

## STAFF PAPER

March 2020

IASB<sup>®</sup> meeting

Project	Amendments to IFRS 17		
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<sup>®</sup> Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB<sup>®</sup> *Update*.

## Introduction

1. This cover note provides:
  - (a) background information about the tentative decisions made by the International Accounting Standards Board (Board) at its recent meetings about amendments to IFRS 17 *Insurance Contracts*;
  - (b) an overview of the papers for this meeting, including a summary of staff recommendations;
  - (c) an outline of next steps; and
  - (d) an appendix listing the topics for which the Board tentatively decided to amend IFRS 17.

## Background

2. At its October and November 2019 meetings, the Board discussed the feedback from outreach and comment letters on the Exposure Draft *Amendments to IFRS 17*.

3. In the light of that feedback, at its November 2019 meeting, the Board decided on its plan for redeliberating some of the matters raised by respondents on the Exposure Draft. The Board tentatively decided:
  - (a) the proposed amendments the Board would confirm at a future meeting without substantive redeliberation;
  - (b) the topics for which the Board would consider further the feedback from respondents; and
  - (c) the topics for which the Board would not consider further the feedback from respondents.
  
4. The Board noted that its tentative decision about the topics that it would not consider further should reduce uncertainty about any possible additional amendments to IFRS 17 and, therefore, limit disruption to implementation processes under way.
  
5. IFRS 17 is urgently needed to address many inadequacies in the wide range of insurance accounting practice used in applying IFRS 4 *Insurance Contracts* and significant implementation activities are under way. Accordingly, the Board decided that, in considering further the feedback from respondents, the Board would apply the same criteria that it applied when developing the Exposure Draft. The Board decided that any amendments to IFRS 17 must not:
  - (a) change the fundamental principles of the Standard because that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17;
  - (b) unduly disrupt implementation already under way; or
  - (c) risk undue delays in the effective date of IFRS 17.
  
6. Following the plan for redeliberating some of the matters raised by respondents on the Exposure Draft, at its meetings from December 2019 to February 2020, the Board:
  - (a) tentatively decided to finalise six amendments as proposed in the Exposure Draft;
  - (b) considered further the feedback from respondents and concluded to retain, unchanged, the requirements in IFRS 17 for the following topics:

- (i) transition—the prohibition from applying the risk mitigation option retrospectively;
  - (ii) business combinations—contracts acquired in their settlement period; and
  - (iii) level of aggregation—annual cohorts for some insurance contracts with intergenerational sharing of risks between policyholders.
- (c) considered further the feedback from respondents and tentatively decided to make some changes to the proposals in the Exposure Draft for the following topics:
- (i) expected recovery of insurance acquisition cash flows, including the requirements for an asset for insurance acquisition cash flows at transition and for contracts acquired;
  - (ii) reinsurance contracts held—recovery of losses;
  - (iii) scope exclusion for credit cards;
  - (iv) interim financial statements;
  - (v) contractual service margin attributable to investment services—coverage units for insurance contracts without direct participation features, disclosures and terminology;
  - (vi) applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss;
  - (vii) minor amendments; and
  - (viii) additional specific transition modifications and reliefs.

7. The Board also noted that a small number of respondents included new concerns and implementation questions in their comment letters on the Exposure Draft. The Board considered the staff analysis of those new concerns and implementation questions at its February 2020 meeting. At that meeting, the Board tentatively decided to amend IFRS 17 to resolve an inconsistency in the requirements relating to income tax

payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract.

## **Papers for this meeting and summary of the staff recommendations**

8. The papers for this meeting provide an analysis of the following topics:
  - (a) effective date of IFRS 17 and temporary exemption from applying IFRS 9 *Financial Instruments* in IFRS 4—see Agenda Paper 2A *Effective date of IFRS 17 and IFRS 9 temporary exemption in IFRS 4*;
  - (b) due process steps and permission for balloting—see Agenda Paper 2B *Due process steps and permission for balloting*; and
  - (c) overview of the amendments to IFRS 17—see Agenda Paper 2C *Overview of the amendments to IFRS 17*.
9. The following paragraphs summarise the staff recommendations in these papers.

### ***Effective date of IFRS 17 and IFRS 9 temporary exemption in IFRS 4 (Agenda Paper 2A)***

10. In Agenda Paper 2A the staff recommend the Board:
  - (a) defer the effective date of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023; and
  - (b) extend the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

### ***Due process steps and permission for balloting (Agenda Paper 2B)***

11. In Agenda Paper 2B the staff request permission to start the balloting process of the *Amendments to IFRS 17* if the Board is satisfied that it:
  - (a) has been provided with sufficient analysis; and
  - (b) has undertaken appropriate consultation and due process to support issuing the amendments.

12. The staff recommend that the amendment to IFRS 4—reflecting the extension of the fixed expiry date for the temporary exemption from applying IFRS 9—is balloted separately from the *Amendments to IFRS 17* (including consequential amendments to other IFRS Standards).

### **Overview of the amendments to IFRS 17 (Agenda Paper 2C)**

13. Agenda Paper 2C is provided to assist the Board in considering Agenda Paper 2B. Consequently, Agenda Paper 2C does not provide any staff recommendations and does not include any questions for Board members.

### **Next steps**

14. After its March 2020 meeting, the Board will have completed its planned redeliberations of the feedback on the Exposure Draft. If the Board gives permission to start the balloting process at this meeting, the staff plan to draft the amendments to IFRS 17 and bring any sweep issues identified during the balloting of the amendments for discussion at a future meeting.
15. The staff expect that the amendments will be issued in the second quarter of 2020, in line with the Board’s plan as stated in the Exposure Draft.

## Appendix A—List of topics for which the Board has tentatively decided to amend IFRS 17

Topic	Board's tentative decision		
	Confirm amendment as proposed in the ED	Confirm proposed amendment with some changes	Amendment not proposed in the ED
1A—Scope exclusion for credit card contracts and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract		January 2020	
1B—Scope exclusion for loan contracts that meet the definition of an insurance contract	December 2019		
2—Expected recovery of insurance acquisition cash flows		December 2019, January 2020	
3—Contractual service margin attributable to investment-return service and investment-related service		December 2019, February 2020	
4—Reinsurance contracts held—recovery of losses on underlying insurance contracts		December 2019	
5—Presentation in the statement of financial position	December 2019		
6A—Applicability of the risk mitigation option—reinsurance contracts held	December 2019		
6B—Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss			February 2020
7—Accounting policy choice relating to interim financial statements			January 2020
<b>8A—Effective date of IFRS 17</b>	<b>Decision to be made at this meeting</b>		
<b>8B—IFRS 9 temporary exemption in IFRS 4</b>	<b>Decision to be made at this meeting</b>		
9A—Transition relief for contracts acquired	December 2019		
9B—Transition relief for risk mitigation option—the application from the transition date	December 2019		
9C—Transition relief for risk mitigation option—the option to apply the fair value approach	December 2019		

Topic	Board's tentative decision		
	Confirm amendment as proposed in the ED	Confirm proposed amendment with some changes	Amendment not proposed in the ED
9D—Transition relief for investment contracts with discretionary participation features			February 2020
9E—Transition relief for identifying the date a reinsurance contract held was acquired			February 2020
9F—Transition relief relating to interim financial statements			February 2020
10—Minor amendments		February 2020	

## STAFF PAPER

March 2020

## IASB® meeting

Project	Amendments to IFRS 17		
Paper topic	Effective date of IFRS 17 and IFRS 9 temporary exemption in IFRS 4		
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**Purpose of the paper**

1. This paper discusses staff analysis and recommendations about the amendments proposed in the Exposure Draft *Amendments to IFRS 17* relating to:
  - (a) the effective date of IFRS 17 *Insurance Contracts*; and
  - (b) the fixed expiry date of the temporary exemption from applying IFRS 9 *Financial Instruments* in IFRS 4 *Insurance Contracts*.
2. This paper follows the tentative decision of the International Accounting Standards Board (Board), at its November 2019 meeting, to consider further the feedback from outreach and comments letters on these proposed amendments.

**Summary of staff recommendations**

3. The staff recommend the Board:
  - (a) defer the effective date of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023; and
  - (b) extend the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

## Structure of the paper

4. For each of the two topics in paragraph 1 of this paper, the paper provides:
  - (a) background information about the Board’s proposal in the Exposure Draft; and
  - (b) the staff analysis, recommendation and question for Board members.
5. There are two appendices to this paper:
  - (a) Appendix A—Summary of the feedback on the Exposure Draft on the proposed deferral of the effective date of IFRS 17; and
  - (b) Appendix B—Summary of the feedback on the Exposure Draft on the proposed extension of the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4.

## Effective date of IFRS 17

### **Background**

6. An entity is required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2021. An entity can choose to apply IFRS 17 before that date but only if it also applies IFRS 9 on or before the date of initial application of IFRS 17.<sup>1</sup> In setting this effective date, the Board allowed a period of three and half years from the issuance of the Standard to its effective date.
7. The Exposure Draft proposed deferring the effective date of IFRS 17 by one year so that entities would be required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2022.

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<sup>1</sup> In addition, an entity can apply IFRS 17 before 1 January 2021 only if the entity also applies IFRS 15 *Revenue from Contracts with Customers* on or before that date. The Exposure Draft proposed deleting that reference to IFRS 15 because IFRS 15 must be applied for annual reporting periods beginning on or after 1 January 2018.

8. As explained in the Basis for Conclusions on the Exposure Draft,<sup>2</sup> the Board's proposal to defer the effective date of IFRS 17 by one year reflects a balance between:
- (a) providing certainty about the effective date of IFRS 17 considering the uncertainty caused by the Board's decision in October 2018 to explore possible amendments to IFRS 17; and
  - (b) requiring IFRS 17 implementation as soon as possible because:
    - (i) IFRS 17 is urgently needed to address many inadequacies in existing accounting practices for insurance contracts; and
    - (ii) undue delay in the effective date of IFRS 17 would increase workload and costs, particularly for entities that are advanced in their implementation projects.
9. At its November 2019 meeting, the Board noted that almost all respondents to the Exposure Draft supported the Board's proposal to defer the effective date of IFRS 17. The Board therefore agreed the feedback provided support to confirm the proposal to defer the effective date of the Standard.
10. However, although a small number of respondents were concerned about any possible further deferral of the effective date, some respondents specifically said the Board should defer the effective date of IFRS 17 by more than one year. Some respondents also commented on the importance of entities in jurisdictions around the world being able to initially apply IFRS 17 at the same time (Appendix A to this paper includes the summary of the feedback on the Exposure Draft presented to the Board in November 2019).
11. Accordingly, this paper considers whether the Board should confirm the proposal in the Exposure Draft to defer the effective date of IFRS 17 by one year to annual reporting periods beginning on or after 1 January 2022 or extend the proposed deferral beyond that date.

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<sup>2</sup> See paragraph BC114 of the Basis for Conclusions on the Exposure Draft.

### ***Staff analysis and recommendation***

12. In considering this matter, there are three main themes in the feedback on the Exposure Draft to take into account:
- (a) the concerns expressed about any further deferral of the effective date;
  - (b) the view that more time is required for implementation; and
  - (c) the view that there should be a consistent effective date around the world.

#### *Concerns about any further deferral of the effective date*

13. All regulators and some users of financial statements responding to the Exposure Draft, although agreeing with the Board’s proposal to defer the effective date of IFRS 17 by one year, either opposed or expressed concerns about any further delay to the effective date beyond 1 January 2022. They said this would further delay much-needed improvements to existing accounting practices for insurance contracts.
14. Similarly, a small number of insurers from Asia, Africa and Europe opposed any further deferral of the effective date of IFRS 17. They said that any further deferral would risk a loss of momentum in implementation projects and would increase implementation costs, for example because of the need to extend implementation projects and maintain existing systems.
15. Accordingly, consideration of any further deferral of the effective date of IFRS 17 beyond 2022 needs to take into account the cost of that deferral, namely:
- (a) further delaying the provision of significantly improved information to users of financial statements; and
  - (b) disruption to implementation projects that are already well advanced.

#### *More time required for implementation*

16. In contrast, some respondents, mainly insurers or their representative bodies from all regions but also some national standard-setters, said the Board should defer the effective date of IFRS 17 by more than one year to allow for a well-controlled and robust implementation. These respondents said that despite significant resources being dedicated to IFRS 17 implementation, more time is required to implement the Standard because of matters such as:

- (a) challenges in developing systems, particularly for smaller insurers, exacerbated by constraints in the availability of suitable external resources and delays in vendors delivering software;
  - (b) the time required to determine the appropriate application of IFRS 17 to the wide variety of insurance contracts and to resolve the technical questions arising during implementation;
  - (c) the time required to align regulatory reporting and taxation requirements with IFRS 17;
  - (d) the need to prepare users of financial statements for the significant changes introduced by IFRS 17; and
  - (e) the effect of the proposed amendments on implementation projects already under way.
17. Therefore, some of these respondents suggested 1 January 2023 as a more realistic effective date for IFRS 17—ie five and half years after its issuance.<sup>3</sup>
18. The matters discussed in paragraphs 16(a)–16(d) of this paper are similar to those considered by the Board in November 2018 when it decided to propose to defer the effective date to 2022.<sup>4</sup> At that time, the Board noted that it had set the effective date of IFRS 17 in the full knowledge that the Standard represented a fundamental change to accounting for insurance contracts for most entities issuing these contracts and would place significant demands on resources. Accordingly, the Board concluded that these concerns had been anticipated in setting the original effective date of IFRS 17 and did not in themselves justify its deferral.
19. Nonetheless, the staff acknowledge that implementation by 2022 would be demanding, particularly for smaller insurers. The Board did not previously discuss the particular implementation challenges for smaller insurers. However, the staff think it would not be feasible for the Board to appropriately identify a population of such insurers around the world to which the Board could provide additional relief (for instance, by setting a later effective date compared to larger insurers) given variations

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<sup>3</sup> By way of comparison, IFRS 9 and IFRS 15 came into effect about three and half years after their issuance, and IFRS 16 after three years.

<sup>4</sup> At its April 2019 meeting, the Board considered the proposed amendments to IFRS 17 as a whole and confirmed its tentative decision from the November 2018 meeting relating to the effective date of IFRS 17.

in local markets. The staff expect that as larger insurers advance with their implementation projects, additional resources should become available to smaller insurers.

20. Regarding the concern in paragraph 16(e) of this paper, a small number of insurers said the Board should defer the effective date of IFRS 17 by more than one year because the Board’s proposed amendments to the Standard have disrupted implementation projects, in some cases necessitating the reworking of systems already developed. They also noted that the Board expects to issue the final amendments in mid-2020, which is only six months before the proposed revised transition date for an entity initially applying IFRS 17 on 1 January 2022.
21. The Board acknowledged when considering the proposed revised effective date that exploring possible amendments to IFRS 17 would inevitably cause some disruption to IFRS 17 implementation because of the uncertainty about which of the Standard’s requirements would change. It was for that reason the Board decided to propose deferring the effective date of IFRS 17 by one year to 1 January 2022. However, the overall objective of the Board’s project is to ease implementation of IFRS 17 and the Board has been careful not to open fundamental aspects of the Standard. The project should therefore not have caused entities to stop their implementation projects. Furthermore, the Board expects to issue the final amendments to the Standard in mid-2020, consistent with its original aim. This would still allow a period of about 18 months before the effective date of 1 January 2022 proposed in the Exposure Draft.
22. The staff acknowledge that some of the proposals in the Exposure Draft necessitate additional implementation effort (for example, those relating to the treatment of insurance acquisition cash flows, the need to consider investment services in addition to insurance coverage when determining the pattern of release of the contractual service margin, and the recovery of losses from reinsurance contracts held when underlying insurance contracts are onerous). However, the Board proposed these amendments in response to strong stakeholder support for them, given that they would make it easier for entities to explain their results to users of financial statements.
23. Similarly, in the redeliberations of the matters raised by respondents to the Exposure Draft, the Board has been careful to ensure that any changes to the proposals in the Exposure Draft do not unduly disrupt implementation. In that regard, the staff think

that changes that might necessitate additional implementation effort are the extension of the proposed amendment for reinsurance contracts held when underlying insurance contracts are onerous and the requirement to include some costs related to investment activities as cash flows within the boundary of an insurance contract.<sup>5</sup>

*Consistent effective date around the world*

24. Some respondents—mainly insurers or their representative bodies from all regions but also some standard-setters—said it is important that the initial application of IFRS 17 is aligned in major markets around the world. They note that IFRS 17 is the first global insurance accounting Standard and will significantly affect insurers’ financial statements. They said there is a risk of confusion if users of financial statements around the world receive the new information provided by IFRS 17 at different times.
25. In this context, some of these respondents commented on uncertainties and delays in endorsement processes around the world and the consequential uncertainty about the effective dates that might be set in some jurisdictions. They expressed concerns that if the Board confirms the proposed effective date of 1 January 2022, in practice insurers around the world might first report applying IFRS 17 at different times. In their view, aside from the potential risk of confusing users of financial statements, this:
  - (a) could disrupt implementation, because insurers that first apply IFRS 17 might subsequently have to reconsider previous accounting policy judgements when other insurers initially apply the Standard at a later date; and
  - (b) might be operationally complex for an entity that has financial reporting obligations in different jurisdictions with different effective dates.
26. Additionally, in their view, the uncertainties and delays surrounding endorsement in some jurisdictions might put pressure on other jurisdictions to defer the effective date.

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<sup>5</sup> Refer to (a) IASB *Update* December 2019—the Board tentatively decided to extend the scope of the amendment to IFRS 17 proposed in the Exposure Draft to require an entity to adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group; and (b) IASB *Update* February 2020—The Board tentatively decided to require an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service.

27. Accordingly, many of these respondents said the Board should defer the effective date of IFRS 17 by more than one year.
28. As for any new Standard, the Board set the effective date of IFRS 17 so that jurisdictions would have sufficient time to incorporate the new Standard into their legal systems. How those incorporation processes develop is not normally a matter for the Board to consider. However, the current situation for IFRS 17 is unusual because the Board has already accepted the need to change the effective date of IFRS 17 before the Standard is implemented. Therefore, in considering the revised effective date, the Board needs to be aware of the potential consequences of the current uncertainties and delays in endorsement processes around the world.
29. The staff acknowledge the concern expressed by some insurers about initially applying IFRS 17 in advance of others—ie being a ‘first mover’. In the case of most new Standards, this would not be a significant concern. Indeed ‘first movers’ can be helpful to the overall implementation process. However, in the case of IFRS 17, the Standard introduces significant changes to insurers’ financial statements and the extent of those changes will vary given the variety of insurance accounting practices currently in use. There is a risk, consequently, that if IFRS 17 is not applied at the same time in major jurisdictions, the market might not appropriately distinguish the effects of IFRS 17 on insurers from the effects of changes in their underlying financial position and performance.

*Staff conclusions and recommendation*

30. The significant improvements to insurance accounting introduced by IFRS 17 are urgently needed—a point reiterated by all regulators and users of financial statements responding to the Exposure Draft. Many of these respondents either opposed or expressed concerns about any further delay to the implementation of IFRS 17 beyond the revised effective date of 1 January 2022 proposed in the Exposure Draft.
31. The staff are not convinced that entities necessarily require more than a one-year deferral of the effective date to be able to implement IFRS 17. Furthermore, the staff remain of the view that the effects of any disruption caused by the Board’s amendments to IFRS 17 have already been adequately anticipated in the proposed

one-year deferral of the effective date. The staff nonetheless acknowledge that implementation by 2022 would be demanding for some insurers.

32. The staff are also mindful that any further deferral of the effective date might cause some insurers to incur more implementation costs and, therefore, may appear to penalise those that started their implementation as soon as IFRS 17 was issued and reward those that have been slower to implement.
33. That said, the staff acknowledge the desire for insurers in some of the major jurisdictions around the world to be able to initially apply IFRS 17 at the same time given the significance and extent of the changes the Standard introduces. At present, because of potential delays and uncertainties surrounding endorsement mechanisms in some jurisdictions, it is uncertain whether that would be the case if the Board confirms the proposed one-year deferral of the effective date.
34. Therefore, on balance, although the staff are aware of the costs of further delaying the implementation of IFRS 17—particularly for users of financial statements—the staff recommend the Board defer the effective date of IFRS 17 by two years to annual reporting periods beginning on or after 1 January 2023. The staff think this additional deferral should allow sufficient time for an orderly introduction of the amended IFRS 17 into legal systems around the world. It would therefore enable more entities around the world to initially apply IFRS 17 at the same time for the benefit of users of financial statements. As a consequence, it would also ease the implementation challenges some entities are facing and help improve the quality of the initial application of IFRS 17.

#### *Need for stability*

35. At its February 2020 meeting the Board completed its redeliberations of the technical topics it decided in November 2019 that it would consider further in the light of feedback on the Exposure Draft. At this meeting the staff are asking the Board for permission to begin the balloting process. The plan remains to issue the final amendments in mid-2020.
36. It is now important that IFRS 17 is, and is seen to be, stable to allow sufficient time for an orderly introduction of the amended IFRS 17 into legal systems around the world.

**Question 1 for Board members**

Do you agree the Board should defer the effective date of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023?

**Fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4****Background**

37. IFRS 9, which replaced IAS 39 *Financial Instruments: Recognition and Measurement*, became effective for annual reporting periods beginning on or after 1 January 2018. In 2016, the Board introduced a temporary exemption from applying IFRS 9 until annual reporting periods beginning on or after 1 January 2021 for entities whose activities are predominantly connected with insurance. The Board concluded that for such entities, in that limited three-year period, the temporary exemption reduces costs in a way that outweighs the disadvantages arising from entities continuing to apply IAS 39 rather than IFRS 9.
38. In developing this temporary exemption, the Board noted that it had addressed concerns about the additional accounting mismatches and volatility in profit or loss that might arise when IFRS 9 rather than IAS 39 is applied in conjunction with IFRS 4 by introducing an overlay approach. The overlay approach permits all entities issuing insurance contracts to recognise in other comprehensive income, rather than in profit or loss, amounts resulting from those additional accounting mismatches and volatility. However, the Board also noted that the overlay approach results in additional costs compared to applying IFRS 9 without the overlay approach or allowing some insurers to continue to apply IAS 39.
39. The Exposure Draft proposed a one-year extension of the temporary exemption from applying IFRS 9 so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022. Although reluctant to do this, the Board concluded that on balance the benefit of extending the period that the exemption is available by one year, so that insurers could initially apply IFRS 17 and IFRS 9 at the same time, outweighed the disadvantages of an

additional one-year delay to the improved information resulting from insurers applying IFRS 9.

40. At its November 2019 meeting, the Board noted that, overall, respondents to the Exposure Draft supported the Board’s proposal to further delay the implementation of IFRS 9 for some insurers to continue to enable them to initially apply IFRS 17 and IFRS 9 at the same time. The Board therefore agreed the feedback provided support to confirm the proposal to extend the temporary exemption from IFRS 9 (Appendix B to this paper includes the summary of the feedback on the Exposure Draft presented to the Board in November 2019).
41. If the Board agrees with the staff recommendation to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023, the question arising is whether the Board should also extend the temporary exemption from IFRS 9 by a further year to annual reporting periods beginning on or after 1 January 2023.
42. This question requires separate consideration from the question of whether to further defer the effective date of IFRS 17. In originally granting the temporary exemption, and subsequently in proposing its extension, the Board was clear it has not concluded that entities should be required to apply IFRS 9 only when they apply IFRS 17. It was for that reason the Board originally set a *fixed* expiry date for the temporary exemption. Furthermore, the Exposure Draft explained that the Board reached its conclusion that the benefit of extending the temporary exemption outweighs the disadvantages of doing so in the context of a *one-year* extension. The Board specifically noted that any further extension beyond 1 January 2022 would be undesirable.<sup>6</sup>

### ***Staff analysis and recommendation***

43. Considering any further extension to the temporary exemption from applying IFRS 9 is a question of balancing the need for the improved information resulting from IFRS 9 against the benefit for entities being able to initially apply IFRS 17 and IFRS 9 at the same time.

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<sup>6</sup> See paragraph BC116 of the Basis for Conclusions on the Exposure Draft.

*Need for IFRS 9*

44. The reasons the Board originally set a fixed expiry date of 1 January 2021 for the temporary exemption from IFRS 9 and the Board’s reluctance to extend the exemption beyond 2021 still exist. In particular, extending the temporary exemption:
- (a) delays the application of significant improvements to the accounting requirements for financial instruments by some insurers, many of whom are significant holders of financial assets, particularly in relation to the expected credit loss impairment model and the associated disclosures. Having better information about credit risk is especially important in the current low interest rate environment if insurers invest in lower quality assets to obtain a higher yield.
  - (b) results in continuing cost and complexity for users of financial statements that compare insurers to each other and to other entities, because of the continuing existence and use of different Standards for financial instruments.
  - (c) is inefficient for the Board and its stakeholders, because it requires the continued maintenance of IAS 39.
45. It is noteworthy that if the Board were to extend the temporary exemption from IFRS 9 to 1 January 2023, some entities—including some with significant holdings of financial assets—would be permitted to initially apply IFRS 9 five years after its effective date of 1 January 2018. IFRS 9 was in part developed in response to events in the last financial crisis, addressing deficiencies of IAS 39 that became more apparent in that crisis to the detriment of users of financial statements. The longer IFRS 9 is not being applied by all entities, the greater the risk of history repeating itself.
46. For some of these reasons, a European national standard-setter and a securities regulator representing Europe, although agreeing with a one-year extension of the temporary exemption from IFRS 9, emphasised the importance of not further delaying its application.

*Benefit of maintaining alignment of initial application of IFRS 17 and IFRS 9*

47. In proposing the extension of the temporary exemption from IFRS 9 to 1 January 2022, the Board acknowledged there would be a benefit of a one-year extension to the period for which the cost relief of the temporary exemption would be available to some insurers so they could apply IFRS 17 and IFRS 9 at the same time.
48. Some respondents—mainly located in Europe—who agreed with the proposal to extend the exemption said that it is essential that the Board aligns the effective dates of IFRS 17 and IFRS 9 because:
- (a) insurers would otherwise be required to make two significant sets of accounting changes in a short period of time, resulting in significant costs for preparers and users of financial statements; and
  - (b) alignment leads to improved information given the inherent linkage between the two Standards and avoids the potential for accounting mismatches across their implementation periods.
49. Accordingly, a small number of these respondents also specifically said that it is essential that the Board maintains this alignment if the Board defers the effective date of IFRS 17 beyond 1 January 2022. In other words, they said any further deferral of IFRS 17 should result in a corresponding extension of the temporary exemption from IFRS 9.
50. In contrast, a small number of respondents—located in Australia, Germany, New Zealand and South Africa—noted they would be unaffected by any extension of the temporary exemption from IFRS 9 because they have already implemented the Standard in advance of IFRS 17. In that regard, some of these respondents also noted that IFRS 17 specifically addresses entities that apply IFRS 9 before IFRS 17 in allowing specified redesignations of financial assets for such entities.<sup>7</sup>

*Additional disclosures*

51. One European user representative body, although agreeing with the proposed extension of the temporary exemption from IFRS 9, suggested the Board introduce

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<sup>7</sup> Paragraphs C29–C33 of IFRS 17 set out the transition reliefs the Board permitted on redesignation of financial assets at the date of initial application of IFRS 17 for an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17.

additional disclosure requirements to reduce the gap in information between insurers applying IAS 39 and other financial institutions applying IFRS 9.

52. This is also a valid point for consideration if the Board were to further extend the temporary exemption from IFRS 9. Indeed the Board itself previously noted the undesirability of any further extension in the absence of more robust disclosures about expected credit losses.<sup>8</sup> However, the staff think the loss of information arising from some insurers not applying IFRS 9 needs to be factored into the Board’s consideration of whether to further extend the temporary exemption from IFRS 9. At this stage of the project, the staff think it would not be feasible for the Board to enhance the disclosure requirements in paragraphs 39B–39J of IFRS 4.

*Staff conclusions and recommendation*

53. Little new information is available over what the Board considered in deciding to propose the extension of the temporary exemption from IFRS 9. The main piece of new information is that the feedback on the Exposure Draft highlights that more of the respondents commenting on this matter think the Board should maintain the alignment of the effective dates of IFRS 17 and IFRS 9 (for those insurers eligible to apply the temporary exemption from IFRS 9) than think there should be no further delay to the implementation of IFRS 9.
54. Despite this feedback, the staff think it would be feasible for the Board to defer the effective date of IFRS 17 to 1 January 2023 but not further extend the temporary exemption from IFRS 9 beyond 1 January 2022 as proposed in the Exposure Draft. The feedback on the Exposure Draft highlights that some entities have already applied IFRS 9 and that IFRS 17 has requirements that will assist entities applying IFRS 9 before IFRS 17 (see paragraph 50 of this paper). And as noted in paragraph 44 of this paper, there remain significant disadvantages from further delaying the introduction of the improved information from IFRS 9.
55. Nonetheless, the staff acknowledge that if the Board were to defer the effective date of IFRS 17 to 1 January 2023 but confirm the one-year extension of the temporary exemption from IFRS 9 to 1 January 2022, preparers and users of financial statements will experience two sets of major accounting changes in a short period of time.

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<sup>8</sup> See paragraph BC116 of the Basis for Conclusions on the Exposure Draft.

56. The Board has previously agreed on two occasions that the benefits in providing reliefs to specified insurers from the costs of the overlay approach in IFRS 4 outweigh the disadvantages of delaying the implementation of IFRS 9. The staff acknowledge that on the first occasion (on introducing the exemption in 2016) the Board decided that delay should be for only a fixed period (until the original effective date of IFRS 17), and on the second occasion (on issuing the Exposure Draft) the Board was reluctant to extend that fixed period. Nonetheless, the staff think that the benefit of extending the relief by a further year to maintain the alignment of the initial application IFRS 17 and IFRS 9 for specified insurers, could outweigh the disadvantage of a further delay to the implementation of IFRS 9 by those insurers.
57. Given this, on balance, the staff recommend the Board extend the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

**Question 2 for Board members**

Do you agree the Board should extend the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023?

**Appendix A—Summary of the feedback on the Exposure Draft on the proposed deferral of the effective date of IFRS 17**

- A1. Almost all respondents supported the Board’s proposal to defer the effective date of IFRS 17. The remainder of respondents did not express a view on the proposal but commented on the importance of entities in jurisdictions around the world applying IFRS 17 for the first time at the same time. The importance of having the same effective date of IFRS 17 in different jurisdictions around the world was also noted by some respondents who agreed with the Board’s proposal.
- A2. Of the respondents who agreed with the Board’s proposal:
- (a) almost half of the respondents generally agreed with the Board’s proposal and rationale for a one-year deferral.
  - (b) some respondents expressed the view that the Board should defer the effective date of IFRS 17 by more than one year to allow more time for implementation, particularly for smaller entities. Most of those respondents suggested 1 January 2023 as a possible effective date for IFRS 17.
  - (c) a small number of respondents—including all regulators, some insurers from Germany, South Korea and South Africa and two user representative bodies—opposed any deferral of the effective date beyond 1 January 2022 because this would further increase implementation costs or further delay improvements in existing insurance accounting practices that are urgently needed.

## **Appendix B—Summary of the feedback on the Exposure Draft on the proposed extension of the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4**

- B1. Overall, respondents supported the Board’s proposal to further delay the implementation of IFRS 9 for some insurers to continue to enable them to first apply IFRS 17 and IFRS 9 at the same time.
- B2. Some respondents—mainly located in Europe—expressed the view that the alignment of insurers applying IFRS 17 and IFRS 9 for the first time at the same date is essential.
- B3. In contrast, a small number of respondents—located in Australia, Germany, New Zealand and South Africa—noted they have already implemented IFRS 9 and therefore, the proposed amendment does not affect them.
- B4. Users of financial statements who commented on the proposal to further delay the implementation of IFRS 9 for some insurers by one year did not oppose the proposal. However:
- (a) a global user representative body specialised in the insurance industry noted that it had not agreed with the need for the temporary exemption from applying IFRS 9 when it was introduced in 2016.
  - (b) a European user representative body, which expressed the view that insurers should continue to be able to apply IFRS 17 and IFRS 9 for the first time at the same date, suggested introducing additional disclosure requirements on financial asset ratings to reduce information gaps between insurers and other financial entities until insurers apply IFRS 9. This respondent noted that investments in credit assets are an increasing risk in the insurance industry particularly in jurisdictions where insurers have increased their investment in government bonds and the interest rates on those bonds have for years been, and remain, low.

## STAFF PAPER

March 2020

IASB<sup>®</sup> meeting

Project	Amendments to IFRS 17		
Paper topic	Due process steps and permission for balloting		
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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<sup>®</sup> Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB<sup>®</sup> *Update*.

**Purpose of the paper**

1. At its February 2020 meeting, the International Accounting Standards Board (Board) concluded its planned technical discussions of the amendments to IFRS 17 *Insurance Contracts*. Agenda Paper 2A *Effective date of IFRS 17 and IFRS 9 temporary exemption in IFRS 4* of this meeting asks the Board to confirm the deferral of the effective date of IFRS 17 and the extension of the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments*.
2. The purpose of this paper is to:
  - (a) set out the steps in the [IFRS Foundation Due Process Handbook](#) (the *Due Process Handbook*) that the Board has taken in developing the amendments to IFRS 17;
  - (b) ask the Board to confirm that it is satisfied that it has complied with the due process requirements;
  - (c) seek the Board's permission to begin the balloting process for the amendments to IFRS 17; and
  - (d) ask whether any Board member intends to dissent from the issuance of the amendments to IFRS 17.

3. To assist the Board in its decisions, the staff have prepared Agenda Paper 2C *Overview of the amendments to IFRS 17*, which:
  - (a) summarises the Board’s tentative decisions in the redeliberations on the Exposure Draft *Amendments to IFRS 17*;
  - (b) evaluates each of the amendments against the criteria the Board set for assessing any amendment to IFRS 17 (see paragraph 7 of this paper); and
  - (c) considers the likely effects of the amendments to IFRS 17.

### **Structure of the paper**

4. This paper provides:
  - (a) background (paragraphs 6–11 of this paper);
  - (b) re-exposure (paragraphs 12–18 of this paper);
  - (c) intention to dissent (paragraphs 19–20 of this paper);
  - (d) confirmation of due process steps (paragraphs 21–22 of this paper); and
  - (e) proposed timetable for balloting and publication (paragraphs 23–24 of this paper).
5. Appendix A to this paper outlines the actions taken by the Board to comply with the due process requirements.

## Background

6. In June 2019 the Board issued the Exposure Draft *Amendments to IFRS 17*. The Exposure Draft proposed targeted amendments to IFRS 17 to respond to concerns and challenges raised by stakeholders as IFRS 17 is being implemented.
7. In developing the Exposure Draft, the Board considered the concerns and challenges raised by stakeholders and concluded that the potential costs of proposing targeted amendments to IFRS 17 could be justified if those amendments would provide meaningful support to entities implementing the Standard and if those amendments:
  - (a) would not change the fundamental principles of the Standard because that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17; and
  - (b) would avoid unduly disrupting implementation already under way or risking undue delays in the effective date of IFRS 17.
8. With the approval of the Due Process Oversight Committee, the Board set a comment period for the Exposure Draft of 90 days.<sup>1</sup> The 90-day comment period ended on 25 September 2019. During the comment period, Board members and staff held about 70 meetings with stakeholders in 14 jurisdictions to present the proposals and gather feedback on the Exposure Draft. The Board received 123 comment letters.
9. At its October and November 2019 meetings, the Board discussed the feedback from outreach and comment letters on the Exposure Draft.

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<sup>1</sup> In setting a comment period less than the normal minimum period of 120 days, the Board considered that: (a) the amendments are targeted to specific areas of IFRS 17 and, by their nature, are narrow in scope; (b) many entities, and their representative bodies, that were expected to provide comments to the targeted amendments to IFRS 17, are following the project to amend IFRS 17 very closely. The Board has continued to engage extensively with stakeholders after the issuance of the Standard. In addition, staff and Board members have kept stakeholders informed about the proposed amendments through regular podcasts and outreach; (c) there is a need to provide certainty about the proposed amendments to IFRS 17 to minimise any disruption created by them for both users and preparers of financial statements.

10. In the light of the feedback, at its November 2019 meeting, the Board decided on its plan for redeliberating some of the matters raised by respondents on the Exposure Draft. The Board tentatively decided:
- (a) the proposed amendments the Board would confirm at a future meeting without substantive redeliberation;
  - (b) the topics for which the Board would consider further the feedback from respondents; and
  - (c) the topics for which the Board would not consider further the feedback from respondents.
11. Following the redeliberation plan, at its meetings from December 2019 to February 2020, the Board:
- (a) tentatively decided to finalise six amendments as proposed in the Exposure Draft;
  - (b) considered further the feedback from respondents and concluded to retain, unchanged, the requirements in IFRS 17 for the following topics:
    - (i) transition—the prohibition from applying the risk mitigation option retrospectively;
    - (ii) business combinations—contracts acquired in their settlement period; and
    - (iii) level of aggregation—annual cohorts for some insurance contracts with intergenerational sharing of risks between policyholders.
  - (c) considered further the feedback from respondents on the remainder of the topics and tentatively decided to make some changes to the proposals in the Exposure Draft (see paragraph 15 of this paper).

## **Re-exposure**

12. Having considered the criteria for re-exposure in paragraphs 6.25–6.29 of the *Due Process Handbook*, the staff recommend the Board not re-expose the amendments to IFRS 17.

### ***Evaluating the revisions to the Exposure Draft***

13. As noted in paragraph 6.26 of the *Due Process Handbook*, it is inevitable that final amendments to a Standard will include changes from those originally proposed, and that the fact there are changes does not in itself compel the Board to re-expose the proposals. The staff have assessed in paragraphs 14–15 of this paper the changes against the requirements in the *Due Process Handbook*.
14. The staff note that in most cases, the Board confirmed the proposals in the Exposure Draft with only limited changes. As a result, the amendments to IFRS 17 as a whole do not differ fundamentally from the amendments proposed in the Exposure Draft on which the Board has received extensive feedback.
15. The staff observe that all changes made to the proposals in the Exposure Draft have been in response to concerns and suggestions made in the comment letters and outreach. These changes include:
  - (a) scope exclusion for credit card contracts—add a requirement for the separation of the insurance coverage component in some credit card contracts and extend the scope exclusion to other contracts that provide credit or payment arrangements that are similar to the credit card contracts captured by the scope exclusion proposed in the Exposure Draft;
  - (b) expected recovery of insurance acquisition cash flows—add requirements for the identification, recognition and measurement of an asset for insurance acquisition cash flows for contracts at transition and for contracts acquired;
  - (c) contractual service margin attributable to investment-return and investment-related service—add a requirement to include, as cash flows within the boundary of an insurance contract, some costs related to investment activities;
  - (d) reinsurance contracts held, recovery of losses on underlying insurance contracts—extend the scope of the proposed amendment to apply to a wider population of reinsurance contracts held compared to the population captured by the proposal in the Exposure Draft;

- (e) applicability of the risk mitigation option—extend the scope of the risk mitigation option to non-derivative financial instruments at fair value through profit or loss;
- (f) interim financial statements—introduce an accounting policy choice to permit an entity to choose to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period;
- (g) additional specific transition modifications and reliefs—add simplifications:
  - (i) for the assessment of investment contracts with discretionary participation features at transition;
  - (ii) for accounting for reinsurance contracts held at transition when underlying insurance contracts are onerous; and
  - (iii) for entities that make an accounting policy choice not to change the treatment of accounting estimates made in previous interim financial statements.
- (h) minor amendments—resolve an inconsistency in the requirements in IFRS 17 relating to policyholder taxes.

### ***Weighting the costs of re-exposure against the benefits***

16. Paragraph 6.27 of the *Due Process Handbook* suggests that the Board should consider the costs of delaying improvements to financial reporting against the relative urgency for the need to change and what additional steps it has taken to consult since the Exposure Draft was published. The staff note that Board’s criteria for amendments to IFRS 17 are intended to limit the costs of any delay to the implementation of IFRS 17 caused by the amendments.

### **Staff conclusions**

17. In the staff's view, although there are changes from those originally proposed in the Exposure Draft:
  - (a) the Board's tentative decisions to amend the proposals in the Exposure Draft respond to the feedback and do not include any fundamental changes on which respondents have not had the opportunity to comment; and
  - (b) the extensive consultation that the Board has undertaken means that it is unlikely that the Board would learn anything significantly new by re-exposing the proposals or that re-exposure would reveal any new concerns on the targeted amendments to IFRS 17.
18. Accordingly, the staff believe the Board should proceed to finalise the amendments to IFRS 17 based on the Board's tentative decisions to date.

### **Intention to dissent**

19. In accordance with paragraph 6.23 of the *Due Process Handbook*, the staff are asking whether any Board member intends to dissent from the amendments to IFRS 17.
20. No Board member dissented from the Exposure Draft. Any Board members who intend to dissent from the final amendments are asked to make their intention known at this meeting.

### **Confirmation of due process steps**

21. The required due process steps for the issuance of the amendments to IFRS 17 are summarised in Appendix A to this paper. This appendix demonstrates that the required due process steps to date for the issuance of the amendments have been completed. The remaining due process steps will be completed before the issuance of the amendments.

22. Therefore, the staff request permission to start the balloting process if the Board is satisfied that it:
- (a) has been provided with sufficient analysis; and
  - (b) has undertaken appropriate consultation and due process to support issuing the amendments.

### Proposed timetable for balloting and publication

23. The balloting process of *Amendments to IFRS 17* will commence in March 2020, with the final amendments planned to be issued in the second quarter of 2020.
24. The staff recommend that the amendment to IFRS 4—reflecting the extension of the fixed expiry date for the temporary exemption from applying IFRS 9—is balloted separately from the *Amendments to IFRS 17* (including consequential amendments to other IFRS Standards).

#### Questions for Board members

1. **Re-exposure**—do you agree that the Board should not re-expose the amendments to IFRS 17?
2. **Dissent**—do you intend to dissent from the issuance of the amendments to IFRS 17 or the amendment to IFRS 4?
3. **Permission to ballot**—are you satisfied that the Board has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments to IFRS 17 and the amendment to IFRS 4?

## Appendix A—due process steps taken in the development of the amendments to IFRS 17

A1. The following table sets out the required due process steps taken by the Board.

Step	Actions
<b>Consideration of information gathered during consultation</b>	
<b>The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.</b>	The Board received 123 comment letters on the Exposure Draft. All comment letters received were posted on the <a href="#">IFRS Foundation website</a> . The outreach summary and comment letter analysis are also available on the website. <sup>2</sup>
<b>Board meetings held in public, with papers available for observers. All decisions are made in public session.</b>	The Board discussed all the proposals in the Exposure Draft and the feedback to those proposals in public meetings. All papers including staff analysis and recommendations are posted, meetings recorded and the decisions documented in the relevant section of the <a href="#">project page</a> on the IFRS Foundation website.
<b>Consultation with the Trustees and the IFRS Advisory Council.</b>	The Trustees were informed about the amendments to IFRS 17 as part of the regular reporting to them (October 2018, January 2019, June 2019, October 2019, February 2020).  The IFRS Advisory Council was informed about the amendments to IFRS 17 as part of the regular reporting to them about the activities of the Board (March 2019, September 2019).
<b>Consultative groups used, if formed.</b>	Although the Board did not establish a consultative group, the amendments to IFRS 17 respond to some of the concerns and challenges that were discussed by the Transition Resource Group for IFRS 17 (TRG). <sup>3</sup>  The Board sought the advice of the Accounting Standards Advisory Forum (ASAF) on the proposals at the ASAF meeting in December 2018, April 2019 and December 2019.

<sup>2</sup> See Agenda Paper 2A *Outreach summary* of the October 2019 Board meeting, Agenda Paper 2A *Comment letter summary—overview and introduction*, Agenda Paper 2B *Comment letter summary—feedback on the questions in the Exposure Draft* and Agenda Paper 2C *Comment letter summary—other comments* of the November 2019 Board meeting.

<sup>3</sup> The Board established a working group to help it analyse accounting issues relating to insurance contracts. The group brought together a wide range of interests and includes senior financial executives involved in financial reporting. The issuance of IFRS 17 in May 2017 brought the work of the Insurance Working Group to a conclusion.

Step	Actions
<b>Outreach meetings with a broad range of stakeholders, with special effort to consult investors.</b>	During the 90-day comment period of the Exposure Draft, Board members and staff held about 70 meetings in 14 jurisdictions to present the proposals and gather feedback on the Exposure Draft. Those meetings included targeted outreach with users of financial statements.
<b>Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects.</b>	Board members and staff have recorded podcasts covering Board meetings about the amendments to IFRS 17. Those podcasts are available on the IFRS Foundation website and YouTube channel.
<b>Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.</b>	Agenda Paper 2C of this meeting considers the likely effects of the amendments compared to the requirements in IFRS 17 as issued in May 2017.
<b>Finalisation</b>	
<b>Due process steps reviewed by the Board.</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>Need for re-exposure of a Standard is considered.</b>	The analysis of the need to re-expose the amendments to IFRS 17 is included in paragraphs 12–18 of this paper.
<b>The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.</b>	At this meeting, the Board is asked to decide on the effective date of IFRS 17 (incorporating the amendments).
<b>Drafting</b>	
<b>Drafting quality assurance steps are adequate.</b>	<p>The translations, taxonomy and editorial teams will review drafts during the balloting process.</p> <p>The staff intend to send a draft of the amendments to external parties for review before finalisation. This review allows external parties to report back to the staff on the clarity and understandability of the draft.</p>
<b>Publication</b>	
<b>Standard is published.</b>	The amendments will be made available on the IFRS Foundation website when published.

Step	Actions
<b>A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.</b>	According to paragraph 6.38 of the <i>Due Process Handbook</i> , a Feedback Statement is required for all new IFRS Standards and major amendments. Although the amendments to IFRS 17 are narrow in scope, the staff think that a Feedback Statement would be helpful to summarise the Board's responses to feedback. Therefore, the staff plan to make a Feedback Statement available with the amendments.
<b>Press release to announce publication of the final Standard.</b>	A press release will be published with the amendments.
<b>Project summary to explain the rationale and basic concepts included in the final Standard.</b>	A project summary will be published with the amendments.

## STAFF PAPER

March 2020

## IASB® meeting

Project	Amendments to IFRS 17		
Paper topic	Overview of the amendments to IFRS 17		
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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*.

**Purpose of the paper**

1. This paper:
  - (a) provides an overview of the amendments to IFRS 17 *Insurance Contracts* that the International Accounting Standards Board (Board) has tentatively decided to finalise, highlighting the changes from the proposals in the Exposure Draft *Amendments to IFRS 17* (paragraph 3 of this paper);
  - (b) evaluates the amendments against the criteria the Board set for assessing any amendment to IFRS 17<sup>1</sup> (paragraph 4–6 of this paper); and
  - (c) considers the likely effects of the amendments to IFRS 17 (paragraphs 7–9 of this paper).
2. This paper is provided to assist the Board in considering Agenda Paper 2B *Due Process steps and permission for balloting*, which asks the Board for permission to start the balloting process for the amendments to IFRS 17. Consequently, this paper does not provide any staff recommendations and does not include any questions for Board members.

<sup>1</sup> Refer to paragraph BC8 of the Basis for Conclusions on the Exposure Draft *Amendments to IFRS 17*.

## Overview of the amendments to IFRS 17

3. The following table summarises:

- (a) the proposals in the Exposure Draft; and
- (a) the Board’s tentative decisions to date, highlighting the changes from the proposals in the Exposure Draft.

Topic	Proposal in the Exposure Draft	Board’s tentative decisions during redeliberations
1A—Scope exclusion for credit card contracts and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract	The Exposure Draft proposed that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The entity would instead apply IFRS 9 <i>Financial Instruments</i> to such credit card contracts.	<p>Confirm the amendment proposed in the Exposure Draft with the following changes:</p> <ul style="list-style-type: none"> <li>(a) if the entity provides the insurance coverage to the customer as part of the contractual terms of a credit card contract, the entity is required to: <ul style="list-style-type: none"> <li>(i) separate that insurance coverage component and apply IFRS 17 to it; and</li> <li>(ii) apply other applicable IFRS Standards, such as IFRS 9, to the other components of the credit card contract.</li> </ul> </li> <li>(b) extend the amendment to other contracts that provide credit or payment arrangements that are similar to such credit card contracts.</li> </ul>

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
1B—Scope exclusion for loan contracts that meet the definition of an insurance contract	<p>The Exposure Draft proposed that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract. The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.</p>	<p>Confirm the amendment as proposed in the Exposure Draft.</p>
2—Expected recovery of insurance acquisition cash flows	<p>The Exposure Draft proposed that an entity:</p> <ul style="list-style-type: none"> <li>(a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;</li> <li>(b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised;</li> <li>(c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired; and</li> <li>(d) provide disclosures about such assets.</li> </ul>	<p>Confirm the amendment proposed in the Exposure Draft with the following changes:</p> <ul style="list-style-type: none"> <li>(a) clarify that: <ul style="list-style-type: none"> <li>(i) the amounts allocated to a group of insurance contracts cannot be revised after the group has been recognised; and</li> <li>(ii) the amounts allocated to groups of insurance contracts yet to be recognised are revised at each reporting date, to reflect any change in the assumptions that determine the inputs to the method of allocation.</li> </ul> </li> <li>(b) add requirements for the identification, recognition and measurement of an asset for insurance acquisition cash flows at transition and for insurance contracts acquired.</li> </ul>

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
<p>3— Contractual service margin attributable to investment-return service and investment-related service</p>	<p>The Exposure Draft proposed that an entity:</p> <ul style="list-style-type: none"> <li>(a) identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage;</li> <li>(b) apply specified criteria to determine when an insurance contract may provide an investment-return service;</li> <li>(c) identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service; and</li> <li>(d) disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period, and disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.</li> </ul>	<p>Confirm the amendment proposed in the Exposure Draft with the following changes:</p> <ul style="list-style-type: none"> <li>(a) refer, in the specified criteria for when an insurance contract may provide an investment-return service, to 'investment return' (rather than to 'positive investment return' as proposed in the Exposure Draft); and</li> <li>(b) require an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service.</li> </ul>

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
<p>4— Reinsurance contracts held— recovery of losses on underlying insurance contracts</p>	<p>The Exposure Draft proposed that an entity adjust the contractual service margin of a group of reinsurance contracts held <i>that provides proportionate coverage</i>, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group.</p> <p>The amount of the adjustment and resulting income is determined by multiplying:</p> <ul style="list-style-type: none"> <li>(a) the loss recognised on the group of underlying insurance contracts; and</li> <li>(b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.</li> </ul> <p>The proposed amendment would apply only when a reinsurance contract held is entered into before or at the same time as the loss is recognised on the underlying insurance contracts.</p>	<p>Confirm the amendment proposed in the Exposure Draft with the following changes:</p> <ul style="list-style-type: none"> <li>(a) extend the scope of the proposed amendment to <i>all</i> reinsurance contracts held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts.</li> <li>(b) amend the proposed calculation of the income, as a consequence of the extension of the scope of the proposed amendment, to require an entity to determine the amount of a loss recovered from a reinsurance contract held by multiplying: <ul style="list-style-type: none"> <li>(i) the loss recognised on underlying insurance contracts; and</li> <li>(ii) the percentage of claims on underlying insurance contracts the entity expects to recover from the reinsurance contract held.</li> </ul> </li> <li>(c) clarify that the requirement for the subsequent measurement of a group of reinsurance contracts held when a group of underlying insurance contracts become onerous applies also when underlying insurance contracts are measured applying the premium allocation approach.</li> </ul>

<b>Topic</b>	<b>Proposal in the Exposure Draft</b>	<b>Board's tentative decisions during redeliberations</b>
5— Presentation in the statement of financial position	The Exposure Draft proposed that an entity present separately in the statement of financial position the carrying amount of portfolios (rather than groups) of insurance contracts issued that are assets and those that are liabilities. The proposed amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.	Confirm the amendment as proposed in the Exposure Draft.
6A— Applicability of the risk mitigation option— reinsurance contracts held	The Exposure Draft proposed to extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.	Confirm the amendment as proposed in the Exposure Draft.
6B— Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss	None.	Extend the risk mitigation option to circumstances in which an entity mitigates the effect of financial risk on the fulfilment cash flows for the change in the effect of the time value of money and financial risks not arising from the underlying item (for example, the effect of financial guarantees) using non-derivative financial instruments measured at fair value through profit or loss.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
7— Accounting policy choice relating to interim financial statements	None.	Require an entity to: <ul style="list-style-type: none"> <li>(a) make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period; and</li> <li>(b) apply its choice of accounting policy to all insurance contracts issued and reinsurance contracts held (ie an accounting policy choice at entity level).</li> </ul>
8A— Effective date of IFRS 17	The Exposure Draft proposed a one-year deferral of the effective date of IFRS 17 so that an entity would be required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2022.	Decision to be made at this meeting.
8B—IFRS 9 temporary exemption in IFRS 4	The Exposure Draft proposed extending the temporary exemption from applying IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.	Decision to be made at this meeting.

<b>Topic</b>	<b>Proposal in the Exposure Draft</b>	<b>Board's tentative decisions during redeliberations</b>
9A— Transition relief for contracts acquired	<p>The Exposure Draft proposed that an entity:</p> <p>(a) applying the modified retrospective approach, to the extent permitted by paragraph C8 of IFRS 17, classify as a liability for incurred claims a liability for the settlement of claims incurred before an insurance contract was acquired; and</p> <p>(b) applying the fair value approach, be permitted to classify such a liability as a liability for incurred claims.</p>	Confirm the amendment as proposed in the Exposure Draft.
9B— Transition relief for risk mitigation option—the application from the transition date	<p>The Exposure Draft proposed that an entity apply the risk mitigation option for insurance contracts with direct participation features from the transition date, rather than from the date of initial application. An entity would be required to designate risk mitigation relationships at or before the date it applies the option.</p>	Confirm the amendment as proposed in the Exposure Draft.
9C— Transition relief for risk mitigation option—the option to apply the fair value approach	<p>The Exposure Draft proposed that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participation features be permitted to instead apply the fair value approach to that group, if it meets specified criteria relating to risk mitigation.</p>	Confirm the amendment as proposed in the Exposure Draft.

<b>Topic</b>	<b>Proposal in the Exposure Draft</b>	<b>Board's tentative decisions during redeliberations</b>
9D— Transition relief for investment contracts with discretionary participation features	None.	Permit an entity applying the modified retrospective approach or the fair value approach to determine whether an investment contract meets the definition of an investment contract with discretionary participation features using information available at the transition date (rather than at inception or initial recognition). An entity applying the modified retrospective approach would use information available at the transition date only to the extent that the entity does not have reasonable and supportable information to apply a retrospective approach.
9E— Transition relief for identifying the date a reinsurance contract held was acquired	None.	Require an entity that does not have reasonable and supportable information to identify whether a reinsurance contract held was acquired before or at the same time as the onerous underlying insurance contracts were issued to assume that the reinsurance contract held does not have a loss-recovery component at the transition date.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
9F— Transition relief relating to interim financial statements	None.	<p>Require an entity applying the modified retrospective approach to determine the contractual service margin, loss component and amounts related to insurance finance income or expenses at the transition date as if the entity had not prepared any interim financial statements before the transition date if the entity:</p> <ul style="list-style-type: none"> <li>(a) makes an accounting policy choice not to change the treatment of accounting estimates made in previous interim financial statements; and</li> <li>(b) does not have reasonable and supportable information to apply retrospectively its accounting policy choice.</li> </ul>

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
10—Minor amendments	<p>The Exposure Draft proposed minor amendments to the requirements in IFRS 17 to address a number of cases in which the drafting of IFRS 17 does not achieve the Board's intended outcome.</p> <p>The Exposure Draft also included a number of editorial corrections to IFRS 17 that the Board had identified after IFRS 17 was issued.</p>	<p>Confirm the proposed minor amendments in the Exposure Draft with some changes to:</p> <ul style="list-style-type: none"> <li>(a) improve the wording that was used in the Exposure Draft;</li> <li>(b) extend the proposed minor amendment for investment components to loans to policyholders, so that, for insurance contracts without direct participation features, the contractual service margin would not be adjusted for changes in fulfilment cash flows arising from differences that relate to the time value of money and assumptions that relate to financial risk; and</li> <li>(c) resolve an inconsistency in the requirements in IFRS 17 relating to income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract.</li> </ul>

### Evaluating the amendments to IFRS 17 against criteria for change

4. In developing the Exposure Draft, the Board decided that, to maintain the benefits of IFRS 17, any amendments to IFRS 17 must not:
- (a) change the fundamental principles of the Standard because that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17;
  - (b) unduly disrupt implementation processes already under way; or
  - (c) risk undue delays in the effective date of IFRS 17.

5. The Board continued to apply the criteria in paragraph 4 of this paper when considering feedback from outreach and comment letters on the Exposure Draft.
6. The following table summarises the Board’s evaluation of each of the amendments to IFRS 17 against those criteria. The table does not include the individual minor amendments because those amendments are intended only to clarify the wording in the Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements in IFRS 17.

<b>Topic</b>	<b>(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?</b>	<b>(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?</b>
1A—Scope exclusion for credit card contracts and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract	<p>No—The amendment is not expected to result in a significant loss of useful information for users of financial statements because entities would either:</p> <ul style="list-style-type: none"> <li>(a) apply other applicable IFRS Standards to such contracts—those other Standards would provide useful information about the components of those contracts to users of financial statements; or</li> <li>(b) separate the insurance component from such contracts, apply IFRS 17 to it and apply other applicable IFRS Standards, such as IFRS 9, to the other components of such contracts.</li> </ul>	<p>No—The amendment is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17. This is because entities that issue such contracts typically do not issue other contracts within the scope of IFRS 17 and may not otherwise be applying IFRS 17. The amendment will limit the application of IFRS 17 to entities that choose to provide insurance coverage as part of the contractual terms of such contracts and only require IFRS 17 to be applied to the insurance coverage component of the contract rather than the contract as a whole.</p>

Topic	<b>(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?</b>	<b>(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?</b>
1B—Scope exclusion for loan contracts that meet the definition of an insurance contract	No—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.	No—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.
2—Expected recovery of insurance acquisition cash flows	No—The amendment is expected to reduce the number of insurance contracts that are determined to be onerous at initial recognition. However, overall respondents to the Exposure Draft agreed with the Board’s view 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.	No—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 builds on the requirements of IFRS 17 as originally issued.

<b>Topic</b>	<b>(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?</b>	<b>(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?</b>
3— Contractual service margin attributable to investment-return service and investment-related service	No—Including investment-related service (for variable fee approach contracts) or investment-return service (for general model contracts) in addition to 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, overall respondents to the Exposure Draft agreed with the Board’s view that the amendment is expected to provide useful information about the services an entity provides to the policyholder.  The accompanying amendment to the disclosure requirements is intended to enhance the usefulness of information for users of financial statements.	No—The amendment might disrupt implementation processes already under way. However, on balance, the potential disruption is expected to be justified given the feedback from respondents to the Exposure Draft about the usefulness of information provided by the requirements in IFRS 17 as originally issued.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
4— Reinsurance contracts held— recovery of losses on underlying insurance contracts	<p>No—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.</p> <p>The amendment does not affect the accounting for underlying insurance contracts. An entity will continue to be required to provide useful information about underlying insurance contracts that are onerous.</p>	<p>No—The amendment might disrupt implementation for entities that have already begun to develop their systems. However, the disruption is expected to be justified given feedback from respondents to the Exposure Draft about the likely significant impact of the accounting mismatch which many of those respondents think reduce the usefulness of the information provided by IFRS 17 as originally issued.</p>
5— Presentation in the statement of financial position	<p>No—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.</p>	<p>No—The amendment is expected to provide significant cost relief for entities applying IFRS 17, as noted by some respondents to the Exposure Draft. 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.</p>

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
<p>6A— Applicability of the risk mitigation option—reinsurance contracts held</p> <p>6B— Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss</p>	<p>No—Although the amendments to extend the risk mitigation option to cover the use of reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss would change the accounting for the insurance contracts for which financial risk is mitigated, the amendment is an expansion of the option that already exists in IFRS 17. Some respondents to the Exposure Draft agreed with the Board’s view that the amendment would permit an entity to better reflect its risk management activities.</p>	<p>No—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 apply only when the conditions for the risk mitigation option in IFRS 17 are met. If an entity prefers, it could still choose to apply the requirements in IFRS 17 as originally issued.</p>

Topic	<b>(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?</b>	<b>(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?</b>
7— Accounting policy choice relating to interim financial statements	No—Although introducing an accounting policy choice results in different entities applying different accounting policies, it is not expected to result in a significant loss of useful information for users of financial statements. This is because: <ul style="list-style-type: none"> <li>(a) an entity would be required to apply consistently the same approach to all insurance contracts issued and reinsurance contracts held; and</li> <li>(b) different frequency of reporting already gives rise to differences in outcomes even when all entities are required to apply the requirements in IFRS 17 as originally issued.</li> </ul>	No—The amendment is not expected to unduly disrupt implementation processes already under way. If an entity prefers, it could still choose to apply the requirements of IFRS 17 as originally issued.
8A—Effective date of IFRS 17	For the Board to consider at this meeting.	For the Board to consider at this meeting.
8B—IFRS 9 temporary exemption in IFRS 4	For the Board to consider at this meeting.	For the Board to consider at this meeting.

Topic	<b>(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?</b>	<b>(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?</b>
9A— Transition relief for contracts acquired	No—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. Although this transition relief impairs comparability between contracts acquired in business combinations that occur before and after the transition date, the Board concluded that such a relief is necessary because it is likely that entities often would not have the information required to apply IFRS 17 retrospectively to such contracts.	No—The amendment is expected to support, rather than disrupt, implementation processes already under way.  Some respondents to the Exposure Draft agreed with the Board’s view that the amendment would provide practical relief when an entity does not have information to apply the requirements of IFRS 17 retrospectively.
9B— Transition relief for risk mitigation option—the application from the transition date	No—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.	No—The amendment is not expected to unduly disrupt implementation processes already under way. An entity can choose if, and when, to start applying the risk mitigation option when the specified criteria are met.

Topic	<b>(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?</b>	<b>(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?</b>
9C— Transition relief for risk mitigation option—the option to apply the fair value approach	No—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. However, the required disclosure, in subsequent periods, of the contractual service margin of groups of insurance contracts accounted for applying the fair value approach at transition could be a mitigating factor.	No—The amendment is not expected to unduly disrupt implementation processes already under way. It introduces an option, rather than a requirement, for entities to apply the fair value transition approach to a group of insurance contracts with direct participation features. The fair value approach to transition provides an entity with a practical approach to determine the contractual service margin at the transition date, and that approach is simpler to apply than a retrospective approach.
9D— Transition relief for investment contracts with discretionary participation features	No—The transition relief may affect whether an investment contract is accounted for applying IFRS 9 or IFRS 17. Either Standard is expected to provide useful information to users of financial statements about such contracts. <sup>2</sup>	No—The amendment is not expected to unduly disrupt implementation processes already under way. The amendment aligns the transition reliefs for the classification of investment contracts with discretionary participation features to those already available for other contracts (for example, insurance contracts with direct participation features).

<sup>2</sup> IFRS 17 applies to investment contracts that meet the definition of an investment contract with discretionary participation features only if the issuer also issues insurance contracts. Entities that do not issue insurance contracts apply the requirements in IFRS 9 to account for their investment contracts with discretionary participation features.

Topic	<b>(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?</b>	<b>(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?</b>
9E— Transition relief for identifying the date a reinsurance contract held was acquired	No—Without the transition relief, an entity may be prohibited from applying the modified retrospective approach only because it does not know whether a reinsurance contract held was acquired before or at the same time as the underlying insurance contracts were issued. The transition relief would therefore allow more entities to use the modified retrospective approach, instead of the fair value approach, which is regarded as improving the usefulness of information for users of financial statements.	No—The amendment is not expected to unduly disrupt implementation processes already under way. Applying the amendment an entity would not need to identify a loss-recovery component of a reinsurance contract held at transition, which is expected to ease implementation for entities that have reinsurance contracts held at the transition date.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
9F— Transition relief relating to interim financial statements	<p>No—The transition relief:</p> <p>(a) would apply only when an entity, applying the modified retrospective approach, does not have reasonable and supportable information to apply retrospectively its accounting policy choice relating to interim financial statements; and</p> <p>(b) would still result in a retrospective determination of the contractual service margin at the transition date considering annual financial statements before the transition date (rather than both interim and annual financial statements before the transition date).</p>	<p>No—The amendment is not expected to unduly disrupt implementation processes already under way. The amendment is expected to reduce the burden at transition for entities applying the modified retrospective approach that would make an accounting choice not to change the treatment of accounting estimates made in previous interim financial statements. Applying the transition relief, an entity would determine the contractual service margin at the transition date as if the entity had not prepared any interim financial statements before the transition date.</p>

## Effects of the proposed amendments

7. In developing the amendments, the Board considered papers that allowed it to assess the likely effects of the amendments. The assessment of the likely effects of the amendments proposed in the Exposure Draft was included in the Basis for Conclusions on the Exposure Draft.<sup>3</sup> This section of the paper provides an updated assessment of the likely effects of the amendments, in the light of the Board's tentative decisions during redeliberations (refer to the table in paragraph 3 of this paper).

<sup>3</sup> Paragraph BC221 of the Basis for Conclusions on the Exposure Draft.

8. 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 new 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.
9. The following table considers the likely effects of the amendments compared to the requirements in IFRS 17 as originally issued. The staff observe that the amendments to IFRS 17 are, by design, narrow in scope and intended to ease implementation for entities issuing insurance contracts.

Topic	Financial statements effects	Cost-benefit analysis
<p>1A—Scope exclusion for credit card contracts and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract</p>	<p>Entities issuing credit card contracts and other similar contracts that meet the definition of an insurance contract that would be excluded from the scope of IFRS 17 would:</p> <ul style="list-style-type: none"> <li>(a) apply other applicable IFRS Standards to such contracts (if an entity does not provide the insurance coverage as part of the contractual terms of the contracts); or</li> <li>(b) separate the insurance component from such contracts, apply IFRS 17 to it and apply other applicable IFRS Standards to the other components of such contracts (if an entity provides the insurance coverage as part of the contractual terms of the contracts).</li> </ul> <p>Often the outcome of applying other applicable IFRS Standards to such contracts is expected to be similar to how those entities applied IFRS 4. In those cases, no significant effect on the financial statements is expected.</p>	<p>The amendment is expected to reduce IFRS 17 implementation costs for entities that:</p> <ul style="list-style-type: none"> <li>(a) do not typically issue other contracts within the scope of IFRS 17; and</li> <li>(b) do not provide the insurance coverage as part of the contractual terms of the credit card contracts and other similar contracts that would be captured by the scope exclusion.</li> </ul> <p>Those entities would not need to implement IFRS 17 because they would apply other applicable IFRS Standards to account for such credit card contracts and other similar contracts.</p> <p>Entities that provide insurance coverage as part of the contractual terms of such contracts will need to apply IFRS 17 only to the insurance component of the contract.</p> <p>Accounting for such contracts in the same way as credit card contracts and other similar contracts that do not meet the definition of an insurance contract is expected to provide comparable information for the users of financial statements for the entities that issue credit card contracts and other similar contracts.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>1B—Scope exclusion for loan contracts that meet the definition of an insurance contract</p>	<p>Entities are expected to use the option that introduces the least change to their accounting and/or the accounting that aligns most closely with the accounting they apply to other contracts they issue.</p> <p>No change is expected for entities that would elect to apply IFRS 17 to such loan contracts because applying IFRS 17 to such loan contracts is the requirement in IFRS 17 as originally issued.</p> <p>Entities that elect to apply IFRS 9, rather than IFRS 17, to such loan contracts are expected to account for those contracts consistently with similar financial instruments they issue, for example, 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 loan contracts, permitting comparability with the other insurance contracts issued by the same entity; or</li> <li>(b) IFRS 9 to such loan contracts, permitting comparability with 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 loan contracts.</p> <p>Measuring those loan contracts applying IFRS 9 or IFRS 17 is expected to provide useful information to users of financial statements in either case, without unduly reducing comparability or unduly increasing the costs of analysis for users of financial statements.</p>

Topic	Financial statements effects	Cost-benefit analysis
2—Expected recovery of insurance acquisition cash flows	<p>The requirement to allocate insurance acquisition cash flows to expected contract renewals and recognise them as an asset, rather than as part of the measurement of the initial contracts, is expected to:</p> <ul style="list-style-type: none"> <li>(a) reduce the number of insurance contracts determined to be onerous at initial recognition; and</li> <li>(b) increase the amount and duration of the asset recognised for those cash flows.</li> </ul>	<p>Users of financial statements are expected to benefit from additional information about expected contract renewals and related disclosures—that is, the reconciliation of the asset at the beginning and 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 is expected to increase the ongoing costs of applying IFRS 17 for entities. However, that assessment would be required only if facts and circumstances indicate the asset may be impaired.</p> <p>On balance, the potential additional costs are expected to be justified given the feedback from respondents to the Exposure Draft that the amendment is expected to make it easier for entities to explain the results of applying IFRS 17 to users of financial statements.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>3— Contractual service margin attributable to investment-return service and investment-related service</p>	<p>The amendment is expected to change the pattern of recognition of profit to better align it with the provision of different services when an entity provides investment-return service.</p>	<p>The disclosures 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>The amendment is expected to provide useful information about the investment-return service provided under a contract.</p> <p>However, the amendment might disrupt implementation processes already under way and, therefore, increase costs, particularly for entities that are at an advanced stage of IFRS 17 implementation.</p> <p>On balance, the potential disruption is expected to be justified given the feedback from respondents to the Exposure Draft about the increased usefulness of information.</p>

Topic	Financial statements effects	Cost-benefit analysis
<p>4— Reinsurance contracts held— recovery of losses on underlying insurance contracts</p>	<p>The amendment changes the accounting for reinsurance contracts held when they relate to underlying contracts that are onerous at initial recognition. It does not affect the accounting for the underlying insurance contracts issued. Therefore, an entity will continue to be required to provide information about onerous underlying insurance contracts.</p> <p>Applying the amendment an entity will recognise in profit or loss the recovery of a loss immediately and the adjusted net cost or net gain of purchasing reinsurance as reinsurance services are received.</p>	<p>The amendment:</p> <ul style="list-style-type: none"> <li>(a) is expected to improve consistency between the accounting treatment for reinsurance contracts held relating to the initial recognition of underlying onerous contracts and subsequent adverse changes in onerous groups of underlying contracts;</li> <li>(b) is expected to reduce the complexity for users of financial statements in understanding the accounting for reinsurance contracts held, by reducing accounting mismatches;</li> <li>(c) might disrupt implementation processes for entities that have already started those processes and might, therefore, increase costs for those entities; and</li> <li>(d) is not expected to unduly increase the ongoing costs of IFRS 17 for entities or the costs of analysis for users of financial statements because it expands an exception to the general requirements for reinsurance contracts held in IFRS 17.</li> </ul>

Topic	Financial statements effects	Cost-benefit analysis
5— Presentation in the statement of financial position	The amendment—which would require entities to separately present insurance contracts at portfolio level rather than at group level—is expected to reduce the amount of insurance contract assets presented in the statement of financial position. It is expected that many groups of insurance contracts will typically move between asset and liability positions, whereas most portfolios of insurance contracts are expected to remain in a liability position.	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 is regarded as acceptable when balanced against the significant cost relief for entities.  Investor outreach indicates that the loss of useful information caused by this amendment would be acceptable. The impact on the costs of analysis for users of financial statements is not expected to be significant.
6A— Applicability of the risk mitigation option—reinsurance contracts held  6B— Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss	Entities with reinsurance contracts held or non-derivative financial instruments at fair value through profit or loss that use the risk mitigation option to recognise changes in insurance contracts with direct participation features caused by changes in financial assumptions in profit or loss, rather than as adjustments to the contractual service margin, will reduce accounting mismatches with the related changes in the reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss.	The extension of the risk mitigation option to reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss:  (a) is expected to reduce accounting mismatches and, therefore, reduce complexity for preparers and users of financial statements in understanding the accounting for insurance contracts; and  (b) is not expected to unduly increase implementation costs for entities because an entity can decide not to use the option.

Topic	Financial statements effects	Cost-benefit analysis
7— Accounting policy choice relating to interim financial statements	Introducing an accounting policy choice is expected to result in different entities applying different accounting policies. An entity would either change or not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period. The choice is an accounting policy choice and is made at an entity level. It would therefore be subject to the requirements in IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> —the choice should be applied consistently by an entity over time.	Introducing an accounting policy choice is expected to ease IFRS 17 implementation by reducing implementation costs. An entity is expected to assess what is less burdensome from a practical perspective between: <ul style="list-style-type: none"> <li>(a) maintaining two sets of accounting estimates for entities within a consolidated group with different frequency of reporting; and</li> <li>(b) recalculating the carrying amount of the contractual service margin and the amounts recognised in profit or loss for a subsequent reporting period.</li> </ul> The additional complexity of introducing an accounting policy choice could be regarded as acceptable when balanced against the cost relief for entities.
8A— Effective date of IFRS 17	For the Board to consider at this meeting.	For the Board to consider at this meeting.
8B—IFRS 9 temporary exemption in IFRS 4	For the Board to consider at this meeting.	For the Board to consider at this meeting.

Topic	Financial statements effects	Cost-benefit analysis
<p>9A— Transition relief for contracts acquired</p>	<p>The amendment is expected to reduce revenue and expenses recognised by entities. The amendment would permit an entity to account for some liabilities for claims settlement acquired 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 expected claims.</p> <p>The amendment is expected to:</p> <ul style="list-style-type: none"> <li>(a) allow more entities to use the modified retrospective approach, instead of the fair value approach; and</li> <li>(b) provide additional relief within the fair value approach.</li> </ul>	<p>The amendment treats liabilities acquired in a manner that is inconsistent with the principles of acquisitions 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 as a liability for incurred claims on transition to IFRS 17 is expected to ease implementation for entities that have acquired contracts before the transition date.</p>
<p>9B— Transition relief for risk mitigation option—the application from the transition date</p>	<p>Applying the amendment, entities that choose to use the risk mitigation option from the transition date—that is, the beginning of the annual reporting period immediately before the date of initial application—would 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 period presented and to achieve comparability over time.</p> <p>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 by IFRS 17 at transition are expected to mitigate the costs of analysis for users of financial statements introduced by the additional optionality.</p>

Topic	Financial statements effects	Cost-benefit analysis
9C— Transition relief for risk mitigation option—the option to apply the fair value approach	At the transition date, the equity of an entity that applies the amendment 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 or non-derivative financial instruments at fair value through profit or loss if the entity has used those financial instruments or reinsurance contracts held to mitigate financial risk before the transition date.	<p>The information provided applying the fair value transition approach is expected to be useful to users of financial statements because it reduces 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 participation features. Therefore, the amendment is not expected to unduly increase implementation costs for entities.</p> <p>The disclosures required by IFRS 17 at transition are expected to mitigate the costs of analysis for users of financial statements introduced by the additional optionality.</p>
9D— Transition relief for investment contracts with discretionary participation features	An entity using the transition relief will determine whether an investment contract meets the definition of an investment contract with discretionary participation features using information available at the transition date (rather than at inception or initial recognition). Therefore, the number of investment contracts that would fall within the scope of IFRS 17 when entities apply the transition relief is expected to vary depending on the changes of the characteristics of a contract between its issuance date and the transition date.	The transition relief is expected to ease implementation for entities that have investment contracts to which IFRS 17 applies. Investment contracts with discretionary participation features have similar economic characteristics as insurance contracts and they are commonly linked to the same pool of assets as, or share in the performance of, insurance contracts. Applying either IFRS 17 or IFRS 9 requirements to those contracts is expected to provide useful information to users of financial statements.

Topic	Financial statements effects	Cost-benefit analysis
9E— Transition relief for identifying the date a reinsurance contract was acquired	At the transition date, an entity using the transition relief will not recognise a loss-recovery component for a reinsurance contract held that covers underlying insurance contracts that were onerous when issued.	<p>Requiring an entity to assume, in some circumstances, that a reinsurance contract held does not have a loss-recovery component at the transition date is expected to ease implementation for entities that have reinsurance contracts held at the transition date.</p> <p>The transition relief is regarded as improving the usefulness of information for users of financial statements because it is expected to allow more entities to use the modified retrospective approach, instead of the fair value approach. The inconsistency between the treatment before and after the transition date of reinsurance contracts held with underlying onerous insurance contracts could be regarded acceptable balanced against the cost relief for entities.</p>
9F— Transition relief relating to interim financial statements	Entities using the transition relief are expected to determine the contractual service margin of insurance contracts accounted for applying the modified retrospective approach at transition in a way that is similar to the approach used by entities that would choose to change the treatment of accounting estimates made in previous interim financial statements (ie considering only annual financial statements before the transition date).	<p>The transition relief is expected to ease implementation for entities that:</p> <ul style="list-style-type: none"> <li>(a) have prepared interim financial statements before the transition date;</li> <li>(b) choose not to change the treatment of accounting estimates made in previous interim financial statements; and</li> <li>(c) apply the modified retrospective approach to groups of contracts at transition.</li> </ul>

Topic	Financial statements effects	Cost-benefit analysis
<p>10A—Minor amendments: editorial correction to paragraph B107 of IFRS 17 to ensure consistency within IFRS 17</p>	<p>The correction to paragraph B107 of IFRS 17 specifies that, when assessing whether a contract meets the definition of an insurance contract with direct participation features, an entity assesses the variability of the amounts to be paid to the policyholder over the duration of the insurance contract (rather than over the duration of the group of insurance contracts as incorrectly specified by paragraph B107 of IFRS 17 as originally issued).</p> <p>Some entities indicated the correction changed the way they had interpreted the requirements of the Standard—they had been assessing the eligibility for the variable fee approach at a group level and now have to make that assessment at a contract level. For these entities, the consequence may be that fewer contracts meet the criteria to be considered insurance contracts with direct participation features, and consequently will be accounted for applying the general model. This in turn effects the ongoing accounting for these contracts.</p> <p>The correction will result in more comparability by eliminating a possible misinterpretation of the Standard. The correction affects only one of the criteria for the assessment of contracts to which the variable fee approach applies (ie the requirement in paragraph B101(c) of IFRS 17). Further, it only makes a difference to the assessment when there are cash flows the variability of which changes when assessed for an individual contract rather than for a group of contracts. Nonetheless, the correction may have an effect on implementation processes already under way, and consequently there may be a cost for those entities of redoing some of their implementation activities. However, it should be noted that this misinterpretation may have in any case been detected later in the implementation processes.</p>	
<p>10B—Other minor amendments</p>	<p>Minor amendments either clarify the wording in IFRS 17 or correct relatively minor unintended consequences, oversights or conflicts between the requirements of IFRS 17 and other Standards. Likely effects might vary depending on specific facts and circumstances.</p>	