
14. Finally, the staff observe that IFRS 9 includes general hedge accounting requirements and IAS 39 *Financial Instruments: Recognition and Measurement* includes a macro hedge model that may enable entities to address some accounting mismatches.
15. Given the options available to entities and because the Board already considered this matter when developing IFRS 17, the staff recommend not developing a risk mitigation option for insurance contracts accounted for applying the general model for which an entity chooses to apply the OCI option.

**3—Applying the option to disaggregate insurance finance income or expenses between profit or loss and OCI in the variable fee approach and applying the risk mitigation option (paragraphs 45(c)(ii), 88(b), 89(b) of IFRS 17)**

*Issue*

16. Some stakeholders raised similar concerns to those included in issue 2 above, noting that if an entity chooses to apply the risk mitigation option and the OCI option it will experience the same accounting mismatches because:
- (a) the application of both the risk mitigation option and the OCI option would result in the effect of some changes in financial risks being recognised in OCI, consistent with the OCI on the underlying items; and
  - (b) derivatives an entity uses to manage those risks are measured at FVPL applying IFRS 9.
17. This could be the case for example when an entity uses derivatives to mitigate the risk arising from a minimum return on investment guaranteed to the policyholder. Applying the risk mitigation option in the variable fee approach, changes in the fulfilment cash flows related to value of the guarantee would not adjust the contractual service margin. Applying the OCI option would result in those changes to be recognised in OCI, while the changes in the value of the derivatives are recognised in profit or loss.

*Staff analysis and recommendation*

18. The analysis provided with respect to issue 2 above applies to issue 3 as well. This is because applying the risk mitigation option results in an outcome similar to applying the general model for the risk that the entity mitigates by using derivatives.
19. In addition, applying the variable fee approach when holding the underlying items, entities can consider whether they:
- (a) apply the risk mitigation option to reduce the accounting mismatches between the derivatives and the insurance contracts; or
  - (b) apply the OCI option and therefore recognise in profit or loss an amount of insurance finance income or expenses equal and opposite the income or

expenses included in profit or loss on the underlying items held (hence the net income or expenses on insurance contracts and underlying items equals nil).

20. Thus, entities have available options to avoid accounting mismatches, depending on which information they regard as most important. Therefore, the staff recommend the Board not undertake any further action in this regard.

**4—Reconciliations related to the liability for remaining coverage and the liability for incurred claims when cash flows are net settled (paragraph 100 of IFRS 17)**

*Issue*

21. Some stakeholders noted that specific settlement agreements between reinsurers (the issuers of reinsurance contracts) and insurers (the holders of reinsurance contracts) often include extensive netting arrangements under which all incoming and outgoing payments between the parties are settled net. Similarly, in some relationships between insurers and brokers/managing agents, the broker/agent performs the contractual cash handling and the premiums and claims are settled net with the insurer for all contracts managed by that broker/agent (this could be various types of contracts).
22. Those stakeholders observe that for these types of arrangements specific payments such as premiums and claims cannot be assigned to contracts, and hence to groups of contracts, because cash systems are not linked to accounting systems and therefore providing disclosures that distinguish between the liability for incurred claims and the liability for remaining coverage, such as required by paragraph 100 of IFRS 17, will require extensive allocations of cash flows. Those stakeholders suggest that the Board should amend the requirements of IFRS 17 to exclude amounts payable and receivable from the scope of IFRS 17 and include them in the scope of IFRS 9.

*Staff analysis and recommendation*

23. The Board tentatively decided to amend the requirements of IFRS 17 with respect to the presentation of carrying amounts in the statement of financial position, so that they will relate to portfolios of insurance contracts rather than groups of insurance contracts.

24. At its December 2018 meeting, the Board rejected an amendment that would require measuring premiums receivable and claims payable separately from insurance contracts, because it would result in internal inconsistencies in IFRS 17. The principle of IFRS 17 recognises that a contract, and by extension a group of contracts, creates a single bundle of rights and obligations and reflects the Board's view that accounting for the transaction as a whole provides useful information. Measuring premiums receivable and claims payable separately and differently from the corresponding obligations and rights is inconsistent with this principle. The staff think these views are still valid.
25. The staff observe that information about claims development, as required by paragraph 130 of IFRS 17, and about changes in the liability for incurred claims over the reporting period (separately from the liability for remaining coverage), as required by paragraph 100 of IFRS 17, provide useful information to users of financial statements regardless of whether the claims are settled directly by the entity, by others on its behalf, or net of premiums due.
26. Based on the analysis in paragraphs 23–25 of this paper, the staff recommend the Board not undertake any further action in this regard.

**5—Restatement of comparative information when an entity initially applies IFRS 17 and IFRS 9 at the same time (paragraph C3 of IFRS 17 and paragraph 7.2.1 of IFRS 9)**

*Background—requirements in IFRS 17*

27. Paragraph C3 of IFRS 17 requires an entity to apply IFRS 17 retrospectively unless impracticable, subject to some exceptions described in paragraphs C3(a) and C3(b) of IFRS 17.
28. IFRS 17 also requires an entity to present adjusted comparative information, applying the requirements of IFRS 17, for the period immediately before the date of initial application of IFRS 17. An entity may also present adjusted comparative information applying IFRS 17 for any earlier periods presented but is not required to do so.

*Background—requirements in IFRS 9*

29. Paragraph 7.2.1 of IFRS 9 requires an entity to apply IFRS 9 retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to some exceptions listed in that paragraph. Paragraph 7.2.1 of IFRS 9 prohibits an entity from applying IFRS 9 to items that have already been derecognised at the date of initial application of IFRS 9.
30. Paragraph 7.2.15 of IFRS 9 permits, but does not require, an entity to restate prior periods. An entity may restate prior periods if, and only if, it is possible without the use of hindsight.

*Issue*

31. A stakeholder says that an entity that initially applies IFRS 17 and IFRS 9 at the same time may wish to restate prior periods to reflect the requirements in IFRS 9. However, in this stakeholder's view, the requirement in paragraph 7.2.1 of IFRS 9 that prohibits entities from applying IFRS 9 to items that have already been derecognised may deter the entity from restating prior periods. According to the stakeholder, that is because this requirement would be burdensome to apply. In addition, the stakeholder believes there is no reason for not applying IFRS 9 to items that have already been derecognised. Accordingly, the stakeholder recommends the Board amend paragraph 7.2.1 of IFRS 9 to permit entities to apply IFRS 9 to items that have already been derecognised at the date of initial application of IFRS 9.

*Staff analysis and recommendation*

32. The staff note that the transition requirements in IFRS 9 and IFRS 17, including the requirements related to restating comparative periods, were subject to extensive deliberation and consultation by the Board. With regards to restating comparative information, the Board acknowledged that the requirements in IFRS 9 and IFRS 17 are different. Paragraph BC389 of the Basis for Conclusions on IFRS 17 specifically explains that those differences are the result of different circumstances that applied when the Board developed the respective transition requirements in IFRS 9 and IFRS 17. The staff think the stakeholder has not provided any new information

beyond that considered by the Board when it deliberated the transition requirements for IFRS 9 and IFRS 17.

33. The staff also note that most entities have already applied the transition requirements, including the requirement related to derecognised items, during their initial application of IFRS 9. Although IFRS 9 does not require restatement of prior periods, the requirement related to derecognised items was applicable to entities who chose to do so.
34. The staff observe that proposing any changes to IFRS 9, particularly with respect to the transition requirements, may risk unintended consequences. Given that insurers can mitigate some of these concerns by applying IFRS 9 for the first time before they apply IFRS 17 for the first time, the staff think that a change to the requirements of IFRS 9 is not required.
35. Accordingly, the staff recommend the Board not undertake any further action in this regard.

**Question for Board members**

Do you agree that with the staff recommendations for resolving the issues identified in this paper?

## STAFF PAPER

April 2019

IASB<sup>®</sup> meeting

<b>Project</b>	<b>Amendments to IFRS 17 <i>Insurance Contracts</i></b>		
<b>Paper topic</b>	Annual improvements		
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## Introduction

1. Since IFRS 17 *Insurance Contracts* was published in May 2017, the staff have engaged in activities to support implementation of the Standard. As a result of those activities, the staff have become aware of instances where the drafting of IFRS 17 may not achieve what the International Accounting Standards Board (Board) intended.
2. In June 2018, the Board tentatively decided to propose minor changes to IFRS 17 for some such instances. At the time, the staff planned to make the changes as part of the Board's next *Annual Improvements to IFRS Standards Cycle*. However, because the Board has now also tentatively decided to issue an Exposure Draft proposing other changes to IFRS 17, the staff plan to include the minor changes in that Exposure Draft.
3. Since June 2018, through the ongoing implementation activities on IFRS 17, the staff have become aware of a number of other minor changes that would fall within the scope of the annual improvements process but could also be addressed in the Exposure Draft of proposed amendments to IFRS 17. These minor changes are the subject of this paper.

4. Appendices to this paper set out:
  - (a) Appendix A—Drafting for the amendments recommended in this paper; and
  - (b) Appendix B—Drafting for the amendments the Board tentatively decided in June 2018.

### Staff recommendations

5. The staff recommend the Board propose the minor amendments to IFRS 17 set out in paragraphs 8–15 of this paper.
6. Draft wording for the amendments is set out in Appendix A to this paper.

### Staff analysis

7. The changes to IFRS 17 discussed in this paper are limited to changes that either clarify the wording in a Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards.
8. **Amendment to paragraph B96(c) of IFRS 17 to exclude changes relating to the time value of money and financial risk from the adjustment to the contractual service margin.** Paragraph B96(c) of IFRS 17 sets out requirements for the treatment of changes in an investment component in the general model. It does not require changes relating to the time value of money and financial risk to be recognised in profit or loss (or other comprehensive income), even though doing so is a clear principle of the general model. The recommended amendment corrects that inadvertent omission.
9. **Amendment to address disaggregation of changes in the risk adjustment for non-financial risk.** IFRS 17 allows, but does not require, an entity to disaggregate changes in the risk adjustment for non-financial risk into those caused by the time value of money and financial risk and those caused by changes in non-financial risk. Paragraph B96(d) of IFRS 17 does not address the treatment of changes caused by the time value of money and financial risk if they are disaggregated. The recommended amendment corrects that inadvertent omission.

10. **Amendment to clarify that an entity can discontinue the use of the risk mitigation option to a group of insurance contracts only if the eligibility criteria for the group cease to apply.** The staff think it is clear from Board’s discussion of the need for a risk mitigation option in IFRS 17<sup>1</sup> that the application of the risk mitigation option was intended to be aligned with the hedge accounting requirements in IFRS 9 *Financial Instruments*. IFRS 9 does not allow an entity to discontinue hedge accounting unless the hedging relationship ceases to meet the qualifying criteria. The recommended amendment clarifies the Board’s intention.
11. **Amendment to clarify the definition of an investment component.** IFRS 17 defines an investment component as the amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur. Paragraph BC34 of the Basis for Conclusions on IFRS 17 explains that an investment component is an amount that is paid to the policyholder *in all circumstances*. That explanation is not entirely captured by the wording of the definition. For example, a contract may require the entity to pay an amount to the policyholder if the policyholder surrenders a contract during the coverage period. However, no amount is payable to the policyholder if the contract continues to the end of the coverage period without a claim being made. If the policyholder surrenders the contract, a payment is made even if an insured event does not occur. It was not the Board’s intention that such a contract should be regarded as including an investment component. The recommended amendment clarifies the definition to achieve the Board’s intention.
12. **Amendment to ensure IFRS 17 applies to investment contracts with discretionary participation features.** Paragraph 11(b) of IFRS 17 requires an entity to separate from a host insurance contract an investment component in specified circumstances and account for the separated investment component applying IFRS 9. However, if the separated investment component would meet the definition of an investment contract with discretionary participation features, that component should be accounted for applying IFRS 17, as are other

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<sup>1</sup> Agenda Paper 2E *Accounting consequences of mitigating risks related to insurance contracts* of the September 2015 Board meeting.

investment contract with discretionary participation features.<sup>2</sup> The recommended amendment achieves that accounting.

13. **Amendments to adjust the loss component for changes in the risk adjustment for non-financial risk.** Paragraphs 47–51 of IFRS 17 require the identification of a loss component that depicts the extent to which a group of insurance contracts is onerous. The determination of the loss component includes the effect of the risk adjustment for non-financial risk. However, paragraphs 48(a) and 50(b) of IFRS 17 refer to changes in estimates of future cash flows relating to future service, thereby excluding the risk adjustment for non-financial risk from the determination. The recommended amendments correct this inadvertent error.
  
14. **Amendment to clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items should, for the purposes of IFRS 17, be treated as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk.** Changes in value of the underlying items affect the measurement of:
  - (a) insurance contracts with direct participation features—the fulfilment cash flows include changes in the policyholders’ share of the fair value of the underlying items and the contractual service margin includes changes in the entity’s share of the fair value of the underlying items; and
  - (b) insurance contracts without direct participation features—the fulfilment cash flows include payments that vary depending on returns on underlying items.<sup>3</sup>
  
15. Often the effect of a change in underlying items will fall within the definition of insurance finance income or expenses set out in paragraph 87 of IFRS 17, being caused by the time value of money or the effect of financial risks. However, some changes in underlying items do not fall into that definition, for example if the underlying items include non-financial assets. The staff think that the Board intended that changes in the measurement of insurance contracts arising from

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<sup>2</sup> Provided the entity also issues insurance contracts (paragraph 3(c) of IFRS 17).

<sup>3</sup> Paragraphs B98–B100 of IFRS 17 set out how to distinguish between changes in fulfilment cash flows caused by changes in underlying items and changes in discretionary cash flows.

changes in underlying items should be treated as insurance finance income or expenses, because the underlying items are regarded as investments that determine the amount of some payments to policyholders. The recommended amendment clarifies the definition of insurance finance income or expenses to achieve the Board's intention.

16. **Follow up on an annual improvement tentatively agreed by the Board in June 2018.** In June 2018, the Board tentatively agreed to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group. Paragraph 28 of IFRS 17 sets out how to recognise a group when contracts in the group qualify for recognition over more than one reporting period. The paragraph refers to contracts issued by the end of the reporting period, when it should refer to contracts that meet the criteria for recognition set out in paragraph 25 of IFRS 17. The Board also tentatively agreed a consequential amendment to paragraph 24 of IFRS 17.
17. Since that tentative decision, the staff have received questions about whether paragraph 22 of IFRS 17 also needs a consequential amendment to change the reference from 'issued' to 'recognised'. Paragraph 22 of IFRS 17 sets out the requirement for annual cohorts and states:
- An entity shall not include contracts issued more than one year apart in the same group. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.
18. The staff do not think paragraph 22 of IFRS 17 should be amended to change 'issued' to 'recognised'. Usually, the date of issue of a contract and the date of recognition will not be far apart. But if an entity issues profitable contracts for coverage that does not start for several years and the premiums are not due until the coverage starts, the date of recognition will be several years after the date of issue. The Board intended annual cohorts to be determined based on the date of issue of the contract, not the date of recognition. As discussed in Agenda Paper 2A *Level of aggregation—Stakeholder concerns, implementation challenges and staff analysis* of the March 2019 Board meeting, the objective of having annual cohorts was to provide timely recognition of profits, losses and trends in profitability. The profitability of contracts is initially set when they are issued, and

hence determining annual cohorts based on the date of issue is necessary to provide useful information about trends in profitability.

19. The use of ‘issued’ in paragraph 22 of IFRS 17 has consequences for paragraph B73 of IFRS 17. Paragraph B73 of IFRS 17 provides practical relief on determining the discount rate at the date of initial recognition of a group.<sup>4</sup> It states:

To determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)–B72(e), an entity may use weighted-average discount rates *over the period that contracts in the group are issued*, which applying paragraph 22 cannot exceed one year.  
[Emphasis added]

20. The staff acknowledge that the relief available in paragraph B73 of IFRS 17 does not allow the weighted-average initial discount rate to include the effect of rates that apply when a contract is first included in a group more than a year after the initial recognition of the group (the contract belongs to the group because it was issued at the same time as other contracts that were recognised immediately when they were issued). This means that differences between changes in the fulfilment cash flows measured at a current rate and adjustments to the contractual service margin measured at the initial rate could be more common, and achieving a cumulative amount of zero in other comprehensive income over the life of the group will be more complex.
21. However, the staff observe that these effects are a consequence of the unit of account being the group of insurance contracts rather than the individual contract. An entity could choose to further divide the annual cohort and thereby avoid these effects.
22. The staff therefore do not propose any changes to paragraph 22 of IFRS 17.

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<sup>4</sup> The discount rates at the date of initial recognition determine:

- (a) the interest accretion on the contractual service margin;
- (b) adjustments to the contractual service margin;
- (c) adjustments to the liability for remaining coverage in the premium allocation approach, if there is a significant financing component; and
- (d) if the entity uses the other comprehensive income option, the amount recognised in profit or loss for some contracts.

**Question for Board members**

Do you agree with the staff recommendation to propose the above amendments in the forthcoming Exposure Draft of proposed amendments to IFRS 17?

## Appendix A—Drafting for the amendments recommended in this paper

### ***A—Amendment to paragraph B96(c) of IFRS 17 to exclude changes relating to the time value of money and financial risk from the adjustment to the contractual service margin***

B96(c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, except those described in B97(a) [5] measured at the discount rates specified in paragraph B72(c); and....

### ***B—Amendment to address disaggregation of changes in the risk adjustment for non-financial risk***

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:

.....

(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, and the effect of financial risk and changes in financial risk. 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 (being (i) the effect, if any, on estimated future cash flows and, if the effect is disaggregated,

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<sup>5</sup> Paragraph B97(a) of IFRS 17 is reproduced in the amendments in section B of this appendix.

the risk adjustment for non-financial risk and (ii) the effect of a change in discount rate);

***C—Amendment to clarify that an entity can discontinue the use of the risk mitigation option to a group of insurance contracts only if the eligibility criteria for the group cease to apply***

B118 If and only if, any of the conditions in paragraph B116 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.

***D—Amendment to clarify the definition of an investment component***

**Investment component** The amounts that an insurance contract requires the entity to repay to a policyholder ~~even if an insured event does not occur~~ in all circumstances.

***E—Amendment to ensure IFRS 17 applies to investment contracts with discretionary participation features***

11 An entity shall:

....

(b) separate from a host insurance contract an investment component if, and only if, that investment component is not an investment contract with discretionary participation features and is distinct (see paragraphs B31–B32).

The entity shall apply IFRS 9 to account for the separated investment component.

**F—Amendment to adjust the loss component for changes in the risk adjustment for non-financial risk**

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

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

- (a) .....

- (b) any subsequent decrease in fulfilment cash flows allocated to the group arising from changes relating to future service in estimates of future cash flows relating to future service and the risk adjustment for non-financial risk, and any subsequent increases in the entity's share 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.

**G—Amendment to clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items should, for the purposes of IFRS 17, be treated as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk**

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 underlying items are changes arising from the effect of the time value of money and financial risk and changes therein.

## Appendix B—Drafting for the amendments the Board tentatively decided in June 2018

### **A—To avoid any unintended consequences of using the term ‘issued’ in paragraph 27 of IFRS 17**

- 27 An entity shall recognise an asset or liability for any *insurance acquisition cash flows* relating to a group of ~~issued~~ insurance contracts issued or expected to be issued 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)).

### **B—To reflect the intended timing of recognition of contracts in paragraph 28 of IFRS 17**

- 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 shall not reassess the composition of the groups subsequently, except as set out in paragraph 28. 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.
- 28 In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts that meet the criteria set out in paragraph 25(a)-(c) applied to each contract 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 ~~issue~~ include more contracts in the group after the end of a reporting period, subject to paragraphs 14-22. An entity shall add the contracts to the group in the reporting period in which the contracts meet the criteria set out in paragraph 25(a)-(c) applied to each contract ~~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.

### **C—To remove potential double-counting of risk-adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses**

- 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) changes that relate to future service, applying paragraphs B96–B118, showing separately:
    - (i) changes in estimates that adjust the contractual service margin;
    - (ii) changes in estimates that do not adjust the contractual service margin, ie losses on groups of onerous contracts and reversals of such losses; and
    - (iii) the effects of contracts initially recognised in the period.
  - (b) changes that relate to current service, ie:
    - (i) the amount of the contractual service margin recognised in profit or loss to reflect the transfer of services;
    - (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 included in (ii).
- (c) changes that relate to past service, ie changes in fulfilment cash flows relating to incurred claims (see paragraphs B97(b) and B113(a)).
- 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 included in (ii) and any amounts allocated to the loss component of the liability for remaining coverage;
- (ii) the risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and
- (iii) the contractual service margin.
- (b) amounts related to insurance acquisition cash flows.
- 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:
- (i) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(a);
- (ii) repayments of investment components;
- (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 (see (b)).
- (b) the change in the risk adjustment for non-financial risk, excluding:
- (i) changes included in insurance finance income or expenses applying paragraph 87;
- (ii) changes that adjust the contractual service margin because they relate to future service applying paragraphs 44(c) and 45(c); and
- (iii) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(b).
- (c) the amount of the contractual service margin recognised in profit or loss in the period, applying paragraphs 44(e) and 45(e).

## ***D—To correct the terminology in the sensitivity analysis disclosure requirements***

- 128 An entity shall disclose information about sensitivities to changes in risk ~~exposures-variables~~ 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 ~~exposures-variables~~ that were reasonably possible at the end of the reporting period:
- (i) for insurance risk—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; and

- (ii) for each type of market risk—in a way that explains the relationship between the sensitivities to changes in risk ~~exposures~~ variables arising from insurance contracts and those arising from financial assets held by the entity.
  - (b) the methods and assumptions used in preparing the sensitivity analysis; and
  - (c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis, and the reasons for such changes.
- 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 ~~exposures~~ variables 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:
- (a) an explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the information provided; and
  - (b) an explanation of the objective of the method used and of any limitations that may result in the information provided.

### ***E—To exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17***

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

### **Initial recognition of transfers of insurance contracts and business combinations within the scope of IFRS 3 (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 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. 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.

**F—To clarify that the consequential amendments to IFRS 3 made by IFRS 17 on the classification of insurance contracts apply prospectively**

*IFRS 3 Business Combinations*<sup>6</sup>

**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. An entity shall apply ~~those~~ 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 amendments when it applies IFRS 17.

**G—To prevent insurance contracts held being included in the scope of IFRS 7, IFRS 9 and IAS 32**

*IFRS 7 Financial Instruments: Disclosures*

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

(a) .....

(d) insurance contracts as defined in ~~within the scope of~~ IFRS 17 *Insurance Contracts* and 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.

Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IFRS 9 in recognising and measuring the contracts, 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 them.

*IFRS 9 Financial Instruments*

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

(a) .....

(e) **rights and obligations arising under (i) an insurance contract ~~a contract within the scope of as defined in~~ 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 (ii) an investment contract with discretionary participation features within the scope of IFRS 17. However, this Standard applies to (i) a derivative that is embedded in a contract within the scope of IFRS 17, if the derivative is not itself a contract within the scope of IFRS 17; and (ii) an investment component that is separated from a contract within the scope of IFRS 17, if IFRS 17 requires such**

<sup>6</sup> The same amendment needs to be made to IFRS 3 as amended by IFRS 16 *Leases*.

separation. 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.

### IAS 32 *Financial Instruments: Presentation*

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

- (a) .....
- (d) insurance contracts as defined in within the scope of IFRS 17 *Insurance Contracts* and 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.

Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies IFRS 9 in recognising and measuring the contracts, 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 them.

### ***H—To explain that in Example 9 of the Illustrative Examples on IFRS 17 the time value of the guarantee changes over time***

IE104 On initial recognition of the contracts, the entity:

- (a) expects that the fair value of the specified pool of assets will increase by 10 per cent a year;
- (b) determines the discount rate that reflects the characteristics of the nominal cash flows that do not vary based on returns on any underlying items is 6 per cent a year;
- (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;
- (d) estimates the time value of the guarantee inherent in providing a minimum death benefit;<sup>7</sup> and
- (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:

- (a) in Year 1, the fair value of the specified pool of assets increased by 10 per cent, as expected on initial recognition;
- (b) in Year 2, the increase in fair value was lower than expected on initial recognition and equals 8 per cent; and
- (c) in Year 3, the increase in fair value goes back to the initially expected 10 per cent.

<sup>7</sup> 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 necessarily required.