

AGENDA [28/02/2019]

Date 12-14 March 2019

Location IASB, Boardroom,
Columbus Building | 7 Westferry Circus |
Canary Wharf | London E14 4HD | UK

Tuesday 12 March

Time UK	Agenda item	Agenda ref
15.00-16.00	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	29
16.00-16.15	SMEs that are subsidiaries	31
16.15-17.15	SME Standard review and update	30

AGENDA [28/02/2019]

Date 12-14 March 2019

Location IASB, Boardroom,
Columbus Building | 7 Westferry Circus |
Canary Wharf | London E14 4HD | UK**Wednesday 13 March**

Time UK	Agenda item	Agenda ref.
10.30-11.30	Financial Instruments with Characteristics of Equity	5
11.30-13.00	Business Combinations under Common Control	23
13.00-14.00	Lunch	
14.00-14.30	Extractive Activities	19
14.30-16.30	Primary Financial Statements	21

AGENDA [28/02/2019]

Date 12-14 March 2019

Location IASB, Boardroom,
Columbus Building | 7 Westferry Circus |
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Thursday 14 March

Time UK	Agenda item	Agenda ref.
09.30-11.30	Amendments to IFRS 17 <i>Insurance Contracts</i>	2
11.30-11.45	Break	
11.45-12.30	Disclosure Initiative	11
12.30-13.30	IBOR Reform and the Effects on Financial Reporting	14

STAFF PAPER

March 2019

IASB[®] meeting

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

Introduction

1. This cover note provides:
 - (a) background information about the tentative decisions made by the International Accounting Standards Board (Board) about IFRS 17 *Insurance Contracts* at its recent meetings and the ongoing extensive dialogue with stakeholders;
 - (b) an overview of the papers for this meeting, including a summary of staff recommendations; and
 - (c) an outline of the next steps.
2. The appendix to this cover note provides a list of all tentative decisions made by the Board as at February 2019.

Background

3. When IFRS 17 was issued, the Board initiated a comprehensive programme of stakeholder engagement. One objective of this engagement was to understand the practical challenges of implementing IFRS 17 and identify possible ways the Board could ease the burden of transition. Through this engagement process, the Board has identified some concerns and implementation challenges, including those related to

the balance of costs and benefits from applying IFRS 17. In addition, the Board has established a Transition Resource Group for IFRS 17, which provides a public forum for stakeholders to follow the discussion of questions raised on implementation and inform the Board in order to help the Board determine what, if any, action will be needed to address those questions.

4. Throughout the development of IFRS 17, the Board was aware that applying IFRS 17 for the first time will result in significant costs for some entities, but overall considered that the benefits of IFRS 17 would outweigh the costs (for discussion of the costs and benefits of IFRS 17 refer to the *Effects Analysis on IFRS 17*). Nonetheless, the Board indicated that it would consider whether additional action was needed to address matters identified as entities began their implementation efforts.
5. In October 2018, the Board considered the concerns and implementation challenges identified by stakeholders during their implementation processes, and commenced a process of evaluating the need for making possible amendments to the Standard. The Board is aware that making amendments to a recently issued Standard carries a risk of disruption to implementation processes that are already underway. The Board is also aware of the need to ensure that any amendments do not unduly delay the effective date of the Standard.
6. Accordingly, at its October 2018 meeting, the Board tentatively decided that, when proposing any amendment to IFRS 17, in addition to demonstrating a need for the amendment, the staff must show that any proposal meets the following criteria:
 - (a) the amendments would not result in significant loss of useful information relative to that which would otherwise be provided by IFRS 17 for users of financial statements—any amendments would avoid:
 - (i) reducing the relevance and faithful representation of information in the financial statements of entities applying IFRS 17;
 - (ii) causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17; or
 - (iii) increasing complexity for users of financial statements, thus reducing understandability.

- (b) the amendments would not unduly disrupt implementation processes already under way or risk undue delays in the effective date of the Standard, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.
7. The Board is now evaluating whether any of the concerns and implementation challenges identified justify amendments to the Standard that would meet these criteria. As part of that work, the staff and the Board have reviewed possible approaches developed by stakeholders in different forms and have held extensive dialogue with stakeholders to further understand the proposals and their implications in more detail. The feedback from this dialogue has been reflected in the staff's development of the papers for the Board.

Papers for this meeting and summary of staff recommendations

8. The papers for this meeting provide an analysis of the following topics:
- (a) level of aggregation—see Agenda Paper 2A *Level of aggregation—Stakeholder concerns, implementation challenges and staff analysis*, Agenda Paper 2B *Level of aggregation—IFRS 17 requirements and Board's rationale* and Agenda Paper 2C *Level of aggregation—History of the Board's decisions and stakeholder feedback*;
 - (b) scope of IFRS 17—see Agenda Paper 2D *Credit cards that provide insurance coverage*;
 - (c) transition—see Agenda Paper 2E *Transition requirements—Risk mitigation option* and Agenda Paper 2F *Transition requirements—Loans that transfer significant insurance risk*;
 - (d) disclosures—see Agenda Paper 2G *Amendments to disclosure requirements resulting from the Board's tentative decisions to date*; and
 - (e) implications for disclosures and transition—see Agenda Paper 2H *Implications for disclosure and transition requirements*.
9. The following paragraphs summarise the staff recommendations in the papers for this meeting.

Level of aggregation (Agenda Papers 2A–2C)

10. In Agenda Paper 2A the staff recommend the Board retain the IFRS 17 requirements on the level of aggregation unchanged.

Credit cards that provide insurance coverage (Agenda Paper 2D)

11. In Agenda paper 2D the staff recommend the Board amend IFRS 17 to exclude from the scope of the Standard credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Transition—Risk mitigation option (Agenda Paper 2E)

12. In Agenda paper 2E the staff recommend the Board amend the requirements of IFRS 17 to:
- (a) permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date; and
 - (b) permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participating features to use the fair value transition approach for the group, if they:
 - (i) choose to apply the risk mitigation option to the group prospectively from the transition date; and
 - (ii) have used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date.

**Transition requirements—Loans that transfer significant insurance risk
(Agenda Paper 2F)**

13. In Agenda Paper 2F, the staff recommend the Board maintain:
- (a) the transition requirements in IFRS 17 for loans that transfer significant insurance risk, if an entity elects to apply the requirements in IFRS 17 to a portfolio of such loans; and
 - (b) the transition requirements in IFRS 9 *Financial Instruments* for loans that transfer significant insurance risk, if an entity:
 - (i) elects to apply the requirements in IFRS 9 to a portfolio of such loans; and
 - (ii) initially applies IFRS 17 and IFRS 9 at the same time.
14. The staff recommend the Board amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk, if an entity:
- (a) elects to apply the requirements in IFRS 9 to a portfolio of such loans; and
 - (b) has applied IFRS 9 before it initially applies IFRS 17.
15. If the Board agrees with the staff recommendation in paragraph 14 of this paper, the staff recommend the Board amend the transition requirements in IFRS 9:
- (a) to require an entity to apply the transition requirements in IFRS 9 that are necessary for applying the proposed amendments.
 - (b) to permit an entity to newly designate, and to require an entity to revoke its previous designations of, a financial liability under the fair value option at the date the entity first applies the proposed amendments, to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists as a result of applying the proposed amendments.
 - (c) not to require an entity to restate prior periods to reflect the application of the proposed amendments but to permit an entity to restate prior periods under particular conditions.

- (d) to exempt an entity from presenting the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- (e) to require an entity to disclose specific information in addition to the disclosures that any other IFRS Standard would require.

The staff note that these recommendations are similar to the Board's past decisions for specifying transition requirements for (a) previous amendments to IFRS 9 and (b) the redesignation of financial assets when an entity applies IFRS 17 for the first time.

Amendments to disclosure requirements resulting from the Board's tentative decisions to date (Agenda Paper 2G)

16. In Agenda paper 2G the staff recommend the Board amend the disclosure requirements in IFRS 17 to reflect the proposed amendments related to:
- (a) the contractual service margin recognised in profit or loss on the basis of coverage units determined by considering both insurance coverage and investment-related services or investment return services, if any, by requiring:
 - (i) quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period, ie removing the option of providing qualitative information allowed by paragraph 109 of IFRS 17 of providing qualitative information.
 - (ii) specific disclosure of the approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment return services, as part of the disclosure requirements in paragraph 117 of IFRS 17 related to significant judgements and changes in judgements made in applying IFRS 17.
 - (b) insurance acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts, by requiring:
 - (i) reconciliation of the asset created by these cash flows at the beginning and the end of the reporting period and its changes,

specifically recognition of any impairment loss or reversals. The aggregation of the information provided in this reconciliation should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts.

- (ii) quantitative disclosure, in appropriate time bands, of the expected inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts. The acquisition cash flows will be included in the measurement of the related group of insurance contracts when those contracts are recognised.

Implications for disclosure and transition requirements (Agenda Paper 2H)

- 17. In Agenda paper 2H the staff recommend the Board amend IFRS 17 as discussed in Agenda Papers 2E, 2F and 2G and retain all other disclosure and transition requirements in IFRS 17.

Next steps

- 18. After its March 2019 meeting, the Board will have considered all the individual 25 topics discussed in Agenda Paper 2D *Concerns and implementation challenges* for the October 2018 meeting.
- 19. At its April 2019 meeting, the Board plans to consider the package of amendments tentatively decided by the Board as a whole. At that meeting the Board will consider whether:
 - (a) on the whole, the benefits of the amendments outweigh the costs; and
 - (b) on the whole, the amendments do not unduly disrupt implementation.
- 20. At the same meeting, the staff expect to request Board's permission to start the balloting process for the proposed amendments to IFRS 17.
- 21. The staff expect to publish an Exposure Draft of the amendments to IFRS 17 around the end of the first half of 2019. The staff observe that the Board generally allows at least 12 to 18 months between the publication of new requirements and their mandatory effective date. The staff expect that this timetable would allow any

proposed amendments to IFRS 17 to be finalised on a timely basis to allow for this period before 1 January 2022.

Appendix A—Board’s tentative decisions about possible amendments to IFRS 17

This appendix summarises the Board’s tentative decisions about possible amendments to IFRS 17 as at February 2019. Paragraphs A1–A13 of this appendix summarise amendments that the Board has tentatively decided to propose. Paragraphs A14–A26 of this appendix summarise the requirements of IFRS 17 that the Board has tentatively decided to retain. They are presented in the order in which they appear in IFRS 17.

1—Proposed amendments to IFRS 17

Scope of IFRS 17 (February 2019)

- A1. The Board tentatively decided to amend the scope of IFRS 17 and IFRS 9 for insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract. These amendments would enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9. The choice would be made portfolio by portfolio, using the IFRS 17 definition of a portfolio.

Initial recognition (June 2018)

- A2. The Board tentatively decided to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group.

Insurance acquisition cash flows (June 2018 and January 2019)

- A3. The Board tentatively decided to:
- (a) amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued.
 - (b) amend IFRS 17 to require an entity to allocate to any expected contract renewals their related part of the insurance acquisition cash flows directly attributable to newly issued contracts.

- (c) amend IFRS 17 to require an entity to recognise the insurance acquisition cash flows allocated to expected contract renewals as assets applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.
- (d) amend IFRS 17 to require an entity to assess the recoverability of any asset recognised applying paragraph 27 of IFRS 17 each period before the related contracts are recognised. The recoverability assessment would be based on the expected fulfilment cash flows of the related group of contracts.
- (e) amend IFRS 17 to require an entity to recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised by applying paragraph 27 of IFRS 17.
- (f) amend IFRS 17 to require an entity to recognise in profit or loss the reversal of some or all of any such loss previously recognised when the impairment conditions no longer exist or have improved.

Risk adjustment for non-financial risk (June 2018)

- A4. The Board tentatively decided to remove requirements in IFRS 17 that could result in double-counting of the risk adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses.

Contractual service margin (June 2018 and January 2019)

- A5. The Board tentatively decided to:
- (a) clarify the definition of the coverage period for insurance contracts with direct participation features in IFRS 17. The proposed amendment would clarify that the coverage period for such contracts includes periods in which the entity provides investment-related services.
 - (b) amend IFRS 17 so that in the general model the contractual service margin is recognised in profit or loss on the basis of coverage units that are determined by considering both insurance coverage and investment return service, if any.
 - (c) amend IFRS 17 to establish that an investment return service exists only when an insurance contract includes an investment component.
 - (d) amend IFRS 17 to require an entity to use judgement applied consistently in deciding whether an investment return service exists when determining

coverage units, and not provide an objective or criteria for that determination. However, the Board instructed the staff to consider including in the Basis for Conclusions some of the analysis in the January 2019 Agenda Paper 2E *Recognition of Contractual Service Margin in Profit or Loss in the General Model*, to indicate what such judgements might involve.

- (e) amend IFRS 17 to establish that the period of investment return services should be regarded as ending when the entity has made all investment component payments to the policyholder of the contract and should not include any period of payments to future policyholders.
- (f) amend IFRS 17 to require assessments of the relative weighting of the benefits provided by insurance coverage and investment return services and their pattern of delivery to be made on a systematic and rational basis.
- (g) confirm that, applying IFRS 17, cash flows relating to fulfilling the investment return service are included in the measurement of the insurance contract.
- (h) amend IFRS 17 to establish that the one-year eligibility criterion for the premium allocation approach (PAA) should be assessed by considering insurance coverage and an investment return service, if any.

Reinsurance contracts held (January 2019)

A6. The Board tentatively decided to amend IFRS 17 to:

- (a) expand the scope of the exception in paragraph 66(c)(ii) of IFRS 17 to require an entity to recognise a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that a reinsurance contract held covers the losses of each contract on a proportionate basis; and
- (b) require an entity to apply the expanded exception when the entity measures contracts applying the PAA.

A7. The Board also tentatively decided to amend IFRS 17 to expand the scope of the risk mitigation exception for insurance contracts with direct participation features in paragraph B115 of IFRS 17 so that the exception applies when an entity uses a derivative or a reinsurance contract held to mitigate financial risk, to the extent that the entity meets the conditions in paragraph B116 of IFRS 17.

Presentation of insurance contracts on the statement of financial position (December 2018)

- A8. The Board tentatively decided to amend the requirements in IFRS 17 so that the presentation of insurance contract assets and liabilities in the statement of financial position is determined using portfolios of insurance contracts rather than groups of insurance contracts.

Disclosures (June 2018)

- A9. The Board tentatively decided to correct the terminology in the sensitivity analysis disclosures in IFRS 17.

Effective dates (November 2018)

- A10. The Board tentatively decided that:
- (a) the mandatory effective date of IFRS 17 should be deferred by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.
 - (b) consequently, the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 should be amended, so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.

Transition (February 2019)

- A11. The Board tentatively decided to amend the transition requirements in IFRS 17 for liabilities that relate to the settlement of claims incurred before an insurance contract was acquired as follows:
- (a) to add a specified modification to the modified retrospective approach so that an entity classifies such liabilities as a *liability for incurred claims*. Consistent with the other specified modifications, an entity would be permitted to use this specified modification only to the extent that it does not have reasonable and supportable information to apply a retrospective approach.
 - (b) to permit an entity applying the fair value approach to choose to classify such liabilities as a *liability for incurred claims*.

Business combinations (June 2018)

- A12. The Board tentatively decided to:
- (a) exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17; and
 - (b) amend IFRS 3 *Business Combinations* so that the amendment made by IFRS 17 on the classification of insurance contracts applies prospectively.

Other proposed amendments (June 2018)

- A13. The Board tentatively decided to:
- (a) amend IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 and IAS 32 *Financial Instruments: Presentation* to achieve the intended scopes of these financial instruments Standards and the scope of IFRS 17, particularly with respect to insurance contracts held; and
 - (b) add an explanation that, in Example 9 of the Illustrative Examples on IFRS 17, the time value of the guarantee changes over time.

2—Tentative decisions to retain IFRS 17 requirements without amendments

Use of locked-in discount rates to adjust the contractual service margin (December 2018)

- A14. The Board tentatively decided to retain the requirements in IFRS 17 for the discount rates used to determine the adjustments to the contractual service margin.

Discount rates and risk adjustment for non-financial risk (December 2018)

- A15. The Board tentatively decided to retain the requirements in IFRS 17 for the principle-based approach to determining the discount rates and the risk adjustment used to measure insurance contracts.

Risk adjustment in a group of entities (December 2018)

- A16. The Board tentatively decided to retain the requirements in IFRS 17 for the risk adjustment for non-financial risk in consolidated financial statements.

Contractual service margin (December 2018)

- A17. The Board tentatively decided to retain the requirements in IFRS 17 for the non-transitional requirements relating to risk mitigation activities.
- A18. The Board tentatively decided to retain the requirements of IFRS 17 relating to changes in fulfilment cash flows that adjust the contractual service margin in the general model.

Business combinations (December 2018)

- A19. The Board tentatively decided to retain the requirements in IFRS 17 for the classification, applying IFRS 17 and IFRS 3, of contracts acquired in a business combination as insurance contracts.
- A20. The Board tentatively decided to retain the requirements in IFRS 17 for the determination of the insured event for insurance contracts acquired in a business combination.

Reinsurance contracts held (December 2018)

- A21. The Board tentatively decided to retain the requirements in IFRS 17 for the future cash flows in the measurement of reinsurance contracts held.

Presentation of insurance contracts (December 2018)

- A22. The Board tentatively decided to retain the requirements in IFRS 17 for the presentation and measurement of premiums receivable and claims payable.
- A23. The Board tentatively decided to retain the requirements in IFRS 17 for the option to present specified amounts of insurance finance income or expenses in profit or loss or other comprehensive income.

Transition (February 2019)

- A24. The Board tentatively decided to:
- (a) retain the IFRS 17 transition requirements without making amendments that would reduce the optionality included in those requirements.
 - (b) retain the IFRS 17 requirement to present restated comparative information for the annual reporting period immediately preceding the date of initial application of IFRS 17.

- (c) retain the transition requirement in IFRS 17 that prohibits retrospective application of the risk mitigation option. The Board asked the staff to continue to explore alternative proposals that would address stakeholders' concerns about the results of not applying the option retrospectively.
- (d) retain the transition requirements in IFRS 17 relating to the cumulative amounts included in other comprehensive income.
- (e) retain the transition requirements in the modified retrospective approach set out in IFRS 17 that:
 - (i) prohibit an entity from using a specified modification to the extent that the entity has reasonable and supportable information to apply the related IFRS 17 requirement retrospectively; and
 - (ii) permit an entity to use a specified modification only when the entity has reasonable and supportable information to apply that modification.
- (f) retain the transition requirements in IFRS 17 for the modified retrospective approach, without an amendment that would permit an entity to develop its own modifications that it regards as consistent with the objective of the modified retrospective approach. However, the Board noted the importance of the clarification in the February 2019 Agenda Paper 2D *Transition—Modified Retrospective Approach* that the existence of specified modifications does not preclude the normal use of estimation techniques.
- (g) retain without amendment the specified modification in the modified retrospective approach relating to the use of cash flows that are known to have occurred, instead of estimating retrospectively cash flows that were expected to occur.
- (h) retain the modified retrospective approach for insurance contracts with direct participation features, without an amendment that would permit an entity to apply to such contracts the specified modifications permitted for insurance contracts without direct participation features.

Defined terms (December 2018)

A25. The Board tentatively decided to retain the requirements in IFRS 17 for the definition of an insurance contract with direct participation features.

Interim financial statements (December 2018)

A26. The Board tentatively decided to retain the requirements in IFRS 17 for the treatment of accounting estimates in interim financial statements.

STAFF PAPER

March 2019

IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Level of aggregation—Stakeholder concerns, implementation challenges and staff analysis		
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Purpose

1. This paper is part of a set of papers on the level of aggregation requirements in IFRS 17 *Insurance Contracts*. It sets out stakeholder concerns, implementation challenges and staff analysis.
2. The other papers in the set provide background information. Those other papers are:
 - (a) AP2B *Level of aggregation—IFRS 17 requirements and Board’s rationale*; and
 - (b) AP2C *Level of aggregation—History of the Board’s decisions and stakeholder feedback*.

Staff recommendation

3. The staff recommend the International Accounting Standards Board (Board) retain the IFRS 17 requirements on the level of aggregation unchanged.

Structure of the paper

4. This paper provides:
 - (a) an overview of the concerns and implementation challenges expressed since IFRS 17 was issued (paragraphs 7–14 of this paper); and
 - (b) the staff analysis, recommendation and a question for Board members (paragraphs 15–53 of this paper).
5. Appendix A to this paper provides an example of the effect of annual cohorts on groups of contracts with cash flows that affect or are affected by cash flows to policyholders of other groups of contracts.
6. Appendix B to this paper sets out an extract from the summary of the September 2018 meeting of the Transition Resource Group for IFRS 17 (TRG).

Concerns and implementation challenges expressed since IFRS 17 was issued

7. As set out in more detail in Agenda Paper 2B, IFRS 17 requires an entity to recognise and measure groups of insurance contracts. Groups are determined by:
 - (a) identifying portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together.
 - (b) dividing a portfolio into a minimum of three groups (referred to in this set of papers as ‘profitability buckets’):
 - (i) a group of contracts that are onerous at initial recognition, if any;
 - (ii) a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
 - (iii) a group of remaining contracts in the portfolio.
 - (c) dividing the profitability buckets into groups of contracts not issued more than one year apart (annual cohorts).

8. Consistent with the feedback the Board heard during the development of IFRS 17, some stakeholders have expressed concerns with the level of aggregation requirements in IFRS 17 (mainly relating to the annual cohort requirement). Some stakeholders think:
- (a) the requirements will not provide users of financial statements with useful information;
 - (b) implementing the requirements is a major challenge and the benefits do not outweigh the costs; and
 - (c) the requirements are unnecessary because an entity can achieve the same outcome without applying those requirements.
9. In relation to paragraph 8(a) of this paper, some stakeholders have expressed the view that the level of aggregation requirements artificially segregate portfolios and will not properly depict business performance. They expressed the view that segregating portfolios into groups will not accurately reflect pooling of risks, which is fundamental to the insurance business model. Some stakeholders said that when risks are pooled, the only useful information about profitability is that which reflects the overall experience of the pool. Particularly, some stakeholders have expressed these concerns for applying the annual cohort requirement to insurance contracts with risk sharing between different generations of policyholders.
10. In relation to paragraph 8(b) of this paper, some stakeholders have expressed the view that the level of aggregation requirements are too prescriptive and too granular, particularly the annual cohort requirement. Those stakeholders explained that they manage their business at a higher level of aggregation, for example—at a portfolio level. Therefore, applying the level of aggregation requirements in IFRS 17 will require significant changes to existing systems which will be a major challenge and cost for many entities. Furthermore, some stakeholders expressed the view that the level they currently manage their business at provides both management and users of financial statements with the most useful information about profitability and risk management. As such, they see little benefit to the IFRS 17 requirements to justify the high cost.

11. On the profitability buckets requirement, some stakeholders think it is subjective and complex to identify and track separately a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently from other profitable contracts. Some stakeholders see little benefit to this requirement to justify the cost.
12. In relation to paragraph 8(c) of this paper, some stakeholders have said that they think that, in some circumstances, they can achieve the same outcome with and without the annual cohort requirement—for example, using coverage units. Some stakeholders have said this is the case because, for some types of insurance contracts, a group of insurance contracts is only ever onerous applying IFRS 17 if the whole portfolio is onerous.
13. Some stakeholders have suggested amendments to IFRS 17 that they think would address their concerns. Those amendments are:
 - (a) reduce the number of profitability buckets by removing the profitability bucket ‘a group of insurance contracts that at initial recognition have no significant possibility of becoming onerous subsequently’. This would leave just two profitability buckets: a group of contracts that is onerous at initial recognition and a group of contracts that is profitable at initial recognition.
 - (b) replace the requirements for the level of aggregation with approaches that reflect more closely the entity’s internal management.
 - (c) remove the requirement for annual cohorts for variable fee contracts or variable fee contracts that ‘fully share risks’ between policyholders.
14. Some other stakeholders have expressed the view that the level of aggregation requirements are at an acceptable level for measuring insurance contracts. Those stakeholders have suggested a higher level of aggregation only for presentation purposes, which the Board tentatively decided to propose at its December 2018 meeting.

Staff analysis and recommendation

15. The staff analysis of the stakeholder concerns set out in paragraph 8 of this paper is structured as follows:
- (a) do the requirements in IFRS 17 provide useful information?
 - (i) a high-level overview of the information provided by the requirements in IFRS 17.
 - (ii) an analysis of the effect of stakeholders' suggested amendments on the information provided.
 - (b) do the benefits outweigh the costs of implementing the requirements?
 - (c) are the requirements necessary?

Do the requirements in IFRS 17 provide useful information?

16. An entity's rights and obligations are created by individual contracts with policyholders. Further, IFRS Standards generally require accounting for individual contracts. However, as explained in paragraphs 16–18 of Agenda Paper 2B, measuring the contractual service margin (CSM) of individual contracts would result in recognition of losses even when claims in a profitable group of contracts are developing exactly as expected. The Board concluded that such an approach would not provide useful information about insurance activities. Hence, in acknowledgment of the nature of insurance activities, as an exception to the general approach in IFRS Standards, IFRS 17 does not require measurement of individual contracts.
17. On the other hand, measuring insurance contracts at too high a level of aggregation could obscure three types of information the Board regards as fundamentally important:
- (a) trends in the entity's profits from insurance contracts over time (see example in paragraphs 18–19 of this paper);

- (b) timely recognition of profit on profitable contracts so that all profit has been recognised by the end of the coverage period (see example in paragraphs 18–19 of this paper); and
- (c) timely recognition of losses on onerous contracts (see example in paragraphs 20–21 of this paper).

18. The table below sets out a very simple example to illustrate the potential loss of information described in paragraphs 17(a) and 17(b) of this paper. Suppose:

- (a) in Year 1, an entity writes 100 4-year contracts with profit of 120m; and
- (b) in Year 2, the entity writes 100 4-year contracts with profit of 36m.

Profit recognised in p/l	Y1	Y2	Y3	Y4	Y5	Total
Group 1	30	30	30	30	0	120
Group 2		9	9	9	9	36
Total of separate groups 1 and 2	30	39	39	39	9	156
Combined group	30	36¹	36	36	18	156

19. Without separate groups:

- (a) the unearned profit of Group 1 contracts would be averaged with the lower profitability of Group 2 contracts and recognised over years 2–5. This means that Year 2 does not show the true effect of the new contracts (increase of profit to only 36, not 39).
- (b) in **Year 5** a profit of 18m would be recognised, but contracts in force (Group 2 contracts) only have a profit of 9m. The other 9m is profit from Group 1 which no longer provides any coverage. The significant change in profit for in-force contracts is masked (in this case resulting in a difference of 100%).

¹ CSM at end of year 2 = 90 from group 1 plus 36 from group 2 = 126. Coverage units based on number of contracts = 200+200+200+100 = 700. CSM allocated to year 2 = 200 x 126/700 = 36.

20. The table below sets out a very simple example to illustrate the potential loss of information described in paragraph 17(b) of this paper. Suppose:
- (a) in Year 1, an entity writes 100 4-year contracts with profit of 120m (expected profit of 30m for each year);
 - (b) in Year 2, the entity writes 100 4-year contracts with profit of 36m (expected profit of 9m for each year); and
 - (c) in Year 3, due to changes in expectations, the group of contracts written in Year 2 is now onerous (loss of 20m).

Profit recognised in p/l	Y1	Y2	Y3	Y4	Y5	Total
Group 1	30	30	30	30	-	120
Group 2		9	(20)	0	0	(11)
Total of separate groups 1 and 2	30	39	30	30	0	129
			(20)²			(20)
Combined group	30	36	4³	4	2	76

21. Without separate groups:
- (a) in **Year 3** the entity would report a profit of 4m—it would not recognise the loss of 20m in profit or loss for contracts that are no longer profitable (Group 2 contracts) because the loss is combined with the profit in Group 1.
 - (b) the loss of 20m of contracts written in Group 2 would be averaged with the remaining profit of contracts written in Group 1 and recognised over years 3–5. The profit of 2 in Year 5 arises from contracts in Group 1 which no longer provide coverage.

² The amounts shown as profits will be included in insurance revenue. The amount shown as a loss will be presented in insurance service expenses.

³ CSM at beginning of Year 3 = 156 – 66 = 90. Change in expectations in year 3 about future service result in an adjustment of 80, giving CSM at the end of Year 3 of 10. Service provided in year compared to service in future years based on number of contracts is 200:300, so CSM of 4 allocated to Year 3.

22. Agenda Papers 2B and 2C explain how the Board developed the requirements in IFRS 17 on the level of aggregation, balancing:
- (a) the need for groups of insurance contracts to give useful information about insurance activities as described in paragraph 16 of this paper; and
 - (b) the loss of information about losses, profits and trends in an entity's profitability described in paragraph 17 of this paper.
23. In summary, the Board acknowledges that some aggregation of insurance contracts is necessary to avoid the recognition of losses when claims in a profitable group of contracts develop as expected. However, the Board does not agree with stakeholders that assert, for example, *'Within a pool of like risks, the only useful information about profitability reflects the overall experience of the pool—it matters not which contracts within the pool incurred a claim and which did not.'* The Board regards timely recognition of losses on onerous groups of contracts, profits on profitable contracts over the coverage period and information about trends in the entity's profits from insurance contracts as fundamentally important benefits of the application of IFRS 17. The Board thinks timely recognition of changes in profitability results in more transparent information than averaging profits and losses, or averaging different profits over time. Such transparency contributes to improving investor understanding of insurance activity and long-term financial stability by revealing useful information that will enable actions to be taken in a timely way. Feedback from investors since the issuance of IFRS 17 supports this view.
24. The Board acknowledges that the requirements in IFRS 17 involve some practical compromises. Within the groups created applying the requirements in IFRS 17, there will be some loss of information of the type described in paragraph 17 of this paper. As explained in Agenda Papers 2B and 2C, the Board tried to develop a principle-based approach to identifying groups that would eliminate that loss of information. However, such an approach was rejected because of feedback from stakeholders that it would be unduly burdensome. The requirements in IFRS 17 strike a balance the Board found acceptable between the loss of useful information and the operational burden for entities.

25. In paragraphs 26–45 of this paper, the staff consider the effects on the information provided of the following suggestions provided by stakeholders:
- (a) removing the second profitability bucket;
 - (b) replacing the requirements for the level of aggregation with approaches that reflect more closely the entity’s internal management; and
 - (c) removing the requirement for annual cohorts for contracts that ‘fully share risks’ between policyholders.

Removing the second profitability bucket

26. As noted in paragraphs 11 and 13(a) of this paper, some stakeholders have suggested removing the requirement in IFRS 17 to distinguish between profitable contracts—those that at initial recognition have no significant possibility of becoming onerous subsequently and other profitable contracts.
27. The staff think this distinction is important in ensuring that losses on onerous groups of contracts are recognised on a timely basis. The staff think that it will be relatively rare for an entity to issue onerous contracts (without a specific strategy). Onerous groups of contracts are more likely to arise from subsequent changes in expectations about groups of contracts that were initially expected to be profitable. Having only one bucket for all contracts that are profitable on initial recognition would increase the possibility of a subsequent adverse change in expectations that would make some contracts onerous being absorbed by the remaining profitability on other contracts. A loss would only be created by subsequent changes in expectations that made all profitable contracts in an annual cohort onerous. It could significantly delay the timing of loss recognition for onerous contracts (and/or result in losses for onerous contracts never being recognised) relative to the requirements in IFRS 17.
28. Hence, the staff think that there would be an unacceptable loss of useful information in removing the requirement to distinguish two buckets for profitable contracts—those that at initial recognition have no significant possibility of becoming onerous subsequently and other profitable contracts.

Replacing the requirements for the level of aggregation with approaches that reflect more closely the entity's internal management

29. As noted in paragraph 13(b) of this paper, some stakeholders have suggested replacing some or all of the IFRS 17 requirements on the level of aggregation with approaches that reflect more closely the entity's internal management. They think such approaches would result in a more principle-based set of requirements.
30. The first such suggestion is to remove the requirement for annual cohorts if an entity has reasonable and supportable evidence to conclude that contracts issued more than one year apart would be classified into the same profitability bucket described in paragraph 7(b) of this paper. The stakeholders suggesting this approach stated that it would avoid an excessive level of granularity, major implementation challenges as well as undue costs.
31. The staff observe that this suggestion would avoid the offset of losses on initial recognition on onerous contracts with gains on initial recognition of profitable contracts, because onerous contracts will join the group of onerous contracts, contracts that have no significant possibility of becoming onerous subsequently will join that bucket and the remaining contracts will join the remaining bucket.
32. However, the staff observe that the suggestion is likely to result in groups being only the three profitability buckets, with no time-based cohorts, because new contracts in the portfolio will always fall into one of the three profitability buckets. As a result, the three buckets for a portfolio could last for the entire life of the portfolio, each with a contractual service margin that averages the profitability of all the contracts in the bucket. Further, the contracts joining any of the three profitability buckets could have significantly different profitability from the other contracts in that bucket. This means the effect of the averaging of the profits across the contracts in the bucket could be substantial, leading to:
 - (a) a greater possibility that the contractual service margin of contracts will outlast the coverage period of those contracts (see example in paragraphs 18–19 of this paper); and

- (b) a greater possibility of subsequent adverse changes in expectations that makes some contracts onerous being absorbed by continuing profitability of other contracts (see example in paragraphs 20–21 of this paper).
33. The staff accept the requirements in IFRS 17 involve some practical compromises, as discussed in paragraph 24 of this paper. For example, some averaging of profitability of contracts could occur within an annual cohort, resulting in the effects described in paragraphs 32(a) and 32(b) of this paper to some extent. However, the existence of annual cohorts substantially limits those effects, to an extent the Board thought acceptable when developing IFRS 17. The staff think without annual cohorts these effects would result in an unacceptable loss of useful information.
34. Other suggestions from stakeholders involve replacing all the level of aggregation requirements, not just the annual cohort requirement, with approaches that reflect more closely the entity’s internal management. The suggestions were less specific: to determine the level of aggregation using an entity’s asset and liability management strategy or internal business and risk management. However, the staff observe that the Board’s objective for the level of aggregation requirements (summarised in paragraph 23 of this paper) is focused on providing useful information on a timely basis to users of financial statements about *periodic financial performance*. The staff do not think that focusing on asset and liability management or risk management will necessarily meet that objective. As explained in Agenda Papers 2B and 2C, the Board identified principle-based approaches that would meet its objective, but was persuaded by stakeholders that they were unduly burdensome.
35. Accordingly, the staff think those approaches suggested by stakeholders that reflect more closely the entity’s internal management would lead to an unacceptable loss of useful information compared to the IFRS 17 requirements.

Removing the requirement for annual cohorts for contracts that ‘fully share risks’ between policyholders

36. Paragraph BC138 of the Basis for Conclusions on IFRS 17 refers to contracts that fully share risks in the context of contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts. This section of this paper considers:
- (a) an example based on one provided by a stakeholder; and
 - (b) what ‘fully share risks’ means.
37. Appendix A to this paper sets out an example of variable fee contracts that affect or are affected by the cash flows of other contracts. In the example, two groups of contracts are issued more than one year apart. The policyholders in the two groups of contracts share the returns on the same specified pool of underlying items, and terms of the contracts create intergenerational sharing of the returns on the underlying items. The fair value return on the underlying items declines in the period between the issue of the groups of contracts and the first group is remeasured to reflect this (column B compared to column A in table in paragraph 38 of this paper). Because of the intergenerational sharing of returns, the policyholders in the second group receive a better return than they would if the first group of contracts had not been issued, and the policyholders in the first group of contracts receive a lower return than they would if the second group of contracts had not been issued.
38. Paragraphs B67–B71 of IFRS 17 result in the fulfilment cash flows of the two groups reflecting the intergenerational sharing of returns, because in this example such sharing is part of the contractual terms. If the fulfilment cash flows did not reflect this effect, the first group of contracts would show an increased profit because of the lower returns received by the policyholders in that group and the second group of contracts would be regarded as onerous (column C in the table below).

Fact pattern and detailed calculations are given in Appendix A to this paper	A	B	C		D		E
	Initial recognition of Group 1	Remeasurement of Group 1 before recognition of Group 2	Immediately after group 2 contracts issued, <u>without</u> applying paragraphs B67–B71 of IFRS 17		Immediately after Group 2 contracts issued, applying paragraphs B67–B71 of IFRS 17		Immediately after Group 2 contracts, if groups 1 and 2 were combined
	Group 1	Group 1	Group 1	Group 2	Group 1	Group 2	
FCF	9,567	11,734	10,828	15,761	11,734	14,855	26,589
CSM	433	531	1,437	(761) ⁴	531	145	676
Insurance contracts	10,000	12,265	12,265	15,000	12,265	15,000	27,265
Underlying items	10,000	12,265	12,265	15,000	12,265	15,000	27,265

39. The allocation of the cash flows to the groups required by paragraphs B67–B71 of IFRS 17 prevents a group of contracts being onerous when the loss is borne by policyholders of other groups of contracts (column D in the table in paragraph 38 of this paper). But it does not average the profits of the two groups of contracts. Each group has its own separately determined contractual service margin which reflects the profit the entity makes from each group, after taking into account the extent to which the group supports or is supported by contracts in other groups.
40. Some stakeholders think that determining the contractual service margin separately for each annual cohort does not provide useful information. They argue that because the returns on the underlying items are shared across policyholders in different annual cohorts, the profit should be regarded as arising from the combined groups that share those returns (column E in the table in paragraph 38 of this paper).
41. In contrast, the staff think that keeping the profit of the annual cohorts separate is necessary to avoid deferring the recognition of profit beyond the coverage period of a group and obscuring trends in profitability for an entity from its insurance contracts

⁴ This amount would be recognised as a loss in profit or loss. Shown here as a negative CSM to ease comparison of the amounts across the columns.

over time (see paragraphs 17(a) and 17(b) of this paper). In the example in Appendix A to this paper, using annual cohorts, the contractual service margin from the first group of contracts is considerably higher than from the second group of contracts. This appropriately depicts the entity's share of the higher fair value returns generated by the first group of contracts. The entity allocates the *policyholders' share of fair value gain* on the underlying items that arises in Year 1 between the policyholders in the two groups. But that does not mean that the *entity's share of the fair value gain* is not created by the contracts in Group 1.

42. That higher profit is recognised over the five years of the first group of contracts. If the contractual service margin of the two groups were combined, the average profit of the combined group would be recognised over the six years that contracts in either group exist. Although the amount of the contractual service margin would reflect the different levels of service provided by the different number of contracts in each period, the contractual service margin per unit would be an average of the profit of the two groups. Hence, as illustrated in the following table:⁵

- (a) the increase in the contractual service margin in Year 2 does not show the full effect of the new contracts issued in the period; and
- (b) some of the higher profit in Group 1 would be included in the amount recognised for service in Year 6, after the contracts in Group 1 have ceased to provide service.

CSM recognised in P/L	Y1	Y2	Y3	Y4	Y5	Y6
Group 1	106	108	109	112	117	-
Group 2	-	29	30	30	31	33
Total of annual cohorts	106	137	139	142	148	33
If treated as combined group	106	125	127	130	134	85

⁵ The allocation of the contractual service margin is based on coverage units that reflect the number of contracts in force, assuming 1,000 contracts in Group 1 and 1,500 in Group 2.

43. Hence, in this example, the staff think that removing the requirement for annual cohorts would lead to an unacceptable loss of useful information.
44. The stakeholders that suggested removal of the requirement for the annual cohorts when contracts fully share risk also discussed how ‘fully share risks’ should be defined. They referred to an example discussed at the September 2018 meeting of the TRG, in which the cash flows of the insurance contracts are 100% shared between policyholders, ie the entity bears no losses and receives no profit. Those stakeholders argue that the definition of ‘fully share risk’ should be broader than that example, and should include contracts like those in the example in Appendix A to this paper, and other contracts, where an individual contract can become onerous only when the whole portfolio of contracts becomes onerous. In the example in Appendix A to this paper, because of the sharing of the policyholders’ share of the underlying items, no individual contract will become onerous until all the contracts in the portfolio become onerous.
45. The staff agree that such a definition of ‘fully share risks’ would identify contracts for which there could be no offsetting of a loss on an onerous contract with a gain on a profitable contract. Hence grouping such contracts together would result in no loss of information of the type described in paragraph 17(b) of this paper. However, as discussed in paragraph 41 of this paper, the fact that the policyholders’ share of underlying items is shared across all policyholders does not mean that the *entity* receives an equal (average) profit from all contracts. As illustrated in paragraphs 41–43 of this paper, averaging of the different profitability of contracts issued at different times would result in deferral of recognition of some of the profit of a group beyond its coverage period and a loss of information about trends in the entity’s profitability over time, information that the Board regards as fundamentally important and a key benefit of the application of IFRS 17.

Do the benefits outweigh the costs of implementing the requirements?

46. Paragraphs 16–24 of this paper explain why the level of aggregation is fundamental to providing useful information about onerous and profitable contracts on a timely basis and about trends in an entity’s profitability over time.
47. Paragraphs 25–26 of Agenda Paper 2B explain how the Board considered a principle-based approach to the level of aggregation requirements when developing IFRS 17. Paragraphs 27–32 of Agenda Paper 2B go on to explain that such an approach could have been regarded as unduly operationally burdensome and hence how the Board developed the requirements in IFRS 17 to reduce that burden.
48. The Board concluded that the requirements in IFRS 17 struck an appropriate balance between costs for preparers and useful information for users of financial statements. The staff think that conclusion continues to be valid.

Are the requirements in IFRS 17 necessary?

49. As noted in paragraph 12 of this paper, some stakeholders think that, in some circumstances, they can achieve the same outcome with and without the annual cohort requirement. The staff accept this may be the case and paragraph BC138 of the Basis for Conclusions on IFRS 17 acknowledges this. At its September 2018 meeting, the TRG discussed examples when this might be the case. The summary of the TRG discussion is set out in Appendix B to this paper.
50. The Board considered whether to include an exception from the annual cohort requirement in IFRS 17 for cases where the requirement would not affect the outcome. However, as explained in paragraph 33 of Agenda Paper 2B, the Board concluded that setting the boundary for such an exception would add complexity to IFRS 17 and create the risk that the boundary would not be robust or appropriate in all circumstances. In particular, the staff note that annual cohorts can result in a different outcome from not identifying annual cohorts when a group of insurance contracts is only ever onerous if the whole portfolio is onerous, for the reasons set out in paragraphs 44–45 of this paper.

Transition to IFRS 17

51. The staff note that the stakeholder concerns in paragraphs 7–14 of this paper are relevant both on transition to IFRS 17 and after. As explained in Agenda Paper 2B, the Board has already provided modifications and reliefs to simplify the requirements for profitability buckets and annual cohorts on transition. The staff think that those simplifications provide sufficient relief for entities and therefore do not recommend an amendment that is specific to transition.
52. The staff note that some stakeholders have expressed concerns that transition will be particularly difficult for insurance contracts issued many years ago because of lack of information. The staff expect for many of those contracts an entity will apply the fair value approach, which provides an optional relief from applying the annual cohort requirement.

Staff conclusion and question for Board members

53. The staff observe that providing information about timely recognition of losses on onerous contracts, profits on profitable contracts and trends in an entity’s profitability from contracts over time is a key benefit of IFRS 17. The requirements on the level of aggregation in IFRS 17 are essential to providing that information. The staff accept that implementing IFRS 17 involves significant costs but observe that the IFRS 17 requirements on the level of aggregation already include simplifications to reduce their operational burden. The staff think all of the suggested changes to the requirements from stakeholders would result in an unacceptable loss of useful information, particularly in relation to information about trends in an entity’s profitability over time. Therefore, the staff recommend the Board retain the IFRS 17 requirements on the level of aggregation unchanged.

Question for Board members
Do you agree the Board should retain the IFRS 17 requirements on the level of aggregation unchanged?

Do you agree the Board should retain the IFRS 17 requirements on the level of aggregation unchanged?
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Appendix A—Example

- A1. This example considers two groups of variable fee contracts. The groups are issued more than a year apart. They share the returns on a specified pool of underlying items and the entity has discretion over the timing of amounts credited to policyholders, enabling intergenerational sharing of the returns on the underlying items.
- A2. Facts for Group 1, issued t0:
- (a) premiums 10,000, duration of contract 5 years;
 - (b) policyholders receive 80% of fair value returns, with the entity having discretion over the timing and allocation across policyholders;
 - (c) expected returns on underlying items 5%, equal to market rate at the date the contracts are issued; and
 - (d) entity invests premiums in 5% fixed rate bonds.
- A3. Facts for Group 2, issued t1:
- (a) premiums 15,000, duration of contract 5 years;
 - (b) policyholders receive 80% of fair value returns, with the entity having discretion over the timing and allocation across policyholders;
 - (c) expected returns on underlying items 1%, equal to market rate at the date the contracts issued; and
 - (d) entity invests premiums in 1% fixed rate bonds.

A4. Measurement of Group 1:

	Initial recognition	Remeasured at t1, to reflect fall in interest rates, before Group 2 issued
FCF	9,567 ⁶	11,734 ⁷
CSM	433	531
Insurance contracts	10,000	12,265
Value of underlying items	10,000	12,265⁸

- A5. When the entity issues the contracts in Group 2, it decides to reduce the amounts it expected to pay to the policyholders in Group 1 (based on the 5% return on the bonds acquired at t0) so that it can pay an equal return to the policyholders in both groups. The rate that gives all the policyholders an equal rate of return from t1 onwards is 2%.

⁶ Return on underlying items = $(10,000 \times 1.05^5) - 10,000 = 2,763$. Policyholders' share = $2,763 \times 80\% = 2,210$. Future cash flows to policyholders = $10,000 + 2,210 = 12,210$. $FCF = 12,210 / 1.05^5 = 9,567$

⁷ $FCF = 12,210 / 1.01^4 = 11,734$

⁸ $12,265 = (10,000 \times 1.05^5) / 1.01^4$

A6. If the groups of contracts were measured by including in each group the cash flows expected to be paid to the policyholders of the contracts in the group, the measurement of the groups at t1 would be as follows:

	Group 1	Group 2
FCF	10,828 ⁹	15,761 ¹⁰
CSM	1,437 ¹¹	(761) ¹²
Insurance contracts	12,265	15,000
Value of underlying items	12,265	15,000

A7. In the table above, the FCF of Group 1 has reduced and the CSM has increased compared to the measurement before Group 2 was issued, reflecting the fact that the amounts expected to be paid to Group 1 policyholders have been reduced from a rate of approximately 4% to 2%. Group 2 is shown as an onerous group, reflecting the fact that the amounts expected to be paid to the policyholders in Group 2 are based on a rate (2%) that exceeds the market rate (1%). However, this is not what IFRS 17 requires.

A8. IFRS 17 requires the measurement of Group 1 to include all the cash flows that arise because of the terms of the contracts in Group 1, regardless of to whom the payments are expected to be made. In this example, the terms of the contracts in Group 1 require the entity to pay 80% of the fair value returns on the underlying items to

⁹ Expected future cash flows to policyholders based on 2% return for years 2–5 = 11, 267. (NB The calculation of the rate of 2% and hence this amount involved using goal seek in an excel spreadsheet, so cannot be replicated here). $FCF = 11,267/1.01^4 = 10,828$

¹⁰ Expected future cash flows to policyholders based on 2% return for years 2–6 = 16,565. (NB The calculation of the rate of 2% and hence this amount involved using goal seek in an excel spreadsheet, so cannot be replicated here). $FCF = 16,565/1.01^4 = 15,761$

¹¹ For simplicity, in this table this amount ignores any recognition of the contractual service margin in profit or loss in the period before the issue of the contracts in Group 2.

¹² This amount would be recognised as a loss in profit or loss. Shown here as a negative CSM to ease comparison of the amounts across the columns.

policyholders. The entity uses its discretion to pay some of the fair value returns on the underlying items to policyholders in Group 2, but those amounts (the excess of the 2% rate paid to Group 2 over the market rate of 1%) are included in the measurement of Group 1 because the contracts in Group 1 create the obligation to pay those additional amounts. This leads to the following measurement of the two groups at t1:

	Group 1	Group 2
FCF	11, 734 ¹³	14,854 ¹⁴
CSM	531	146
Total	12,265	15,000
Value of underlying items	12,265	15,000

- A9. The contractual service margin of Group 1 will be recognised in profit or loss as service is provided over years 1–5. The contractual service margin in Group 2 will be recognised in profit or loss as service is provided over years 2–6. The following tables show the allocation of the contractual service margin based on:
- (a) coverage units that reflect the number of contracts in force, assuming 1,000 contracts in Group 1 and 1,500 in Group 2; and
 - (b) remeasurement of the contractual service margin reflecting changes in the fair value of the entity’s share of the underlying items.¹⁵

¹³ See table in paragraph A4 of this paper.

¹⁴ 15,761 (see table in paragraph A6) less the cash flows included in the measurement of group 1, ie 11,734-10,828 = 906. 15,761 – 906 = 14,855.

¹⁵ The tables may include rounding differences of numbers.

A10. Group 1 as a separate group:

CSM	Y1	Y2	Y3	Y4	Y5
Opening balance	433	425	323	219	112
Remeasurement	98	5	5	5	5
P/L	(106)	(108)	(109)	(112)	(117)
Closing balance	425	323	219	112	0

A11. Group 2 as a separate group:

CSM	Y2	Y3	Y4	Y5	Y6
Opening balance	146	118	89	61	31
Remeasurement	1	1	1	2	2
P/L	(29)	(30)	(30)	(31)	(33)
Closing balance	118	89	61	31	0

A12. One combined group for all contracts:

CSM	Y1	Y2	Y3	Y4	Y5	Y6
Opening balance	433	425	452	331	208	81
New contracts		146				
Remeasurement	98	7	7	7	7	4
P/L	(106)	(125)¹⁶	(127)	(130)	(134)	(85)
Closing balance	425	452	331	208	81	0

¹⁶ Number of contracts in force in Year 2 = 1,000+1,500 = 2,500. Number of contracts expected to be in force in years 2–6 = 2,500+2,500+2,500+2,500+1,500 = 11,500. Proportion of service provided in Year 2 = 2,500/11,500. CSM recognised in Year 2 = (425+146+7) x 2,500/11,500 = 125.

A13. Comparison of amounts recognised in profit or loss:

CSM recognised in P/L	Y1	Y2	Y3	Y4	Y5	Y6
Group 1	106	108	109	112	117	-
Group 2	-	29	30	30	31	33
Total of annual cohorts	106	137	139	142	148	33
Combined group	106	125	127	130	134	85

Appendix B—Extract from summary of the Transition Resource Group for IFRS 17 *Insurance Contracts* meeting held on 26–27 September 2018

Annual cohorts for contracts that share in the return of a specified pool of underlying items (Agenda Paper 10)

- B1. Agenda Paper 10 addresses a submission about annual groups of contracts with policyholders that all share in the return on a specified pool of underlying items, with some of the return contractually passing from one group of policyholders to another.
- B2. The submission notes that paragraph BC138 of the Basis for Conclusions on IFRS 17 explains:
- ... the requirements specify the amounts to be reported, not the methodology to be used to arrive at those amounts. Therefore, it may not be necessary for an entity to restrict groups in this way to achieve the same accounting outcome in some circumstances.
- B3. The submission asks in what circumstances measuring the contractual service margin at a higher level than an annual cohort level, such as a portfolio level, would achieve the same accounting outcome as measuring the contractual service margin at an annual cohort level applying paragraph 22 of IFRS 17.
- B4. TRG members discussed the analysis in Agenda Paper 10 and observed that:
- (a) paragraph BC138 of the Basis for Conclusions on IFRS 17 explains the effect of the requirements of IFRS 17 and does not change those requirements.
 - (b) when a specified pool of underlying items consists of the insurance contracts issued to the policyholders that share in the returns of that pool, the criteria in paragraph B67 of IFRS 17 are met regardless of whether the policyholders share in 100% of the return on the pool of underlying items or only part of the return on the pool of underlying items.
 - (c) for contracts that share in 100% of the return on a pool of underlying items consisting of the insurance contracts, the contractual service margin will be nil. Therefore, measuring the contractual service margin at a higher level than

the annual cohort level, such as a portfolio level, would achieve the same accounting outcome as measuring the contractual service margin at an annual cohort level applying IFRS 17.

- (d) when contracts share to a lesser extent in the return on a pool of underlying items consisting of the insurance contracts, an entity could be affected by the expected cash flows of each contract issued. Therefore, the contractual service margin of the groups of contracts may differ from the contractual service margin measured at a higher level, such as the portfolio level. To assess whether measuring the contractual service margin at a higher level would achieve the same accounting outcome as measuring the contractual service margin at an annual cohort level, an entity would need to determine what the effect would be of applying the requirements in IFRS 17. To be able to measure the contractual service margin at a higher level, the accounting outcome would need to be the same in all circumstances, ie regardless of how assumptions and experience develop over the life of the contract.

- B5. TRG members also observed that the examples in Agenda Paper 10 were not representative of many situations in practice. TRG members observed that in practice, cash flows would be determined at a higher level than in the examples, and that paragraph B70 of IFRS 17 would apply for allocating cash flows to the groups. Therefore, there may be some situations where the same accounting outcome is achieved using annual cohorts or a higher level of aggregation when applying the requirements of IFRS 17 to contracts that share 90% in the returns on a pool of underlying items consisting of the insurance contracts.

STAFF PAPER

March 2019

IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Level of aggregation—IFRS 17 requirements and Board's rationale		
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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

1. This paper is part of a set of papers on the level of aggregation requirements in IFRS 17 *Insurance Contracts*. It sets out the IFRS 17 requirements and the rationale of the International Accounting Standards Board (Board) for setting those requirements.
2. The other papers in the set are:
 - (a) AP2A *Level of aggregation—Stakeholder concerns, implementation challenges and staff analysis*; and
 - (b) AP2C *Level of aggregation—History of the Board's decisions and stakeholder feedback*.

Structure of the paper

3. This paper provides:
 - (a) an overview of the requirements in IFRS 17 (paragraphs 4–18 of this paper); and
 - (b) a summary of the Board's rationale for setting those requirements (paragraphs 19–38 of this paper).

IFRS 17 requirements

4. Generally, applying IFRS Standards, an entity is required to recognise and measure individual contracts. This general requirement is not applied in IFRS 17.
5. For the purpose of measuring and recognising profit on insurance contracts (the contractual service margin), an entity is required to aggregate contracts into groups of insurance contracts. To ensure that information about profitability is reflected in the financial statements in a timely manner, IFRS 17 sets a maximum level of aggregation using a top down approach.
6. Firstly, an entity is required to identify a portfolio of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. For example, this could be a product line such as motor insurance policies.
7. Next, an entity is required to divide a portfolio into a minimum of three groups (referred to in this set of papers as profitability buckets):
 - (a) a group of contracts that are onerous at initial recognition, if any;
 - (b) a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
 - (c) a group of remaining contracts in the portfolio.
8. In principle, the assessment of the profitability bucket in which a contract belongs is done by considering individual contracts. However, if an entity has reasonable and supportable information to conclude that a set of contracts would be in the same profitability bucket, it can make the profitability bucket assessment on a set of contracts basis. For example, an entity might have reasonable and supportable information to conclude that all motor insurance policies sold to a specified demographic of policyholders would be in the same profitability bucket, and hence can assess all those policies together to determine into which bucket they fall.
9. In some circumstances, insurance contracts in a portfolio might fall into different profitability buckets only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics. For example, law or regulation may require an entity to

provide insurance coverage to policyholders at a price that does not reflect the risk that is being transferred to the entity. In those circumstances, as an exception, IFRS 17 permits an entity to include those contracts in the same group.

10. An entity is permitted to disaggregate groups of contracts further, for example, an entity may choose to divide groups further based on different levels of profitability.
11. An entity is not permitted to include contracts issued more than one year apart in the same group. To achieve this, the entity shall divide groups further (referred to in this set of papers as the annual cohort requirement).
12. To measure insurance contracts, an entity may estimate the fulfilment cash flows at a higher level of aggregation than the group or portfolio level, provided the entity is able to allocate the appropriate fulfilment cash flows in the measurement of the group of insurance contracts.
13. Groups of insurance contracts are established at initial recognition and the composition of the groups is not reassessed subsequently. Once an entity has established a group of insurance contracts, it becomes the unit of account to which the entity applies the requirements of IFRS 17. However, an entity will typically enter into transactions for individual contracts. IFRS 17 therefore includes requirements that specify how to recognise groups that include contracts issued in more than one reporting period, and how to derecognise contracts from within a group.

Transition

14. The transition requirements in IFRS 17 are applied on a group by group basis.
15. If an entity applies a full retrospective approach, the entity shall apply the level of aggregation requirements in IFRS 17 retrospectively. If an entity applies a modified retrospective approach or a fair value approach, there may be some differences in how the entity applies the level of aggregation requirements when compared to a full retrospective approach as a result of transition modifications and reliefs.
16. If an entity applies a modified retrospective approach, the entity can identify groups of insurance contracts using reasonable and supportable information at the transition

date to the extent, and only to the extent, it does not have reasonable and supportable information to identify groups retrospectively. Also, the entity shall not apply the annual cohort requirement to the extent, and only to the extent, it does not have reasonable and supportable information to apply that requirement.

17. If an entity applies a fair value approach, the entity can choose to identify groups of insurance contracts using reasonable and supportable information at the transition date. The entity can also choose not to apply the annual cohort requirement.
18. The following table summarises the level of aggregation modifications and reliefs:

Level of aggregation		Portfolio	Profitability buckets	Annual cohorts
Approach:	Condition to use modification or relief:	Modification or relief:		
Modified retrospective	Only to the extent permitted ¹	Use information at transition date	Use information at transition date	Do not apply
Fair value	Choice	Use information at transition date	Use information at transition date	Do not apply

Board’s rationale

19. This section includes extracts from paragraphs BC115–BC139 of the Basis for Conclusions on IFRS 17. Agenda Paper 2C provides a history of the Board’s decisions on the level of aggregation requirements, including feedback from stakeholders during the development of IFRS 17.

¹ An entity is permitted to use each modification only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Background

20. A key issue in developing the measurement requirements for the contractual service margin in IFRS 17 was the level of aggregation of insurance contracts to which the requirements should be applied. Some aspects of the adjustments to the carrying amount of the contractual service margin result in gains being treated differently from losses or changes in estimates relating to current and past service being treated differently from changes in estimates relating to future service. These different treatments mean that the accounting result depends on the level of aggregation at which the adjustments are made, because amounts that would offset each other within the measurement of a group of insurance contracts would be treated differently (and hence not offset each other) if contracts were measured individually.
21. For example, suppose an entity issued a group of identical contracts expecting that there would be more claims from some of the contracts than others, but not knowing which contracts would be the ones with more claims. Subsequently it becomes apparent which contracts are likely to give rise to claims and which are not, and the number of contracts in each category is as expected. If the contracts were measured individually, the expected claims may cause the contracts for which they are likely to arise to become onerous, with an equal and opposite reduction in the fulfilment cash flows of the other contracts. The entity would recognise a loss for the onerous contracts immediately in profit or loss and an increase in the contractual service margin for the other contracts. That increase in the contractual service margin would not be recognised immediately in profit or loss but instead would be recognised over the current and future coverage period. In contrast, if the contracts were measured as one group, there would be no loss for a group of onerous contracts or increase in the contractual service margin to be recognised.
22. This issue does not arise in the measurement of the fulfilment cash flows. The fulfilment cash flows include all changes in estimates, regardless of whether they are gains or losses or they relate to past, current or future service. Hence, IFRS 17 allows an entity to estimate the fulfilment cash flows at whatever level of aggregation is most appropriate from a practical perspective. All that is necessary is that the entity is able

to allocate such estimates to groups of insurance contracts so that the resulting fulfilment cash flows of the group comply with requirements of IFRS 17.

23. For the contractual service margin, the Board considered whether contracts should be measured individually despite the resulting lack of offsetting. Doing so would be consistent with the general requirements in IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* and would reflect the fact that the entity's rights and obligations arise from individual contracts with policyholders. Measuring contracts individually would also provide a clear measurement objective. However, the Board decided that such an approach would not provide useful information about insurance activities, which often rely on an entity issuing a number of similar contracts to reduce risk. The Board concluded, therefore, that the contractual service margin should be measured at a group level.

Characteristics of a group

24. Once the Board had decided that the contractual service margin should be measured for a group, the Board considered what that group level should be. The Board considered whether it could draw on requirements for groups set by insurance regulators. However, regulatory requirements focus on solvency not on reporting financial performance. The decisions about grouping in IFRS 17 were driven by considerations about reporting profits and losses in appropriate reporting periods. For example, in some cases the entity issues two groups of insurance contracts expecting that, on average, the contracts in one group will be more profitable than the contracts in the other group. In such cases, the Board decided, in principle, there should be no offsetting between the two groups of insurance contracts because that offsetting could result in a loss of useful information. In particular, the Board noted that the less profitable group of contracts would have a lesser ability to withstand unfavourable changes in estimates and might become onerous before the more profitable group would do so. The Board regards information about onerous contracts as useful information about an entity's decisions on pricing contracts and about future cash flows, and wanted this information to be reported on a timely basis.

25. The level of aggregation is also relevant to the recognition of the contractual service margin in profit or loss. Following the Board's principle for the allocation of the contractual service margin, an entity should systematically recognise the remaining contractual service margin in profit or loss over the current and remaining coverage period to reflect the remaining transfer of services to be provided by the insurance contracts.
26. In many cases, the coverage period of individual contracts in a group will differ from the average coverage period for the group. When this is the case, measuring the contracts on:
- (a) an individual basis would mean that the contractual service margin associated with contracts with a shorter than average coverage period would be fully recognised in profit or loss over that shorter period; and
 - (b) a group basis would mean that the contractual service margin associated with contracts with a shorter than average coverage period would not be fully recognised in profit or loss over that shorter period.
27. Thus, measuring the contracts as a group creates the risk that the contractual service margin for a group might fail to reflect the profit relating to the coverage remaining in the group, unless the entity tracked the allocation of the contractual service margin separately for groups of insurance contracts:
- (a) that have similar expected profitability, on initial recognition, and for which the amount and timing of cash flows are expected to respond in similar ways to key drivers of risk. In principle, this condition would ensure the contractual service margin of a particularly profitable individual contract within a group is not carried forward after the individual contract has expired.
 - (b) that have coverage periods that were expected to end at a similar time. In principle, this condition would ensure the contractual service margin of an individual contract that expired was not carried forward after the contract had expired.

28. The Board concluded that it was necessary to strike a balance between the loss of information discussed in paragraphs 24 and 26–27 of this paper, and the need for useful information about the insurance activity as discussed in paragraphs 23 and 25 of this paper. The Board:
- (a) did not want entities to depict one type of contract as cross-subsidised by a different type of contract, but also did not want to recognise losses for claims developing as expected within a group of similar contracts; and
 - (b) did not want the contractual service margin of an expired contract to exist as part of the average contractual service margin of a group long after the coverage provided by the contract ended, but also did not want to recognise a disproportionate amount of contractual service margin for contracts lapsing as expected within a group of similar contracts.
29. The Board concluded that the balance described above could be achieved in principle by:
- (a) requiring contracts in a group to have similar expected profitability—meaning that loss-making contracts could not be grouped with profitable contracts, whether at initial recognition or if changes in conditions make a previously profitable group loss-making. Hence, such a requirement would provide information about loss-making groups of insurance contracts.
 - (b) requiring groups not be reassessed after initial recognition.
30. The Board also noted that, in principle, it would be possible to meet the objective of the recognition of the contractual service margin in profit or loss discussed in paragraph 25 of this paper either by grouping only contracts with a similar size of contractual service margin and the same remaining coverage period, or by reflecting the different duration and profitability of the contracts within the group in the allocation of the contractual service margin.

Practical considerations

31. The Board noted that entities could interpret the approach described in paragraphs 29–30 of this paper as requiring an excessively large number of groups that may provide insufficiently useful information to justify the operational burden that would be imposed by extensive disaggregation of portfolios. Accordingly, the Board sought a balance to reflect profit and potential losses in the statement of financial performance in appropriate periods and the operational burden.
32. To achieve that balance, the Board concluded that an entity should be required to identify portfolios of contracts subject to similar risks and managed together, and to divide a portfolio into profitability buckets, as described in paragraphs 6–7 of this paper.
33. On the topic of profitability buckets, the Board decided that to assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous subsequently, an entity should use the information provided by its internal reporting system but need not gather additional information. The Board concluded that such information would provide a sufficient basis for making this assessment and that it would not be necessary to impose costs of gathering additional information. Some stakeholders nonetheless expressed the view that separating contracts that have no significant possibility of becoming onerous from other contracts that are not onerous was burdensome and unnecessary. The Board, however, concluded that in the absence of such a requirement, should the likelihood of losses increase, IFRS 17 would fail to require timely recognition of contracts that become onerous.
34. Despite the development of an approach designed to respond to the practical concerns raised by stakeholders, some continued to argue that the level of aggregation set out in paragraph 32 of this paper might lead to excessive granularity that is, in their view, contrary to the essence of the insurance business. These stakeholders do not think that contracts that have been priced on the same basis by the entity should be in different groups. The Board noted that applying IFRS 17, an entity would not be expected under normal circumstances to group separately contracts priced on the same basis by

the entity. Groups are determined on the basis of information available to the entity at initial recognition of the contracts, which will be at their inception if they are onerous at inception. If contracts are onerous at inception, that will generally be the result of an intentional pricing strategy.

35. The Board noted that the decisions outlined in paragraph 32 of this paper could lead to perpetual open portfolios. The Board was concerned that this could lead to a loss of information about the development of profitability over time, could result in the contractual service margin persisting beyond the duration of contracts in the group, and consequently could result in profits not being recognised in the correct periods. Consequently, in addition to dividing contracts into the groups specified in paragraph 32 of this paper, the Board decided to prohibit entities from including contracts issued more than one year apart in the same group. The Board observed that such grouping was important to ensure that trends in the profitability of a portfolio of contracts will be reflected in the financial statements on a timely basis.
36. The Board considered whether there were any alternatives to using a one-year issuing period to constrain the duration of groups. However, the Board considered that any principle-based approach that satisfied the Board’s objective would require the reintroduction of a test for similar profitability, which as set out in paragraph 31 of this paper, was rejected as being operationally burdensome. The Board acknowledged that using a one-year issuing period was an operational simplification given for cost-benefit reasons.
37. The Board considered whether prohibiting groups from including contracts issued more than one year apart would create an artificial divide for contracts with cash flows that affect or are affected by cash flows to policyholders of contracts in another group. Some stakeholders asserted that such a division would distort the reported result of those contracts and would be operationally burdensome. However, the Board concluded that applying the requirements of IFRS 17 to determine the fulfilment cash flows for groups of such contracts provides an appropriate depiction of the results of such contracts. The Board acknowledged that, for contracts that fully share risks, the groups together will give the same results as a single combined risk-sharing portfolio, and therefore considered whether IFRS 17 should give an exception to the

requirement to restrict groups to include only contracts issued within one year. However, the Board concluded that setting the boundary for such an exception would add complexity to IFRS 17 and create the risk that the boundary would not be robust or appropriate in all circumstances. Hence, IFRS 17 does not include such an exception. Nonetheless, the Board noted that the requirements specify the amounts to be reported, not the methodology to be used to arrive at those amounts. Therefore it may not be necessary for an entity to restrict groups in this way to achieve the same accounting outcome in some circumstances.

Transition

38. To support entities transitioning to IFRS 17, the Board included modifications in the modified retrospective approach and reliefs in the fair value approach to simplify the transition requirements in areas that the Board concluded might be impracticable to apply. For the level of aggregation requirements, the Board provided some modifications and reliefs, as set out in paragraphs 14–18 of this paper.

STAFF PAPER

March 2019

IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Level of aggregation—History of the Board’s decisions and stakeholder feedback		
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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

1. This paper is part of a set of papers on the level of aggregation requirements in IFRS 17 *Insurance Contracts*. It sets out the history of the decisions of the International Accounting Standards Board (Board) and stakeholder feedback.
2. The other papers in the set are:
 - (a) AP2A *Level of aggregation—Stakeholder concerns, implementation challenges and staff analysis*; and
 - (b) AP2B *Level of aggregation—IFRS 17 requirements and Board’s rationale*.

Structure of the paper

3. This paper provides an overview of:
 - (a) 2010 Exposure Draft *Insurance Contracts* and stakeholder feedback (paragraphs 5–7 of this paper);
 - (b) 2013 Exposure Draft *Insurance Contracts* and stakeholder feedback (paragraphs 8–11 of this paper);
 - (c) towards the draft IFRS 17 for external review and final IFRS 17 (paragraphs 12–20 of this paper):

- (i) annual cohorts; and
 - (ii) annual cohorts and mutualisation.
4. Appendix A to this paper provides extracts of the relevant sections in the 2010 Exposure Draft, 2013 Exposure Draft and 2016 draft IFRS 17 used for external testing.

2010 Exposure Draft and stakeholder feedback

5. In the 2010 Exposure Draft, the Board defined a portfolio of insurance contracts as ‘insurance contracts that are subject to broadly similar risks and managed together as a single pool’.
6. On level of aggregation for measurement, the Board proposed:
- (a) the risk adjustment be measured at the portfolio level; and
 - (b) the residual margin (contractual service margin) be measured at a lower level—the portfolio split into groups based on similar dates of inception and similar coverage periods. The Board also proposed that the residual margin recognised in profit or loss in each period be adjusted to reflect when fewer contracts than expected were in force at the end of a period, so that amounts related to contracts no longer in force would go to profit or loss immediately.
7. Stakeholder feedback:
- (a) most respondents thought that the definition of a portfolio could be subject to different interpretations of ‘similar risks’ and ‘managed together’, resulting in aggregation of very different contracts.
 - (b) many respondents suggested that the Standard should have a single level of aggregation and that this single level of aggregation should be the portfolio. In addition:
 - (i) some respondents did not agree with the proposed level of aggregation for measuring the risk adjustment, because it restricted the diversification benefits to only those within a portfolio and not between

portfolios. Those respondents stated that this proposal was inconsistent with the way in which they price contracts and manage their business.

- (ii) some respondents did not see the need to restrict the level of aggregation for the release of the contractual service margin to a level lower than portfolio, because in some circumstances using a higher level of aggregation would provide the same information at lower cost.

2013 Exposure Draft and stakeholder feedback

8. In response to stakeholder feedback that the definition of a portfolio of insurance contracts included in 2010 Exposure Draft could be subject to different interpretations, the Board proposed a narrower definition of a portfolio of insurance contracts. That definition would be ‘a group of insurance contracts that provide coverage for similar risks and that are priced similarly relative to the risk taken on and are managed together as a single pool’.
9. In response to stakeholder feedback that there should be a single level of aggregation, the Board proposed that the level of aggregation for both the measurement of expected cash flows and the contractual service margin should be the portfolio of insurance contracts. The Board noted that the level of aggregation should not make a difference for the measurement of expected cash flows. However, the Board did not specify a level of aggregation for recognising the contractual service margin. Instead, the Board provided an objective that the contractual service margin should be recognised in profit or loss at a level of aggregation such that once the coverage period of the insurance contract has ended, the related contractual service margin has been fully recognised. The Board noted that, in practice, this may result in a smaller unit of account than the portfolio that entities would generally use to manage contracts and may require entities to group together contracts that have similar contract inception dates, coverage periods and service profiles.
10. In response to stakeholder feedback that the measurement of the risk adjustment should not be restricted to the portfolio level, the Board proposed that the risk adjustment is measured incorporating diversification benefits to the extent that the

entity considers those benefits in setting the amount of compensation it requires to bear risk.

11. Stakeholder feedback:

- (a) some respondents were unclear about how to interpret the requirement that contracts within a portfolio should be priced similarly relative to the risk taken on. Some of those respondents also said that this could result in a level of aggregation that was excessively narrow and burdensome.
- (b) some respondents struggled to understand the reasons for the proposals for the level of aggregation that was to be used to account for different components of insurance contracts.
- (c) some respondents were not sure how to measure an insurance contract by applying different levels of aggregation to the measurement of its components. They held the view that applying different levels of aggregation to measure different components of the insurance liability will create unnecessary complexity and an operational burden.
- (d) some respondents were concerned that the 2013 Exposure Draft would require them to apply a level of aggregation that is lower than the level at which they manage their business. In particular, respondents were concerned that the requirements in paragraph B37(d) of the 2013 Exposure Draft relating to the release of the contractual service margin, and the requirement in the definition of an insurance contract that contracts should be priced similarly relative to the risk taken on, would require a lower level of aggregation than they currently use.
- (e) some respondents would prefer a single level of aggregation throughout the Standard, while others ask for clarification of the principle, improved consistency of drafting and additional guidance on the application of the portfolio definition.
- (f) some respondents suggested grouping insurance contracts in a portfolio that have been issued within the same annual reporting period or grouping insurance contracts that have a similar inception date.

Towards the draft IFRS 17 for external review and final IFRS 17

12. In response to feedback on the 2013 Exposure Draft, the Board decided to discuss whether any clarification or additional application guidance was needed for the level of aggregation requirements.
13. As a result of those discussions, the Board proposed in the draft of IFRS 17 for external review that:
 - (a) the definition of a portfolio of insurance contracts is a group of insurance contracts subject to similar risks and managed together as a single pool.
 - (b) an entity is required to measure individual insurance contracts on initial recognition to determine what group they belong to. Those groups comprise contracts that on initial recognition have:
 - (i) future cash flows the entity expects will respond similarly in terms of amount and timing to changes in key assumptions; and
 - (ii) similar expected profitability. Similar profitability means similar contractual service margin as a percentage of the total expected revenue. As a practical expedient, an entity may instead assess whether the contracts have a similar expected return on premiums, ie the contractual service margin as a percentage of expected premiums.
 - (c) an amount of the contractual service margin is recognised in the statement of profit or loss to reflect the service provided under the contract. In determining that amount, the objective is to allocate the contractual service margin for a group of contracts remaining (before any allocation) at the end of the reporting period over the coverage provided in the current period and expected remaining future coverage to be provided, on the basis of the passage of time. The allocation shall be based on coverage units, reflecting the expected duration and size of the contracts in the group.

14. Those proposed requirements reflected the Board’s tentative conclusions that:
- (a) groups of contracts that have a greater risk of being onerous should not be grouped with groups of contracts that have a lower risk of being onerous;
 - (b) the contractual service margin should be allocated to periods in a way that reflects the service provided by the contracts; and
 - (c) the contractual service margin for the group should reflect the number and size of the contracts within the group that still have coverage to provide.
15. Feedback received from external review test participants:
- (a) test participants expected that applying draft IFRS 17 could result in a very high number of groups. Specifically, they interpreted grouping by ‘similar profitability’ as requiring an excessively large number of groups at a level of granularity that might not provide useful information. This response was exacerbated by the fact that participants were unclear on what might be considered ‘dissimilar’.
 - (b) test participants said that the application of draft IFRS 17 would generally:
 - (i) result in a more granular level of aggregation than entities previously used;
 - (ii) be different from the way that many entities currently assess profitability or track contracts; and
 - (iii) impose significant cost and complexity due to data storage requirements and granularity of analysis.
 - (c) although the primary concerns about granularity were often identified as being operational, there was also a concern that the requirements in draft IFRS 17 would result in entities reporting losses on some contracts and profits on other contracts when participants thought there was no economic loss or gain.
16. In response to this feedback, the Board wanted to achieve an outcome that was less granular than draft IFRS 17 while still requiring information to be provided to users of financial statements that is consistent with the Board’s conclusions in paragraph 14 of

this paper. To achieve this, the Board tentatively concluded to require a portfolio to be divided into a minimum of three ‘profitability buckets’ by:

- (a) requiring that entities identify any onerous contracts at inception and group them separately from contracts that are not onerous at inception;
- (b) requiring that entities measure insurance contracts that are not onerous at inception by dividing portfolios, at a minimum, into two groups—a group of contracts that have no significant risk of becoming onerous and a group of other profitable contracts;
- (c) providing guidance that:
 - (i) an entity should assess the risk of the contracts in the group becoming onerous in a manner consistent with how the entity’s internal reporting provides information about changes in estimates;
 - (ii) an entity should assess whether there is no significant risk of the contracts in the group becoming onerous, based on the sensitivity of the fulfilment cash flows to changes in estimates which, if they occurred, would result in the contracts becoming onerous; and
 - (iii) an entity is permitted to divide portfolios into more than two groups. For example, an entity may choose to divide the portfolios into more groups if the entity’s internal reporting provides information that distinguishes at a more granular level the different risks of contracts becoming onerous.

Annual cohorts

17. At the same time, the Board observed that because this approach was designed to reduce the overall granularity resulting from the ‘similar profitability’ requirement, it may not provide as much information in the financial statements as would have been provided by the requirements in draft IFRS 17. For example, an unexpectedly large change in estimates may have otherwise caused some contracts to become onerous, however because those contracts could now be grouped with other contracts which are more profitable, this may no longer occur—reflecting the move in focus away from

‘similar profitability’. Applying draft IFRS 17, grouping contracts by similar profitability would mean that those different effects would have been reflected in the measurement of the insurance contract and hence in the financial statements. In contrast, grouping profitable contracts into those that are more resilient and those that are less resilient would ensure that losses would be reported on contracts that are less resilient, but would not provide as much information about how quickly different contracts became onerous or the effect of any reversal in changes of estimates. Some of that information would, however, be available in the disclosures through the change in the contractual service margin.

18. The Board concluded that the objective for the allocation of the contractual service margin could be achieved to an acceptable degree if, for each of the profitability buckets, an entity was restricted to grouping contracts that are issued within the same year. This would achieve the benefits of the reduced operational burden that results from removing the requirement for entities to group contracts according to similar profitability while still retaining the outcome the Board desires for the allocation of the contractual service margin. Like the previous ‘similar profitability’ proposal in the draft IFRS 17, requiring annual cohorts would ensure that changes in profitability over time are more likely to be apparent because profits on contracts are allocated over a finite period, compared to open profitability buckets in which profits on contracts could be allocated over an infinite period.

Annual cohorts and mutualisation

19. The Board considered the effect on mutualised contracts of the requirement to restrict groups to contracts that are issued within one year. Contracts are mutualised if some policyholders have subordinated their claims to those of other policyholders, thereby reducing the direct exposure of the insurer to the collective risk of the group.¹
20. The Board considered whether applying annual cohorts to contracts that are *fully*² mutualised might result in a loss because an annual group is regarded as onerous even

¹ Note that the Board decided not to use the term ‘mutualisation’ in IFRS 17 because different stakeholders have different definitions for this term.

² ie 100% risk shared between policyholders

though the combined mutualised group (the portfolio) is profitable. The Board concluded that, because the measurement and allocation of cash flows to groups consider the effect of mutualisation (so for example, cash flows are allocated across annual cohorts to reflect mutualisation), applying IFRS 17 to fully mutualised contracts would result in the same outcome with and without annual cohorts. The Board considered whether to add an exception to annual cohorts for fully mutualised contracts, but concluded that to do so would add complexity, and create risk that the boundary would not be robust or appropriate in all circumstances. Instead, the Board explained in paragraph BC138 of the Basis for Conclusions on IFRS 17 that it may not be necessary for an entity to apply annual cohorts to achieve the same accounting outcome in some circumstances.

Appendix A— Extracts of the relevant sections in the 2010 Exposure Draft, 2013 Exposure Draft and 2016 draft IFRS 17 used for external testing

2010 Exposure Draft

The Exposure Draft

50 **An insurer shall recognise the residual margin determined at initial recognition as income in profit or loss over the coverage period in a systematic way that best reflects the exposure from providing insurance coverage, as follows:**

- (a) **on the basis of the passage of time, but**
- (b) **on the basis of the expected timing of incurred claims and benefits, if that pattern differs significantly from the passage of time.**

(...)

52 (...) Once the coverage period has ended, the residual margin is zero; hence, after that point the contract shall be measured as the present value of the fulfilment cash flows.

53 If fewer contracts are in force at the end of a period than was expected at the beginning of the period, the amount of the residual margin recognised in profit or loss during the period shall include an adjustment to eliminate from the residual margin at the end of the reporting period the portion relating to contracts that are no longer in force. If more contracts are in force at the end of a period than was expected at the beginning of the period, the insurer shall not increase the residual margin.

Definitions

portfolio of insurance contracts **Insurance contracts** that are subject to broadly similar risks and managed together as a single pool.

contracts

Basis for conclusions

Level of aggregation for the residual margin

BC130 Paragraph BC120 explains that the risk adjustment should be determined at a portfolio of contracts level that groups together contracts subject to similar circumstances (ie contracts that are subject to similar risks and are managed together as a pool). However, because the residual margin is released over the coverage period, it is necessary to adopt a different level

of aggregation for residual margins that group together only those contracts within the portfolio that have similar coverage periods. For that reason, the Board concluded that residual margins should be determined at a level that aggregates insurance contracts into a portfolio and, within each portfolio, by similar date of inception of the contract and by similar coverage period. An alternative would be to determine the release of the residual margin at an individual contract level, but the Board concluded that would be impracticable.

2013 Exposure Draft

The Exposure Draft

Contractual service margin

28 **Unless the portfolio of insurance contracts that includes the contract is onerous at initial recognition, an entity shall measure the contractual service margin recognised at initial recognition in accordance with paragraph 18(b) at an amount that is equal and opposite to the sum of:**

- (a) **the amount of the fulfilment cash flows for the insurance contract at initial recognition; and**
- (b) **any pre-coverage cash flows.**

Subsequent measurement

29 **Unless paragraphs 35–40 apply, the carrying amount of an insurance contract at the end of each reporting period shall be the sum of:**

- (a) **the fulfilment cash flows at that date, measured in accordance with paragraphs 19–27, B36–B67 and B69–B82; and**
- (b) **the remaining amount of the contractual service margin at that date.**

30 The remaining amount of the contractual service margin at the end of the reporting period is the carrying amount at the start of the reporting period:

- (a) plus the interest accreted on the carrying amount of the contractual service margin during the reporting period to reflect the time value of money (the interest accreted is calculated using the discount rates specified in paragraph 25 that applied when the contract was initially recognised);
- (b) minus the amount recognised in accordance with paragraph 32 for services that were provided in the period;

- (c) plus a favourable difference between the current and previous estimates of the present value of future cash flows, if those future cash flows relate to future coverage and other future services (see paragraph B68);
 - (d) minus an unfavourable change in the future cash flows:
 - (i) if the change arises from a difference between the current and previous estimate of the present value of future cash flows that relate to future coverage and other future services; and
 - (ii) to the extent that the contractual service margin is sufficient to absorb an unfavourable change. The contractual service margin shall not be negative.
- 31 An entity shall recognise in profit or loss any changes in the future cash flows that, in accordance with paragraph 30, do not adjust the contractual service margin (see paragraph B68).
- 32 An entity shall recognise the remaining contractual service margin in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of services that are provided under the contract.

Definitions

portfolio of insurance contracts	A group of insurance contracts that:
	(a) provide coverage for similar risks and that are priced similarly relative to the risk taken on; and
	(b) are managed together as a single pool.

Application guidance

Level of measurement (paragraph 22)

- B36 The expected (probability-weighted) cash flows from a portfolio of insurance contracts equals the sum of the expected cash flows of the individual contracts. Consequently, the level of aggregation for measurement should not affect the expected present values of future cash flows.
- B37 However, from a practical point of view, it may be easier to make estimates in aggregate for a portfolio rather than for individual insurance contracts. For example, incurred but not reported (IBNR) estimates are typically made for a portfolio as a whole. If expenses are incurred at the portfolio level but not at an individual insurance contract level, it may be easier, and perhaps even necessary, to estimate them at an aggregate level. Accordingly, this [draft] Standard requires that entities measure an insurance contract using:

- (a) expected cash flows assessed at the level of a portfolio of insurance contracts (see paragraph 22);
- (b) a risk adjustment measured by incorporating diversification benefits to the extent that the entity considers those benefits in setting the amount of compensation it requires to bear risk (see paragraphs B76–B77);
- (c) the contractual service margin at initial recognition at the level of a portfolio of insurance contracts, consistent with the cash flows (see paragraph 28); and
- (d) the amount of contractual service margin recognised in profit or loss at a level of aggregation such that once the coverage period of the insurance contract has ended, the related contractual service margin has been fully recognised in profit or loss (see paragraph 32).

B38 However, the expected value of estimates made at the portfolio level reflects the expected value of the equivalent estimates of those amounts attributed to the individual contracts. In principle, this should be no different from making expected value estimates for individual insurance contracts and then aggregating the results for the portfolio of those contracts.

Basis for conclusions

Level of aggregation (paragraph 32)

BCA113 This Exposure Draft specifies that an entity should aggregate insurance contracts into a portfolio of insurance contracts when determining the contractual service margin. However, it does not specify the level of aggregation for recognising the contractual service margin in profit or loss. The IASB proposes that when entities recognise the contractual service margin they should use a level of aggregation that ensures that the contractual service margin is recognised in line with the pattern of services provided under the contracts to which they relate. This would mean that when the coverage period of each contract has ended, the contractual service margin relating to that contract should be fully recognised. In practice, this may result in a smaller unit of account than the portfolio that entities would generally use to manage contracts, and may require entities to group together contracts that have similar contract inception dates, coverage periods and service profiles. Another approach would be to determine the recognition of the contractual service margin at an individual contract level, but the IASB concluded that requiring that approach in all circumstances might be onerous.

2016 draft IFRS 17 used for external testing

- 36 **Having determined the measurement of individual contracts on initial recognition, an entity shall aggregate contracts into groups to determine whether to recognise a loss for a group of contracts and to measure the contractual service margin after initial recognition. Those groups comprise contracts that on initial recognition have:**
- (a) future cash flows the entity expects will respond similarly in terms of amount and timing to changes in key assumptions; and**
 - (b) similar expected profitability. Unless paragraphs 50-54 apply, similar profitability means similar contractual service margin as a percentage of the total expected revenue. As a practical expedient, an entity may instead assess whether the contracts have a similar expected return on premiums, ie the contractual service margin as a percentage of expected premiums.**
- B107 An amount of the contractual service margin is recognised in the statement of profit or loss to reflect the service provided under the contract. In determining that amount, the objective is to allocate the contractual service margin for a group of contracts remaining (before any allocation) at the end of the reporting period over the coverage provided in the current period and expected remaining future coverage to be provided, on the basis of the passage of time. The allocation shall be based on coverage units, reflecting the expected duration and size of the contracts in the group.

STAFF PAPER

March 2019

IASB[®] meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Credit cards that provide insurance coverage		
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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

1. This paper discusses credit card contracts that meet the definition of an insurance contract in IFRS 17 *Insurance Contracts* (referred to as ‘credit card contracts that provide insurance coverage’ in this paper).

Summary of staff recommendations

2. The staff recommend the International Accounting Standards Board (Board) amend IFRS 17 to exclude from the scope of the Standard credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Structure of the paper

3. This paper provides:
 - (a) an overview of the requirements in IFRS 17 and a summary of the Board’s rationale for setting those requirements, including an overview of the Board’s previous discussions (paragraphs 4–12 of this paper);
 - (b) an overview of the concerns and implementation challenges expressed since IFRS 17 was issued (paragraphs 13–16 of this paper); and

- (c) the staff analysis, recommendations and questions for Board members (paragraphs 17–42 of this paper).

IFRS 17 requirements and the Board’s rationale

Scope of IFRS 17

4. IFRS 17 applies to all insurance contracts as defined in IFRS 17, regardless of the type of entity issuing the contracts, with some specific exceptions. The definition of an insurance contract in IFRS 17 is the same as the definition of an insurance contract in IFRS 4 *Insurance Contracts*, with minor clarifications to the related guidance in Appendix B of IFRS 4.¹
5. The Board decided that IFRS 17 should apply to all entities issuing insurance contracts—as opposed to insurers only—because:
 - (a) if an insurer that issues an insurance contract accounted for that contract in one way and a non-insurer that issues the same insurance contract accounted for that contract in a different way, comparability across entities would be reduced;
 - (b) entities that might meet the definition of an insurer frequently have major activities in other areas as well as in insurance and would need to determine how and to what extent these non-insurance activities would be accounted for in a manner similar to insurance activities or in a manner similar to how other entities account for their non-insurance activities; and
 - (c) a robust definition of an insurer that could be applied consistently from jurisdiction to jurisdiction would be difficult to create.
6. IFRS 17 carries forward from IFRS 4 some scope exclusions. Paragraph 7 of IFRS 17 excludes from the scope of the Standard various items that may meet the definition of insurance contracts, such as:

¹ The clarifications in IFRS 17 require that: (i) an entity should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant; and (ii) a contract does not transfer significant insurance risk if there is no scenario with commercial substance in which the entity can suffer a loss on a present value basis.

- (a) warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer. IFRS 15 *Revenue from Contracts with Customers* applies to those warranties. The Board noted that, if IFRS 17 were to apply to such warranties, entities would generally apply the premium allocation approach to such contracts, which would result in accounting similar to that which would result from applying IFRS 15. Further, in the Board's view, accounting for such contracts in the same way as other contracts with customers would provide comparable information for the users of financial statements for the entities that issue such contracts. Hence, the Board concluded that changing the existing accounting for these contracts would impose costs and disruption for no significant benefit.
- (b) some financial guarantee contracts. An entity shall not apply IFRS 17 to financial guarantee contracts it issues unless it has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. The Board decided to carry forward from IFRS 4, without any substantive changes, the option that permits an issuer of a financial guarantee contract to apply IFRS 9 *Financial Instruments* or IFRS 17 to such contracts because the option has worked in practice and results in consistent accounting for economically similar contracts issued by the same entity.
- (c) the following contracts because they are in scope of other IFRS Standards:
- (i) employers' assets and liabilities that arise from employee benefit plans (see IAS 19 *Employee Benefits* and IFRS 2 *Share-based Payment*);
 - (ii) retirement benefit obligations reported by defined benefit retirement plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*);
 - (iii) contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (see IFRS 15, IAS 38 *Intangible Assets* and IFRS 16 *Leases*);

- (iv) residual value guarantees provided by the manufacturer, dealer or retailer and lessees' residual value guarantees embedded in a lease (see IFRS 15 and IFRS 16); and
 - (v) contingent consideration payable or receivable in a business combination (see IFRS 3 *Business Combinations*).
7. Paragraph 8 of IFRS 17 also allows an entity a choice of accounting for a fixed-fee service contract that meets the definition of an insurance contract applying IFRS 15 instead of IFRS 17 if, and only if, the following three conditions are met:
- (a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
 - (b) the contract compensates the customer by providing services, rather than by making cash payments to the customer; and
 - (c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.
8. Some stakeholders noted some entities issue both fixed-fee service contracts and other insurance contracts. For example, some entities issue both roadside assistance contracts and insurance contracts for damage arising from accidents. The Board decided to allow entities a choice of whether to apply IFRS 17 or IFRS 15 to fixed-fee service contracts to enable such entities to account for both types of contract in the same way.

Separating components from an insurance contract

9. For insurance contracts that include non-insurance components IFRS 17 requires an entity to:
- (a) apply IFRS 9 to determine whether there is an embedded derivative to be separated from a host insurance contract and, if there is, to determine how to account for that derivative;

- (b) account for any distinct investment component separately from a host insurance contract applying IFRS 9;
 - (c) account for any promise to transfer distinct goods or non-insurance services separately from a host insurance contract applying IFRS 15; and
 - (d) apply IFRS 17 to all remaining components of the host insurance contract—these components include embedded derivatives that are not separated, non-distinct investment components and promises to transfer non-distinct goods or non-insurance services.
10. IFRS 17 prohibits the separation of non-insurance components from an insurance contract if the specified criteria set out in paragraph 9 of this paper are not met. IFRS 17 is more restrictive in this regard than IFRS 4.
11. The Board decided to prohibit an entity from separating a non-insurance component when not required to do so by IFRS 17 because:
- (a) it would be difficult for an entity to routinely separate components of an insurance contract in a non-arbitrary way and setting requirements to do so would result in complexity; and
 - (b) such separation would ignore interrelations between components, with the result that the sum of the values of the components may not always equal the value of the contract as a whole, even on initial recognition.
12. Therefore, the Board concluded that permitting separation of non-distinct non-insurance components would result in less useful information and reduce the comparability of the financial statements across entities.

Concerns and implementation challenges expressed since IFRS 17 was issued

13. Some stakeholders are concerned that IFRS 17 requires an entity to account for some credit card contracts as insurance contracts. Those stakeholders provided the following specific example of a credit card contract that meets the definition of an

insurance contract in IFRS 4 and in IFRS 17 if the transfer of insurance risk is significant:²

- (a) the contract is a retail credit card facility subject to typical terms such as a credit limit, minimum monthly repayments, interest charged at a stated rate unless the balance is paid off in full by a specified date.
- (b) the regulation of the jurisdiction where the entity issuing the credit card operates requires the entity to provide coverage for some purchases made by the customer using the credit card.³ Under this coverage, the entity:
 - (i) must refund the customer for some claims against a supplier in respect of a misrepresentation or breach of the purchase agreement (for example, if the goods are defective or if the supplier fails to deliver the goods) if the supplier does not rectify; and
 - (ii) is entitled to be indemnified by the supplier for any loss suffered in satisfying its liability with its customer.
- (c) according to this regulation, provided that the customer can demonstrate the link between the entity, the supplier and the customer itself:
 - (i) the entity and the supplier are jointly and severally liable to the customer—ie the customer can choose whether to claim from the entity or from the supplier; and
 - (ii) subject to a maximum amount, the customer can claim from the entity or from the supplier an amount in excess of the amount paid using the specific credit card (for example, the entire purchase price, even if only part of the purchase price was paid using the credit card, and any additional costs reasonably incurred as a result of the supplier failure).

² IFRS 4 and IFRS 17 provide examples of contracts that are insurance contracts if the transfer of insurance risk is significant. Those examples include contracts that compensate the holder if another party fails to perform a contractual obligation; for example, an obligation to construct a building (see paragraph B18(f) of IFRS 4 and paragraph B26(f) of IFRS 17).

³ Purchases of goods and services with a purchase price that is within a specified range of money.

- (d) the entity either does not charge any fee to the customer or charges an annual fee to the customer that does not reflect an assessment of the insurance risk associated with that individual customer.
14. Similar to the concerns and implementation challenges expressed by stakeholders for loans that transfer significant insurance risk,⁴ those stakeholders observed that the requirements in IFRS 17 for the separation of non-insurance components (such as a loan or a loan commitment in a credit card) differ from the requirements in IFRS 4, which permit entities to separate a loan component from an insurance contract and apply IFRS 9 to the loan component.
15. Those stakeholders are therefore concerned that entities that currently account for a loan or a loan commitment in a credit card applying IFRS 9 would need to change the accounting for those contracts when IFRS 17 is effective, shortly after having incurred costs to develop a new credit impairment model to comply with IFRS 9.
16. The staff note that, in many cases, entities can choose to issue an insurance contract and a credit card contract as two separate contracts and therefore the concerns and implementation challenges discussed in paragraphs 13–15 of this paper are not relevant for all entities issuing credit card contracts.

Staff analysis and recommendation

17. Paragraph B26 of IFRS 17 provides examples of contracts that are insurance contracts if the transfer of insurance risk is significant. Those examples include contracts that compensate the holder if another party fails to perform a contractual obligation. The staff therefore think that the credit card contract discussed in paragraph 13 of this paper meets the definition of an insurance contract in IFRS 17 if the transfer of insurance risk is significant.

⁴ Refer to Agenda Paper 2A *Loans that transfer significant insurance risk* for the February 2019 Board meeting. At its February 2019 meeting the Board tentatively decided to propose to amend the scope of IFRS 17 and IFRS 9 to enable an entity to account for a portfolio of insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract applying either IFRS 17 or IFRS 9.

18. The staff note that such a credit card contract provides insurance coverage and combines payment services with the provision of credit. That insurance coverage differs from:
- (a) the insurance coverage that an entity issuing a credit card contract sells to its customers as an agent, such as travel insurance or roadside assistance provided by another party (the principal). A credit card contract that includes this insurance coverage would not be in the scope of IFRS 17.
 - (b) the insurance coverage that an entity issuing a credit card contract sells to its customers as a principal and that meets the specified conditions for a fixed-fee service contract in paragraph 8 of IFRS 17 (see paragraph 7 of this paper). A credit card contract that includes this insurance coverage may be accounted for applying IFRS 15, rather than IFRS 17, applying paragraph 8 of IFRS 17.
 - (c) the insurance coverage that an entity issuing a credit card contract provides for the settlement of the customer's obligation created by the contract, such as a waiver of the loan balance of the credit card if the customer dies. If this is the only insurance coverage provided by the credit card contract, the contract would be captured by the scope exclusion that the Board has tentatively decided to add to IFRS 17 at its February 2019 meeting for loans that transfer significant insurance risk.⁴
 - (d) a mechanism sometimes referred to as 'chargeback'. A chargeback typically refers to situations where the customer is entitled to claim a refund of the amount paid by credit card (rather than an amount in excess of that amount as discussed in paragraph 13(c)(ii) of this paper). The customer typically addresses the claims to the entity issuing the credit card, which in turn puts in a request to the supplier's bank. However, in some cases there is no guarantee that the customer can recover the money through the chargeback. Even though the chargeback can be used in cases of goods not delivered or goods that are damaged, this does not mean that the entity issuing the credit card is jointly and severally liable with the supplier.

19. Applying paragraphs 10–13 of IFRS 17 only embedded derivatives, investment components, goods and non-insurance services can be assessed for separation from an insurance contract (see paragraph 9 of this paper). Thus, similar to loans that transfer significant insurance risk,⁵ the loan component (a loan or a loan commitment) and the insurance component in such a credit card contract cannot be accounted for separately applying IFRS 17. As discussed in paragraph 14 of this paper, IFRS 17 differs from IFRS 4 which permits entities that issue such credit card contracts to account for the loan component applying IFRS 9.
20. The staff observe that:
- (a) many entities issuing credit card contracts that provide insurance coverage might not issue other contracts in the scope of IFRS 17; and
 - (b) currently entities that issue the credit card contract discussed in paragraph 13 of this paper typically account for:
 - (i) loans or loan commitments in credit card contracts (and any relevant interest revenue) applying IFRS 9;
 - (ii) any insurance obligations applying IFRS 4, in a way similar to applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
 - (iii) any revenue for providing other services applying IFRS 15.
21. The staff think that this existing accounting for credit card contracts discussed in paragraph 13 of this paper provides useful information to users of financial statements about the components of these credit card contracts. IFRS 17 introduces changes to this existing accounting, which might impose costs and disruption for no significant benefits. Accordingly, the staff have considered a possible amendment to IFRS 17 that would:
- (a) exclude such credit card contracts from the scope of the Standard;

⁵ Refer to Agenda Paper 2A *Loans that transfer significant insurance risk* for the February 2019 Board meeting.

- (b) permit the continuation of existing accounting practices for those contracts and would therefore reduce IFRS 17 implementation costs for those entities; and
- (c) not cause a significant loss of useful information relative to that which would be provided by IFRS 17 for users of financial statements.

22. The staff have analysed the following approaches:

- (a) Approach 1—Amending an existing scope exclusion in IFRS 17; and
- (b) Approach 2—Developing a specific scope exclusion for credit card contracts.

Approach 1—Amending an existing scope exclusion in IFRS 17

23. The staff considered extending an existing scope exclusion in IFRS 17, specifically the scope exclusions relating to:

- (a) warranties provided by a manufacturer, dealer or retailer; and
- (b) fixed-fee service contracts.

Warranties provided by a manufacturer, dealer or retailer

24. With reference to the example of the credit card contract discussed in paragraph 13 of this paper, some stakeholders:

- (a) observed that the entity and the supplier are jointly and severally liable in connection with the sale of the goods to the customer only because it is imposed by regulation;
- (b) expressed the view that the insurance coverage provided by the entity issuing the credit card is similar to the assurance provided by a supplier that the goods purchased by the customer comply with the agreed-upon specifications—referred to as an assurance-type warranty in IFRS 15;⁶ and

⁶ As discussed in paragraph 6(a) of this paper, warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer are excluded from the scope of IFRS 17.

- (c) have suggested the Board amend IFRS 17 to clarify that the scope exclusion in paragraph 7 of IFRS 17 for warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer also applies to entities that are jointly and severally liable with the manufacturer, dealer or retailer.
25. The staff think that the scope exclusion relating to warranties provided by a manufacturer, dealer or retailer in IFRS 17 might not fully apply to the insurance coverage provided by the credit card contract discussed in paragraph 13 of this paper. Paragraph BC89 of the Basis for Conclusions on IFRS 17 explains that a warranty provided by a manufacturer, dealer or retailer might provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications, or they might provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications. The staff think that such a warranty refers to an obligation to replace or repair a defective product, rather than to an obligation to compensate the customer by making cash payments. Paragraph BC376 of the Basis for Conclusions on IFRS 15 explains that:
- (a) the Board decided that an entity should recognise an assurance-type warranty as a separate liability to replace or repair a defective product; and
 - (b) an entity should recognise a warranty liability and corresponding expense when it transfers the product to the customer and the liability should be measured in accordance with IAS 37.
26. In addition, the staff think that extending the scope exclusion relating to warranties, as suggested by stakeholders in paragraph 24(c) of this paper, might exclude from the scope of IFRS 17 a large population of insurance contracts that provide a performance guarantee as envisaged in paragraph B26(f) of IFRS 17, such as contracts that compensate the holder if a manufacturer fails to perform a contractual obligation, including the construction of a building. The staff think that applying IFRS 15 to those contracts may result in a different accounting to that which would result from applying IFRS 17. Comparability between the accounting in IFRS 15 and in IFRS 17

is one of the aspects the Board considered when deciding to exclude warranties from the scope of IFRS 17 (see paragraph 6(a) of this paper).

27. The staff therefore do not recommend the Board amend IFRS 17 as suggested by some stakeholders in paragraph 24(c) of this paper.

Fixed-fee service contracts

28. The staff note that there are some similarities between the credit card contract discussed in paragraph 13 of this paper and a fixed-fee service contract. An entity can apply IFRS 15 instead of IFRS 17 to a fixed-fee service contract that meets the definition of an insurance contract if, and only if, the three conditions listed in paragraph 8 of IFRS 17 are met (see paragraph 7 of this paper).

29. In terms of similarities, the staff note that the credit card contract discussed in paragraph 13 of this paper:

- (a) provides insurance coverage for a fixed fee—ie an annual fee, if any fee is charged by the entity to the customer; and
- (b) either charges a fee to the customer that does not reflect an assessment of the insurance risk associated with the individual customer or does not charge any fee at all.

30. However, the staff also note the following differences:

- (a) in the event of a supplier failure, the contract does not compensate the customer by providing services. The contract compensates the customer by making cash payments to the customer.
- (b) the contract has as its primary purpose the provision of credit and payment services, rather than the provision of services.
- (c) the insurance risk transferred by the contract arises from both the customer’s use of payment services and the uncertainty over the amount of claims. As discussed in paragraph 13(c)(ii) of this paper the customer can claim an amount in excess of the amount paid using the credit card from the entity or from the supplier.

31. The staff have considered whether to amend the requirements in paragraph 8 of IFRS 17 for fixed-fee service contracts to enable an entity issuing such a credit card contract not to apply IFRS 17 to such a contract. However, the staff concluded that significant amendments to the requirements in paragraph 8 of IFRS 17 would be necessary because of the different characteristics of a credit card contract and a fixed-fee service contract. The nature of a credit card contract is to provide credit and payment services and to compensate the customer by making cash payments to the customer, whereas the main feature of a fixed-fee service contract is to provide services and to compensate the customer by providing services. The staff concluded that it would be more appropriate to develop a specific scope exclusion for credit card contracts.
32. The staff therefore do not recommend the Board amend the existing scope exclusion for fixed-fee service contracts in IFRS 17 to exclude the credit card contract discussed in paragraph 13 of this paper.

Approach 2—Developing a specific scope exclusion for credit card contracts

33. The staff note that it could be seen as inappropriate to exclude from the scope of IFRS 17 any credit card contract that provides insurance coverage. If a contract transfers significant insurance risk, the contract is an insurance contract and IFRS 17 was developed with the objective that entities issuing insurance contracts account for those contracts in a consistent way that faithfully represents those contracts.
34. However, the staff think that it could be justified to exclude some credit card contracts that provide insurance coverage from the scope of IFRS 17 in order to address the concerns and implementation challenges discussed in paragraphs 13–15 of this paper and to ease IFRS 17 implementation for some entities.
35. As discussed in paragraph 29 of this paper, similar to some fixed-fee service contracts that meet the definition of an insurance contract and that an entity can choose to account for applying IFRS 15, for the credit card contract discussed in paragraph 13 of this paper the compensation required by the entity does not reflect an assessment of the insurance risk associated with an individual customer.

36. The staff think that excluding from the scope of IFRS 17 credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer would:
- (a) permit the continuation of the existing accounting practice discussed in paragraph 20(b) of this paper and therefore reduce IFRS 17 implementation costs for some entities. Amending IFRS 17 by permitting the continuation of the existing accounting practice would not require the Board to consider to amend the disclosure and transition requirements in IFRS Standards for such credit card contracts.
 - (b) not result in a significant loss of useful information relative to that which would be provided by IFRS 17 for users of financial statements. Other relevant IFRS Standards would apply to such credit card contracts and would provide relevant information about the components of those contracts to users of financial statements. Entities would continue to apply the existing accounting practice discussed in paragraph 20(b) of this paper.
37. Regarding the separation of components in a credit card contract that provides insurance coverage and that would be excluded from the scope of IFRS 17, the staff note that paragraph 7 of IFRS 15 states that:
- (a) a contract with a customer may be partially within the scope of IFRS 15 and partially within the scope of other IFRS Standards;
 - (b) if the other Standards specify how to separate one or more parts of the contract, then an entity shall first apply the separation requirements in those Standards; and
 - (c) if the other Standards do not specify how to separate one or more parts of the contract, then the entity shall apply IFRS 15 to separate the part (or parts) of the contract.

38. Accordingly, the staff think that an entity issuing a credit card contract that provides insurance coverage and that would be excluded from the scope of IFRS 17 would, for example, be in the scope of:
- (a) IFRS 9 for the loan or loan commitment (including the insurance elements) and any interest revenue charged if the customer does not settle the credit card balance in full by a specified date;⁷
 - (b) IFRS 15 for revenue from contracts with customers for other services provided by the entity, such as access to airport lounges; and
 - (c) IAS 37 if the contract in the scope of IFRS 15 is, or has become, onerous and in circumstances not covered by another IFRS Standard.
39. The staff considered whether to recommend amending IFRS 17 to permit, rather than require, an entity to apply IFRS 9 to credit card contracts that provide insurance coverage. The staff think that an option to apply either IFRS 17 or IFRS 9 could be justified if the Board wanted to enable an entity that mainly issues insurance contracts to apply IFRS 17 to credit card contracts that provide insurance coverage, permitting comparability with the other insurance contracts issued by the same entity. However, the staff concluded that such an option might result in diversity in practice in the absence of evidence that entities issuing credit card contracts that provide insurance coverage also issue other insurance contracts.
40. In addition to the example of the credit card contract discussed in paragraph 13 of this paper, which provide insurance coverage for a supplier failure, the staff acknowledge that the possible scope exclusion discussed in paragraph 36 of this paper might capture other types of credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer, such as

⁷ The staff note that, as explained in paragraph BC4.191 of the Basis for Conclusions on IFRS 9, IFRS 9 requires the holder of a financial asset to analyse the contractual terms to determine whether the asset gives rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The holder would not consider the payments that arise only as a result of regulation as cash flows in its analysis because that regulation and the related payments are not contractual terms of the financial instrument (see paragraph B4.1.13 of IFRS 9, Instrument E). For the example of the credit card contract discussed in paragraph 13 of this paper, the staff think that an entity would need to consider which IFRS Standard to apply to the insurance coverage provided, for example IAS 37.

travel insurance provided for a fixed fee. The staff note that the considerations in paragraph 35–38 of this paper would also be relevant to those other types of credit card contracts.

41. The staff recommend the Board amend IFRS 17 to exclude from the scope of the Standard credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.
42. The staff think that such amendment would meet the criteria set by the Board at its October 2018 meeting because it would not:
 - (a) result in a significant loss of useful information relative to that which would be provided by IFRS 17 for users of financial statements, as discussed in paragraphs 36–38 of this paper; or
 - (b) unduly disrupt implementation processes that are already under way—credit cards contracts are typically issued by entities that do not issue other contracts within the scope of IFRS 17 and thus are not focused on IFRS 17 implementation.

Question for Board members

Do you agree the Board should amend IFRS 17 to exclude from the scope of the Standard credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer?

STAFF PAPER

March 2019

IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Transition requirements—Risk mitigation option		
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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

1. At its February 2019 meeting the International Accounting Standards Board (Board) tentatively decided to retain in IFRS 17 the prohibition of retrospective application of the risk mitigation option.
2. This paper responds to the Board's request that the staff explore alternative proposals that would address stakeholders' concerns about the results of not applying the option retrospectively.

Summary of staff recommendations

3. The staff recommend the Board amend the requirements of IFRS 17 to:
 - (a) permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date; and
 - (b) permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participating features to use the fair value transition approach for the group, if they:
 - (i) choose to apply the risk mitigation option to the group prospectively from the transition date; and

- (ii) have used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date.

Structure of the paper

- 4. This paper discusses the following topics:
 - (a) IFRS 17 requirements and Board’s rationale;
 - (b) summary of the Board’s discussion from its February 2019 meeting; and
 - (a) staff analysis, recommendation and questions for Board members.

IFRS 17 requirements and Board’s rationale

- 5. IFRS 17 applies to insurance contracts and IFRS 9 *Financial Instruments* applies to an entity’s financial assets and derivatives. Accounting mismatches can arise because those Standards measure insurance contracts differently from financial assets and derivatives. In particular, the measurement of insurance contracts applying the variable fee approach results in the effects of changes in financial assumptions adjusting the contractual service margin of the group of insurance contracts, while fair value changes of financial assets and derivatives are recognised in profit or loss or other comprehensive income (OCI).
- 6. During the development of IFRS 17, the Board noted that entities may purchase derivatives to mitigate financial risks. An accounting mismatch arises because:
 - (a) the change in the fair value of the derivative would be recognised in profit or loss applying IFRS 9; but
 - (b) the change in the insurance contract, the risk of which was mitigated by the derivative, would adjust the contractual service margin applying IFRS 17, unless the contracts were onerous.
- 7. Hence, the Board included in IFRS 17 an option for an entity in specified circumstances to recognise the effect of some changes in financial risk in the

insurance contracts in profit or loss,¹ instead of adjusting the contractual service margin.

8. This risk mitigation option is permitted if:
 - (a) an entity has a previously documented risk-management objective and strategy for using derivatives² to mitigate financial risk arising from the insurance contracts;
 - (b) in applying that objective and strategy it uses a derivative to mitigate the financial risk arising from the insurance contracts;
 - (c) an economic offset exists between the insurance contracts and the derivative, ie the values of the insurance contracts and the derivative generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated; and
 - (d) credit risk does not dominate the economic offset.
9. The fulfilment cash flows in a group of contracts to which the risk mitigation is applied is determined in a consistent manner in each reporting period.
10. If any of the conditions required for applying the risk mitigation option cease to exist, an entity prospectively ceases applying the risk mitigation option. Therefore, an entity stops applying the risk mitigation option from the date on which the economic offset does not exist anymore.³
11. Paragraph BC393 of the Basis for Conclusions on IFRS 17 explains that the documentation requirement for the risk mitigation option is analogous to the documentation requirements for hedge accounting in IFRS 9. Consistent with the transition requirements for hedge accounting in IFRS 9, the Board concluded that retrospective application of the risk mitigation treatment would give rise to the risk of

¹ Or OCI if the entity has made this election.

² In January 2019, the Board tentatively decided to amend IFRS 17 to expand the scope of the risk mitigation option so that the option applies when an entity uses a derivative or a reinsurance contract held to mitigate financial risk.

³ Consistent with the hedge accounting requirements under IFRS 9, the risk mitigation option could be elected when the relationship meets the criteria and needs to be discontinued when they are not met. This could be for example when the derivative expires or is sold, terminated or exercised or economic offset ceases to exist. The staff has been made aware that it may not be clear that an entity ceases applying the risk mitigation option *only* when the conditions required for applying the risk mitigation option cease to exist. The staff plans to consider whether a clarification to the requirements is needed to reflect this.

hindsight. In particular, the Board was concerned that because the application of the approach is optional, entities could choose the risk mitigation relationships to which it would apply with the benefit of knowing at transition how that relationship had developed. Consequently, IFRS 17, consistent with the transition requirements for hedge accounting in IFRS 9, requires prospective application of the risk mitigation option from the date of initial application of the Standard.

Summary of the Board’s discussion from its February 2019 meeting

12. The Board considered stakeholders’ concerns that the risk mitigation option can only be used prospectively from the date of initial application of IFRS 17 even though risk mitigation activities may have been in place before that date. Given that the contractual service margin on transition will be allocated to profit or loss in future periods, those stakeholders are concerned that a contractual service margin that does not reflect risk mitigation activities from previous periods may distort:
 - (a) the equity of entities on transition—because the effect of previous changes in the fair value of the derivatives will be included in the equity on transition, while the corresponding effect on the insurance contracts will be included in the measurement of the insurance contracts; and
 - (b) the revenue recognised for these groups of contracts in future periods—because the contractual service margin on transition includes the changes in financial risks that would have been excluded had the risk mitigation option been applied retrospectively.

13. The Board also observed stakeholders’ concern that applying the risk mitigation option from the date of initial application of IFRS 17, rather than the transition date, could result in an accounting mismatch for the comparative reporting periods, and reduced comparability over time, because for these periods:
 - (a) changes in the fair value of the derivatives will be recognised in profit or loss; and
 - (b) changes in the fulfilment cash flows for which a risk mitigation activity has taken place, will adjust the contractual service margin.

14. The Board acknowledged that a retrospective application that did not use hindsight would provide useful information to users of financial statements about risk mitigation activities that took place in previous periods. However, the Board observed that it is hard to see how the option could be applied retrospectively without the use of hindsight, and without risking ‘cherry picking’ opportunities. The Board observed that any approach taken to address stakeholders’ concerns that allows retrospective application may have this problem, albeit to different degrees.

15. Therefore, the Board tentatively decided to retain the prohibition in IFRS 17 of retrospective application of the risk mitigation option. The Board asked the staff to explore alternative proposals that would address stakeholders’ concerns about the results of not applying the option retrospectively.

Staff analysis, recommendation and questions for Board members

16. The staff considered two possible ways, other than retrospective application of the risk mitigation option, to address stakeholders’ concerns:
 - (a) permitting entities to apply a prospective application of the risk mitigation option from the IFRS 17 *transition date*;⁴ and
 - (b) permitting entities that have used derivatives or reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participating features before the transition date to apply the fair value approach to transition, even if they are able to apply IFRS 17 retrospectively.

Prospective application of the risk mitigation option from transition date

17. The staff have considered whether an approach that is based on a prospective application of the risk mitigation option from the IFRS 17 transition date could address stakeholders’ concerns. A prospective approach will permit entities to apply the risk mitigation option provided that an entity designates its risk mitigation

⁴ Paragraph C2 of IFRS 17 defines the IFRS 17 transition date as the beginning of the annual reporting period immediately preceding the date of initial application. Paragraph C25 of IFRS 17 states that if an entity presents adjusted comparatives for earlier period the transition date is the beginning of the earliest adjusted comparative period.

relationships to apply the risk mitigation option no later than the IFRS 17 transition date, in addition to the criteria in paragraph B116 of IFRS 17 being met at that date.⁵ Given the approach is prospective, it could be applied without the use of hindsight or risking ‘cherry picking’.

18. The staff observe that a prospective application of the risk mitigation option from the transition date would eliminate accounting mismatches in the comparative periods presented and will achieve comparability over time because for these periods:
 - (a) the change in the fair value of the derivative would be recognised in profit or loss applying IFRS 9, and the effect of changes in financial assumptions on the measurement of a reinsurance contract held would be recognised in profit or loss;⁶ and
 - (b) the change in the insurance contract, the risk of which was mitigated by the derivative or a reinsurance contract held, would not adjust the contractual service margin applying IFRS 17, but be recognised in profit or loss.⁷

19. The staff think that considering the timeline to transition to IFRS 17, entities could apply the risk mitigation option prospectively from the transition date (1.1.2021 based on the proposed effective date of 1.1.2022) if they choose to do so. Entities that are planning their transition to IFRS 17 have sufficient time to collect the necessary information at the transition date.

20. The staff considered whether prospective application of the risk mitigation option could be permitted from a date earlier than the transition date, for example any date after IFRS 17 was issued. This would require entities to designate (or have designated) its IFRS 17 risk mitigation relationships at the earlier date. The staff also observed that the main benefit of prospective application from the transition date is that it makes the amounts presented in the financial statements in which IFRS 17 is first applied consistent across the current and comparative periods. Prospective application does not address concerns about a mismatch arising from not reflecting

⁵ This wording is similar to that used in IFRS 1 *First-time Adoption of International Financial Reporting Standards* which allows a prospective approach to new hedge accounting relationships from the transition date.

⁶ Assuming an entity does not elect to disaggregate the insurance finance income or expense between profit or loss and OCI.

⁷ Assuming an entity does not elect to disaggregate the insurance finance income or expense between profit or loss and OCI.

risk mitigation activities before that date. Accordingly, the staff thinks that prospective application from a date earlier than the transition date:

- (a) will not be possible for dates significantly earlier than the transition date; and
- (b) will not provide significant incremental benefit beyond prospective application at the transition date.

21. Given the risk mitigation option can be applied whenever the criteria are met, if an entity prefers, it can still start to apply the risk mitigation option prospectively from the date of initial application rather than from the transition date. Therefore, this approach will not disrupt implementation processes already underway.
22. Consequentially, the staff recommend the Board should amend the requirements of IFRS 17 to permit entities to apply the risk mitigation option prospectively from the transition date.

Question 1 for Board members

Do you agree that the Board should amend the requirements of IFRS 17 to permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date provided that an entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date?

Permitting entities that are affected by the prohibition of applying the risk mitigation option retrospectively to apply the fair value approach to transition

23. For groups of contracts for which it is impracticable for an entity to apply a full retrospective approach, an entity is permitted to apply the fair value approach to transition. Applying the fair value approach to transition, the contractual service margin⁸ is determined as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date.
24. When applying the fair value approach to transition, the distortion related to risk mitigating activities from previous periods noted in paragraph 12 of this paper does not exist because:
- (a) the derivative⁹ on transition will be measured at its fair value and therefore equity on the transition date reflects previous changes in its fair value; and
 - (b) the group of insurance contracts will be measured using current estimates of financial assumptions. Therefore equity on the transition date reflects previous changes in the fulfilment cash flows due to changes in financial assumptions, and the contractual service margin on transition does not reflect those changes.
25. This can be illustrated with the following example:
- (a) on 1.1.2020 (a year before the proposed transition date to IFRS 17), an entity issues an insurance contract that provides a financial guarantee that promises a minimum return of 2% on an investment regardless of the actual performance of that investment. As part of its risk management activities the entity purchases on the same day a derivative to mitigate the financial risk that the return on the investments the entity holds will be lower than the amounts promised to be paid. The derivative is a swap contract for which the entity pays market rates and receives 2% for the next five years on a specified notional amount.

⁸ Or loss component of the liability for remaining coverage.

⁹ In January 2019, the Board tentatively decided to amend IFRS 17 to expand the scope of the risk mitigation option so that the option applies when an entity uses a derivative or a reinsurance contract held to mitigate financial risk. Because reinsurance contracts held are not eligible to apply the variable fee approach, the changes related to financial risks are recognised in profit or loss (or in OCI – if an entity makes this election), similar to derivatives.

- (b) during 2020, the market interest rates decrease and as a result the fair value of the derivative increases (asset position) and the fulfilment cash flows of the insurance contract increases.
 - (c) at 1.1.2021, the proposed transition date to IFRS 17, the entity applies a fully retrospective approach to measure its insurance contract without retrospectively applying the risk mitigation option. Therefore, its equity on transition reflects:
 - (i) the changes in the fair value of the derivative during 2020; but
 - (ii) the changes in the fulfilment cash flows of the insurance contract caused by the risk mitigated by the swap contract only to the extent the adjusted contractual service margin is recognised in profit or loss.
 - (d) if the entity could have applied the risk mitigation option retrospectively, the change in the fulfilment cash flows caused by the risk mitigated by the swap contract, would have also been recognised in equity on transition.
 - (e) If the entity were eligible to apply the fair value approach to transition, the contractual service margin on transition would have been determined considering the amount the entity would pay at the transition date to exit the insurance contract, which values the financial guarantee based on market interest rates on the transition date. Therefore, the contractual service margin on the transition date would not reflect any previous changes in the financial risk of the contract but only the financial risk at the transition date. The increase in the fulfilment cash flows related to the reduction in market interest rates in year 2020 would effectively be absorbed in equity.
26. The fair value transition approach therefore could address stakeholders concerns in a way that does not involve the use of hindsight or risk ‘cherry picking’. However, IFRS 17 restricts its use to circumstances in which it is impracticable to apply a fully retrospective approach.
27. The staff observe that the Board could address some stakeholders concerns by permitting an entity to use the fair value transition approach in circumstances where it is affected by the prohibition from applying the risk mitigation option retrospectively.

The staff considered how to identify when an entity should be able to use that option, for example:

- (a) should it be able to use it only if it had documentation as specified in paragraph B116 of IFRS 17 for past periods; or
 - (b) should it be able to use it only when it intends to use the risk mitigation option applying IFRS 17 in periods after transition?
28. The staff observes that entities are coming from different practices and different levels of documentation, and it would not be appropriate to deny the option to those without the documentation IFRS 17 prescribes for future periods.
29. The staff think that permitting entities to apply the fair value transition approach in circumstances where an entity can apply a full retrospective approach should be limited to ensure the benefits of information provided by an approach that better reflects the entity's financial risk mitigation activities outweigh the loss of retrospective information about the contracts. The staff also think that, in the absence of full historical documentation about the entity's risk-management objective and strategy, the option to apply the fair value transition approach should be limited in a way that avoids cherry picking opportunities related to identifying for which groups of contracts an entity has applied a risk-mitigation activity before the transition date.
30. The staff therefore recommend permitting entities to apply the fair value transition approach to a group of insurance contracts with direct participating features, even if they are able to apply IFRS 17 retrospectively to that group, if:
- (a) they choose to apply the risk mitigation option to the group prospectively from the transition date; and
 - (b) have used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date.
31. The staff observe that introducing additional optionality may decrease comparability between entities on transition. However the staff think this is an acceptable compromise given the information provided applying the fair value transition approach provides useful information to the users of financial statements.

32. Hence, the staff recommend that the Board should amend IFRS 17 as explained in paragraphs 27–30 of this paper.

Question 2 for Board members

Do you agree that the Board should amend the requirements of IFRS 17 to permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participation features to use the fair value transition approach for the group if they:

- (a) choose to apply the risk mitigation option to the group prospectively from the transition date; and,
- (b) have used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date.

STAFF PAPER

March 2019

IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Transition requirements—Loans that transfer significant insurance risk		
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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

1. In February 2019, the International Accounting Standards Board (Board) tentatively decided to amend the scope of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* (referred to as ‘proposed amendments’ throughout this paper) to permit an entity to apply either IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract (referred to as ‘loans that transfer significant insurance risk’ or ‘loans’ throughout this paper).
2. This paper considers the transition requirements needed as a result of the Board’s tentative decision.

Summary of staff recommendations

3. The staff recommend the Board maintain:
 - (a) the transition requirements in IFRS 17 for loans that transfer significant insurance risk, if an entity elects to apply the requirements in IFRS 17 to a portfolio of such loans; and
 - (b) the transition requirements in IFRS 9 for loans that transfer significant insurance risk, if an entity:

- (i) elects to apply the requirements in IFRS 9 to a portfolio of such loans;
and
 - (ii) initially applies IFRS 17 and IFRS 9 at the same time.
4. The staff recommend the Board amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk, if an entity:
- (a) elects to apply the requirements in IFRS 9 to a portfolio of such loans; and
 - (b) has applied IFRS 9 before it initially applies IFRS 17.
5. If the Board agrees with the staff recommendation in paragraph 4 of this paper, the staff recommend the Board amend the transition requirements in IFRS 9:
- (a) to require an entity to apply the transition requirements in IFRS 9 that are necessary for applying the proposed amendments (see detailed recommendation in paragraph 33 of this paper).
 - (b) to permit an entity to newly designate, and to require an entity to revoke its previous designations of, a financial liability under the fair value option at the date the entity first applies the proposed amendments, to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists as a result of applying the proposed amendments (see detailed recommendations in paragraph 41 of this paper).
 - (c) not to require an entity to restate prior periods to reflect the application of the proposed amendments but to permit an entity to restate prior periods under particular conditions (see detailed recommendation in paragraph 47 of this paper).
 - (d) to exempt an entity from presenting the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (see detailed recommendation in paragraph 52 of this paper).
 - (f) to require an entity to disclose specific information in addition to the disclosures that any other IFRS Standard would require (see detailed recommendation in paragraph 59 of this paper).

The staff note that these recommendations are similar to the Board’s past decisions for specifying transition requirements for (a) previous amendments to IFRS 9 and (b) the redesignation of financial assets when an entity applies IFRS 17 for the first time.

Structure of the paper

6. This paper provides:
 - (a) background information about loans that transfer significant insurance risk (paragraphs 8–9 of this paper); and
 - (b) staff analysis and recommendations for the following situations:
 - (i) an entity elects to apply IFRS 17 to a portfolio of loans that transfer significant insurance risk (paragraphs 10–13 of this paper);
 - (ii) an entity elects to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk, considering separately situations in which the entity initially applies IFRS 9 and IFRS 17 at the same time and the entity applies IFRS 9 before it initially applies IFRS 17 (paragraphs 14–27 of this paper); and
 - (iii) designing transition requirements for an entity that elects to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk and has applied IFRS 9 before it initially applies IFRS 17 (paragraphs 28–58 of this paper).

7. This paper includes two appendices:
 - (a) Appendix A—Requirements for the redesignation of financial assets at the initial application of IFRS 17 (extract from IFRS 17); and
 - (b) Appendix B—Transition for *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) (extract from IFRS 9).

Background information about loans that transfer significant insurance risk

8. IFRS 4 *Insurance Contracts* and IFRS 17 apply to insurance contracts including those that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract. Those contracts typically combine a loan with an agreement from the lender to compensate the borrower if a specified uncertain future event adversely affects the borrower (for example, death) by waiving some or all the payments due under the contract (for example, repayment of the loan balance and payment of interest). Paragraphs 15–16 of [Agenda Paper 2A Loans that transfer significant insurance risk](#) for the February 2019 Board meeting provide further information about those contracts.
9. At its February 2019 meeting, the Board tentatively decided to amend the scope of IFRS 17 and IFRS 9 for those contracts. The proposed amendments would enable entities issuing such contracts to account for those contracts, applying either IFRS 17 or IFRS 9. The choice would be made portfolio by portfolio, using the definition of a portfolio in IFRS 17.

Staff analysis and recommendations

An entity elects to apply IFRS 17 to a portfolio of loans that transfer significant insurance risk

10. If an entity elects to apply IFRS 17 to a portfolio of such loans, it will apply IFRS 17 to groups of insurance contracts within the portfolio of loans. Accordingly, the entity would apply the transition requirements in Appendix C of IFRS 17 to each group of insurance contracts (paragraphs C3–C33 of IFRS 17).
11. Paragraph C3 of IFRS 17 requires an entity to apply IFRS 17 retrospectively to a group of insurance contracts unless impracticable. If impracticable, an entity may choose to either apply the modified retrospective approach (as described in paragraphs C6–C19 of IFRS 17), or the fair value approach (as described in paragraphs C20–C24 of IFRS 17) for that group of insurance contracts.
12. The transition requirements of IFRS 17 were developed considering different types of insurance contracts. The staff are not aware that there are particularly complex

features or implementation difficulties in applying these requirements to loans that transfer significant insurance risk. Therefore, the staff think that the transition requirements in IFRS 17 mentioned in paragraphs 10 and 11 of this paper are sufficient for an entity to apply the proposed amendments.

13. Accordingly, the staff recommend the Board maintain the transition requirements in IFRS 17 without modification for loans that transfer significant insurance risk.

Question 1 for Board members

Do you agree the Board maintain the transition requirements in IFRS 17 for loans that transfer significant insurance risk, if an entity elects to apply the requirements in IFRS 17 to a portfolio of such loans?

An entity elects to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk

Effect of the IFRS 9 temporary exemption

14. Paragraph 20A of IFRS 4 provides insurers that meet the criteria in paragraph 20B of IFRS 4¹ with a temporary exemption that permits, but does not require, those insurers to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* rather than IFRS 9 for annual periods beginning before 1 January 2021 (referred to as the ‘IFRS 9 temporary exemption’ throughout this paper). In November 2018, the Board tentatively decided that the fixed expiry date for the IFRS 9 temporary exemption should be amended so that insurers would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022—ie when insurers apply IFRS 17 for the first time.²

¹ Paragraph 20B of IFRS 4 states: ‘An insurer may apply the temporary exemption from IFRS 9 if, and only if:

- (a) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of IFRS 9; and
- (b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date as specified in paragraph 20G’.

² In November 2018, the Board tentatively decided that the mandatory effective date of IFRS 17 should be deferred by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.

15. Accordingly, when an entity first applies IFRS 17, and thus applies its election for a portfolio of loans that transfer significant insurance risk, the entity will either:
- (a) also be applying IFRS 9 for the first time. This will be the case if the entity was eligible for the IFRS 9 temporary exemption and elected to apply it; or
 - (b) have already applied IFRS 9. This will be the case if:
 - (i) the entity did not meet the criteria for the IFRS 9 temporary exemption and thus could not apply it; or
 - (ii) the entity did meet the criteria for the IFRS 9 temporary exemption but elected not to apply it.
16. The staff considered the different situations as described in paragraph 15 of this paper in the analysis below.

An entity initially applies IFRS 17 and IFRS 9 at the same time

17. In the first case, an entity initially applies IFRS 17 and IFRS 9 at the same time, and elects to apply the requirements in IFRS 9 to a portfolio of loans that transfer significant insurance risk. Accordingly, the entity applies the transition requirements in section 7.2 of IFRS 9 (and their application guidance in paragraphs B7.2.1–B7.2.4 of Appendix B of IFRS 9).
18. Paragraph 7.2.1 of IFRS 9 requires an entity to apply IFRS 9 retrospectively except as specified in paragraphs 7.2.4–7.2.26 and 7.2.28 of IFRS 9. Those paragraphs provide transition relief, in particular in relation to the classification and measurement of financial assets. In that respect, the staff note that an entity could apply the transition relief in IFRS 9 to loans that transfer significant insurance risk in relation to:
- (a) amortised cost measurement (and the expected credit loss model). The staff have heard that few entities expect to classify portfolios of loans as subsequently measured at amortised cost.³ Nonetheless, an entity that would do that would, for example, apply (if the entity meets the conditions specified in those paragraphs) the transition requirements in paragraph 7.2.4 (on the

³ This is because the staff understand that few loans that transfer significant insurance risk have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI') applying paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS 9.

assessment of a modified time value of money element) or in paragraph 7.2.11 of IFRS 9 (on when it is impracticable to apply the effective interest method).

(b) fair value measurement. For example, paragraph 7.2.15 of IFRS 9 allows but does not require an entity to restate prior periods. Applying this paragraph, an entity may restate prior periods if, and only if, it is possible without the use of hindsight. The staff are aware that:

- (i) there are circumstances in which entities do not currently measure the loans, in their entirety, at fair value; and
- (ii) determining the fair value of those instruments, in their entirety, for prior periods at the date of initial application of IFRS 9, without using hindsight, may present some challenges. Having said that, the staff expect the proposed deferral of the mandatory effective date of IFRS 17 (together with the proposed deferral of the fixed expiry date of the IFRS 9 temporary exemption) to help an entity to determine fair value for prior periods without the use of hindsight.

19. The staff note that the transition requirements in IFRS 9 were developed considering financial instruments with complex features and thus provide an adequate basis for an entity to apply the proposed amendments. The staff are not aware that loans that transfer significant insurance risk would require any additional transition relief.
20. Accordingly, the staff think that the existing transition requirements in IFRS 9 should apply to any loans that transfer significant insurance risk and thus, that the Board should not consider any amendment in this respect.

Question 2 for Board members

Do you agree the Board maintain the transition requirements in IFRS 9 for loans that transfer significant insurance risk if an entity:

- (a) elects to apply the requirements in IFRS 9 to a portfolio of such loans, and
- (b) initially applies IFRS 17 and IFRS 9 at the same time?

An entity initially applies IFRS 17 after previously applying IFRS 9

21. In the second case, an entity would have already transitioned to IFRS 9 prior to first applying IFRS 17 and elects to apply the requirements in IFRS 9 to a portfolio of loans that transfer significant insurance risk. This means that the entity would have already initially applied IFRS 9.
22. Consequently, the transition requirements in IFRS 9 would not be applicable to the loans in this case. This is because, applying paragraph 7.2.27 of IFRS 9, the transition requirements in paragraphs 7.2.1–7.2.26 of IFRS 9 are available only once, that is at the relevant date of initial application of IFRS 9—here, this date occurred in the past—it is not the date at which the entity first applies IFRS 17.
23. Paragraph 19(b) of IAS 8 states that when an entity changes an accounting policy upon initial application of a Standard (or of amendments to a Standard) that does not include specific transitional provisions applying to that change, the entity applies the change retrospectively. Consequently, in the absence of specific transition provisions, an entity would apply the new accounting policy—ie would apply IFRS 9—to loans that transfer significant insurance risk retrospectively, without the possibility of applying any transition relief.
24. The staff think that applying IFRS 9 for such loans retrospectively is appropriate. This is consistent with the general requirement that an entity applies IFRS 9 retrospectively when it applies the classification and measurement requirements of the Standard for the first time (see paragraph 18 of this paper).
25. However, the staff note that when the Board developed the transition requirements in IFRS 9, it provided specific requirements to address scenarios when it anticipated that it would be impracticable to apply particular requirements retrospectively. The staff note that those scenarios may equally occur when an entity applies the requirements in IFRS 9 to the loans. Accordingly, the staff think that an entity should be able to apply the transition requirements in IFRS 9 in this case.

26. The staff also note the Board already decided to permit the application of the transition requirements in IFRS 9 in similar circumstances. The staff identified the two following sets of circumstances:
- (a) when an entity applies the requirements in paragraphs C29–C33 of IFRS 17 on the redesignation of financial assets. As explained in paragraph BC395 of the Basis for Conclusions on IFRS 17, those requirements permit an entity that has previously applied IFRS 9 when it first applies IFRS 17, to revisit some aspects of its IFRS 9 financial asset classifications, elections and designations. In those circumstances, as required in paragraph C30 of IFRS 17, an entity applies the resulting changes retrospectively and applies the relevant transition requirements in IFRS 9. For ease of reference, Appendix A to this paper reproduces the requirements in paragraphs C29–C33 of IFRS 17.
 - (b) when entities apply *Prepayment Features with Negative Compensation* (Amendments to IFRS 9).⁴ For entities that initially apply those amendments after previously applying IFRS 9, the Board decided to allow them to use the transition requirements in IFRS 9 as if they were applying IFRS 9 for the first time. For ease of reference, Appendix B to this paper reproduces the requirements in paragraphs 7.2.29–7.2.34 of IFRS 9 (those paragraphs were added to IFRS 9 as a result of the amendments).
27. Accordingly, the staff recommend the Board amend IFRS 9 to provide transition relief for an entity that
- (a) elects to apply the requirements in IFRS 9 to a portfolio of loans that transfer significant insurance risk, and
 - (b) has already applied IFRS 9 before it initially applies IFRS 17.

⁴ Those amendments were published in October 2017. As a result of those amendments, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income.

Question 3 for Board members

Do you agree the Board amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk if an entity:

- (a) elects to apply the requirements in IFRS 9 to a portfolio of such loans, and
- (b) has applied IFRS 9 before it initially applies IFRS 17?

Designing transition requirements for an entity that elects to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk and has applied IFRS 9 before it initially applies IFRS 17

28. Paragraphs 29–59 of this paper discuss how the Board could amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk for any entity that:
- (a) elects to apply the requirements in IFRS 9 to a portfolio of those loans; and
 - (b) has already applied IFRS 9 before it initially applies IFRS 17.
29. Accordingly, the Board would consider this discussion only if it agrees with the staff recommendation set out in Question 3 of this paper. This section of the paper considers:
- (a) which transition requirements in IFRS 9 an entity would apply (paragraphs 30–33 of this paper);
 - (b) fair value option (paragraphs 34–41 of this paper);
 - (c) restatement of comparatives (paragraphs 42–47 of this paper); and
 - (d) disclosures (paragraphs 48–59 of this paper).

Which transition requirements in IFRS 9 would an entity apply?

30. The staff considered two approaches for setting transition requirements for the proposed amendments:
- (a) Approach A—The Board requires an entity to apply the relevant transition requirements in IFRS 9—ie the entity identifies the transition requirements in IFRS 9 that are necessary for applying the proposed amendments; and

- (b) Approach B—The Board identifies the specific transition requirements in IFRS 9 that would apply to the proposed amendments and requires an entity to apply them.
31. Irrespective of the approach retained, the staff considered in this section of the paper the transition requirements IFRS 9 except those relating to the fair value option and the restatement of comparatives. The staff discussed whether, and if so how, those transition requirements should be adapted for the fair value option and the restatement of comparatives in paragraphs 34–41 of this paper and in paragraphs 42–47 of this paper respectively.
32. In the staff view, Approach A is the most appropriate way forward. This is because:
- (a) entities are well-positioned to assess which transition requirements could apply, having considered all facts and circumstances pertaining to the loan arrangements. In this regard, the staff think that Approach B would require the Board to contemplate all possible fact patterns so as to identify the applicable transition requirements. Accordingly, Approach B would result in extensive standard-setting work and even so risks not capturing all relevant fact patterns.
 - (b) entities have applied the transition requirements of IFRS 9 when they transitioned to IFRS 9. Accordingly, entities are familiar with those requirements and are likely to appropriately identify those that are relevant for the purpose of applying the proposed amendments.
 - (c) the risks that entities apply inappropriate transition requirements in IFRS 9 are limited.
 - (d) the Board chose Approach A when deliberating on:
 - (i) the requirements in paragraphs C29–C33 of IFRS 17 on the redesignation of financial assets—the Board’s decision in this respect is reflected in paragraph C30 of IFRS 17; and
 - (ii) *Prepayment Features with Negative Compensation* to (Amendments to IFRS 9)—the Board’s decision in this respect is reflected in paragraph 7.2.31 of IFRS 9.

33. Accordingly, the staff recommend the Board require an entity to apply the transition requirements in section 7.2 of IFRS 9 that are necessary for applying the proposed amendments.

Question 4 for Board members

Do you agree the Board amend IFRS 9 to require an entity to apply, in the circumstances described in paragraph 28 of this paper, the transition requirements in IFRS 9 necessary for applying the proposed amendments?

Fair value option

34. In the staff view, any standard-setting should contemplate specific transition requirements related to the fair value option—ie the option to designate a financial asset or a financial liability at fair value through profit or loss (FVPL). This is because the staff expect an entity’s decision to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk to change, either partially or in full, the measurement basis of the loans⁵. This may create new ‘accounting mismatches’ that would justify an entity applying the fair value option to the financial assets or the financial liabilities affected by those mismatches. Conversely, the change in measurement basis might eliminate existing mismatches and thus justify requiring an entity to revoke the fair value option for the financial assets or financial liabilities that are no longer subject to a mismatch.

Fair value option for financial assets

35. As discussed in paragraph 26(a) of this paper, paragraphs C29–C33 of IFRS 17 permit an entity to revisit some aspects of the IFRS 9 classification and measurement requirements for its financial assets when the entity applies IFRS 17 for the first time. Paragraph C29 of IFRS 17 includes requirements in relation to the fair value option.

⁵ Paragraph 19(c) of [Agenda Paper 2A Loans that transfer significant insurance risk](#) for the February 2019 Board meeting explains that, applying IFRS 4, many entities regard loans that transfer significant insurance risk as containing (i) a deposit component (a loan) and (ii) an insurance component. Paragraph 10 of IFRS 4 requires, or permits, an entity to ‘unbundle’ the deposit component and to account for such component applying the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9. Applying the proposed amendments, an entity that elects to account for loans that transfer significant insurance risk applying IFRS 9 would have to apply the requirements in IFRS 9 to those loans, in their entirety (and no longer to a part of those loans if the entity had ‘unbundled’ the deposit component applying IFRS 4).

This paragraph states that an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:

- (a) shall revoke its previous designation of a financial asset as measured at FVPL if the condition in paragraph 4.1.5 of IFRS 9⁶ is no longer met because of the application of IFRS 17; and
- (b) may designate a financial asset as measured at FVPL if the condition in paragraph 4.1.5 of IFRS 9 is met.

36. Accordingly, an entity may decide, when it first applies IFRS 17, to redesignate the classification and measurement of its financial assets applying the requirements in paragraph C29 of IFRS 17. This means that an entity, in the circumstances described in paragraph 28 of this paper, may decide to apply the requirements in paragraph C29 of IFRS 17 to address any accounting mismatch that would result from (or would no longer exist as a result of) the application of the proposed amendments. In other words, an entity:

- (a) would have to revoke the fair value option for a financial asset if the condition in paragraph 4.1.5 of IFRS 9 is no longer satisfied as a result of the application of the proposed amendments; and
- (b) could apply the fair value option to a financial asset if that designation would not have previously satisfied the condition in paragraph 4.1.5 of IFRS 9 but that condition would be satisfied as a result of the application of the proposed amendments.

37. In the staff view, the existing requirements in paragraph C29 of IFRS 17 provide an adequate and sufficient basis for an entity to address any matter related to the application of the fair value option to financial assets. Accordingly, the staff recommend the Board not consider any further requirement in that respect.

⁶ Paragraph 4.1.5 of IFRS 9 states: ‘Despite paragraphs 4.1.1–4.1.4, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32)’.

Fair value option for financial liabilities

38. The staff note that paragraph C29 of IFRS 17 does not include any requirement in relation to financial liabilities. In the staff view, this is because the requirements in paragraph C29 of IFRS 17 were designed to address the accounting mismatches potentially existing between (a) insurance contracts that, applying the requirements in IFRS 17, are expected to be liabilities, and (b) the financial assets that an entity considers to be related to those insurance contracts.
39. The staff note that, the loans that transfer significant insurance risk would be financial assets if an entity elects to apply the requirements in IFRS 9 to a portfolio of such loans. Consequently, the staff think there might accounting mismatches between (a) those loans and (b) the financial liabilities that an entity might consider to be related to those loans. Accordingly, the staff think that an entity should be permitted to newly designate, and should be required to revoke its previous designation of, a financial liability under the fair value option, at the date the entity first applies the proposed amendments, to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists as a result of applying the proposed amendments.
40. The staff note such a requirement would be similar to, and consistent with:
- (a) paragraphs 7.2.28(c) and (d) of IFRS 9 which set out the transition requirements related to the fair value option when an entity applies the limited amendments to IFRS 9 (issued in 2014) to the classification and measurement requirements for financial assets after previously applying an earlier version of IFRS 9;⁷ and
 - (b) the transition requirements in paragraph 7.2.32 of IFRS 9 that the Board set out for *Prepayment Features with Negative Compensation* (Amendments to IFRS 9).

⁷ Paragraph 7.2.28 of IFRS 9 states: ‘An entity that applied IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) and subsequently applies this Standard:

- (a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.1.5 but that condition is no longer satisfied as a result of the application of this Standard;
- (b) may designate a financial asset as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.1.5 but that condition is now satisfied as a result of the application of this Standard;

41. Accordingly, the staff recommend the Board amend the requirements in IFRS 9 to:
- (a) require an entity to revoke its previous designation of a financial liability as measured at FVPL if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) of IFRS 9⁸ but that condition is no longer satisfied as a result of the application of the proposed amendments; and
 - (b) permit an entity to designate a financial liability as measured at FVPL if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) of IFRS 9 but the condition would be satisfied as a result of the application of the proposed amendments.

Question 5 for Board members

Do you agree the Board amend, in the circumstances described in paragraph 28 of this paper, the transition requirements in IFRS 9 to:

- (a) require an entity to revoke its previous designation of a financial liability as measured at FVPL if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) of IFRS 9 but that condition is no longer satisfied as a result of the application of the proposed amendments; and
- (b) permit an entity to designate a financial liability as measured at FVPL if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) of IFRS 9 but the condition would be satisfied as a result of the application of the proposed amendments?

Restatement of comparatives

42. As discussed in paragraph 18 of this paper, an entity applies IFRS 9 retrospectively, except as specified in Section 7.2 of IFRS 9. Despite this general requirement, paragraph 7.2.15 of IFRS 9 states that an entity that adopts the classification and

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- (c) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of this Standard; and
 - (d) may designate a financial liability as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of this Standard.’

⁸ Paragraph 4.2.2 of IFRS 9 states: ‘An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32)...’

measurement requirements of IFRS 9 need not restate prior periods. Paragraph 7.2.15 of IFRS 9 also states that:

- (a) an entity may restate prior periods if, and only if, it is possible without the use of hindsight; and
- (b) if an entity restates prior periods, the restated financial statements must reflect all of the requirements in IFRS 9.

43. As discussed in paragraph 18(b) of this paper, the staff think that the requirements in paragraph 7.2.15 of IFRS 9 would be particularly helpful for entities that measure loans that transfer significant insurance risk at fair value as a result of the first-time application of the proposed amendments. Accordingly, the staff think that any proposed amendments should include similar requirements.

44. The staff also note that having requirements similar to those in paragraph 7.2.15 of IFRS 9 in any proposed amendment would be consistent with the Board's past decisions about how an entity applies the requirements in:

- (a) paragraphs C29–C33 of IFRS 17 on the redesignation of financial assets when an entity applies IFRS 17 for the first time; and
- (b) the amendments *Prepayment Features with Negative Compensation* to IFRS 9.

45. In the circumstances described in paragraph 44 of this paper, the Board:⁹

- (a) did not require an entity to restate prior periods;
- (b) permitted an entity to restate prior periods only if it is possible without the use of hindsight; and
- (c) required that:
 - (i) if an entity restates prior periods, the restated financial statements reflect all the requirements of IFRS 9 (paragraph 7.2.33 of IFRS 9) or all the requirements of IFRS 9 for the affected financial assets (paragraph C31 of IFRS 17); and
 - (ii) if an entity does not restate prior periods, the entity recognises, in the opening retained earnings (or other component of equity, as appropriate)

⁹ The related provisions are included in paragraph C31 of IFRS 17 and paragraph 7.2.33 of IFRS 9.

at the date of initial application of the transition requirements any difference between the previous carrying amount and the carrying amount at the date of initial application.

46. As a final note, the staff observe that an entity that has already applied IFRS 9 would apply the proposed amendments at the same time it applies the requirements in paragraphs C29–C33 of IFRS 17. Because the requirements on the redesignation of financial assets do not require the restatement of prior periods, the staff think that requiring restatement for the proposed amendments may create an inconsistent approach and, thus, might not provide relevant information.
47. Accordingly, the staff recommend, consistent with the general approach in IFRS 9, the Board not require an entity to restate prior periods to reflect the application of the proposed amendments, and instead, permit an entity to restate prior periods if, and only if:
- (a) it is possible without the use of hindsight; and
 - (b) the restated financial statements reflect all requirements in IFRS 9 for the affected financial instruments.

Question 6 for Board members

Do you agree the Board amend, in the circumstances described in paragraph 28 of this paper, the transition requirements in IFRS 9 to permit an entity to restate prior periods if, and only if:

- (a) it is possible without the use of hindsight; and
- (b) the restated financial statements reflect all the requirements in IFRS 9 for the affected financial instruments?

Disclosures

48. When applying the proposed amendments for the first time, an entity would apply the disclosure requirements in paragraph 28 of IAS 8. Paragraph 28 of IAS 8 states:

When initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

- (a) the title of the IFRS;

- (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
- (c) the nature of the change in accounting policy;
- (d) when applicable, a description of the transitional provisions;
- (e) when applicable, the transitional provisions that might have an effect on future periods;
- (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
- (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

49. This section of the paper considers whether the Board should provide relief from some of the requirements in paragraph 28 of IAS 8 and contemplate additional disclosures requirements.

Relief from some of the requirements in IAS 8

50. The staff note that an entity is not required to provide the information required in paragraph 28(f) of IAS 8 (or some similar information) when it applies IFRS 9 and IFRS 17 for the first time. This is because:
- (a) paragraph C3 of IFRS 17 does not require an entity to present the quantitative information required by paragraph 28(f) of IAS 8 when it applies IFRS 17 for the first time; and
 - (b) paragraph 42Q of IFRS 7 *Financial Instruments: Disclosures* does not require an entity to disclose, in the reporting period that includes the date of initial application of IFRS 9, the line item amounts that would have been reported in

accordance with the classification and measurement requirements of IFRS 9 for prior periods, and IAS 39 for the current period.

51. In addition, the staff note that an entity would apply the proposed amendments at the same time it applies the requirements in paragraphs C29–C33 of IFRS 17. Those requirements on the redesignation of financial assets are subject to the relief in paragraph C3 of IFRS 17—that is, an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 when it revisits some aspects of the IFRS 9 classification and measurement requirements for its financial assets at the first-time application of IFRS 17. Accordingly, requiring an entity to disclose the information in paragraph 28(f) of IAS 8 for the proposed amendments may create an inconsistent approach.
52. In the light of the analysis set out in paragraphs 50–51 of this paper, the staff recommend the Board not require an entity to present the quantitative information required by paragraph 28(f) of IAS 8 when the entity applies the proposed amendments.

Additional disclosure requirements to those included in IAS 8

53. In the staff view, an entity should also disclose information for users of financial statements about:
- (a) the changes in the classification and measurement of the loans that transfer significant insurance risk as a result of applying the proposed amendments. This is because users of financial statements need to understand how an entity classifies and measures the loans applying IFRS 9 to the loans in their entirety, and how this has changed, in particular when the entity previously applied IFRS 9 to a part of those loans or when the entity previously applied the requirements in IFRS 4 to the loans in their entirety. This implies an entity would disclose for the loans:
 - (i) their previous classification, including measurement category when applicable, and carrying amount immediately before applying the proposed amendments; and
 - (ii) their new measurement category and carrying amount determined in accordance with IFRS 9 after applying the amendments.

- (b) how the proposed amendments have affected an entity’s designations of financial assets and liabilities under the fair value option. This implies an entity would disclose:
- (i) the carrying amount of any financial assets and liabilities in the statement of financial position that were previously designated at FVPL but are no longer so designated as a result of the proposed amendments; and
 - (ii) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at FVPL.
54. The staff note that the information in such disclosures would be consistent with the requirements in:
- (a) paragraphs 42I–42J of IFRS 7 which are required when an entity initially applies IFRS 9.^{10,11};
 - (b) paragraphs C32(c) and C33(b) of IFRS 17 on the redesignation of financial assets when an entity applies IFRS 17 for the first time; and
 - (c) paragraph 7.2.34 of IFRS 9 on *Prepayment Features with Negative Compensation*.
55. Accordingly, the staff recommend the Board develop requirements that would result in an entity providing the information described in paragraph 53 of this paper. To formulate their final recommendation, the staff considered whether IFRS Standards,

¹⁰ Paragraph 42I of IFRS 7 states: ‘In the reporting period that includes the date of initial application of IFRS 9, the entity shall disclose the following information for each class of financial assets and financial liabilities as at the date of initial application:

- (a) the original measurement category and carrying amount determined in accordance with IAS 39 or in accordance with a previous version of IFRS 9 (if the entity’s chosen approach to applying IFRS 9 involves more than one date of initial application for different requirements);
- (b) the new measurement category and carrying amount determined in accordance with IFRS 9;
- (c) the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify at the date of initial application...’

¹¹ Paragraph 42J of IFRS 9 states: ‘In the reporting period that includes the date of initial application of IFRS 9, an entity shall disclose qualitative information to enable users to understand:

- (a) how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9.
- (b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss at the date of initial application...’

other than IAS 8 and IFRS 9, would already require an entity to provide some of this information.

56. In that regard, the staff note that paragraphs C29–C33 of IFRS 17 already require an entity to provide the information in paragraph 53(b) of this paper for financial assets—that is, information on designations or de-designations of financial assets as measured at FVPL. In particular:
- (a) paragraph C32(c) of IFRS 17 requires an entity that applies the requirements in paragraph C29 of IFRS 17 to disclose, in the annual period during which the entity applies IFRS 17 for the first time, the carrying amount of financial assets in the statement of financial position that were previously designated as measured at FVPL applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.
 - (b) paragraph C33(b) of IFRS 17 requires an entity that applies the requirements in paragraph C29 of IFRS 17 to disclose, in the annual period during which the entity applies IFRS 17 for the first time, qualitative information that would enable users of financial statements to understand the reasons for any designation or de-designation of financial assets as measured at FVPL applying paragraph 4.1.5 of IFRS 9.
57. As discussed in paragraphs 36–37 of this paper, an entity could use the requirements in paragraph C29 of IFRS 17 to address any matter that relates to the application of the fair value option to financial assets arising from the application of the proposed amendments. Consistent with this analysis, we think that the requirements in paragraphs C32(c) and C33(b) of IFRS 17 provide appropriate disclosures about how the proposed amendments would affect an entity’s option to designate (or would lead an entity to revoke its designation of) financial assets at FVPL. Accordingly, the staff think the Board should not consider developing additional requirements for financial assets in this respect.
58. The staff have not identified any requirements, other than those described in paragraphs 56–57 of this paper, that would require an entity to provide the disclosures described in paragraph 53 of this paper.

59. Accordingly, the staff recommend the Board require, in addition to any disclosures required by other IFRS Standards, an entity to provide the following disclosures:
- (a) the previous classification, including measurement category when applicable, and carrying amount of the loans immediately before applying the proposed amendments;
 - (b) the new measurement category and carrying amount of the loans determined in accordance with IFRS 9 after applying the proposed amendments;
 - (c) the carrying amount of any financial liabilities at the date of the initial application of the proposed amendments in the statement of financial position that were previously designated at FVPL but are no longer so designated as a result of the proposed amendments; and
 - (d) the reasons for any designation or de-designation of financial liabilities as measured at FVPL.

Question 7 for Board members

Do you agree the Board amend, in the circumstances described in paragraph 28 of this paper, the transition requirements in IFRS 9 in order to:

- (a) exempt an entity from presenting the quantitative information required by paragraph 28(f) of IAS 8; and
- (b) require an entity to provide, in addition to any disclosures required by other IFRS Standards, the following disclosures:
 - (i) the previous classification, including measurement category when applicable, and carrying amount of the loans immediately before applying the proposed amendments;
 - (ii) the new measurement category and carrying amount of the loans determined in accordance with IFRS 9 after applying the proposed amendments;
 - (iii) the carrying amount of any financial liabilities at the date of the initial application of the proposed amendments in the statement of financial position that were previously designated at FVPL but are no longer so designated as a result of the proposed amendments; and
 - (iv) the reasons for any designation or de-designation of financial liabilities as measured at FVPL.

Appendix A—Requirements for the redesignation of financial assets at the initial application of IFRS 17 (extract from IFRS 17)

Appendix C

Effective date and transition

...

Redesignation of financial assets

- C29 At the date of initial application of IFRS 17, an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:
- (a) may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of IFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of IFRS 17.
 - (b) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is no longer met because of the application of IFRS 17.
 - (c) may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is met.
 - (d) may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.
 - (e) may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.
- C30 An entity shall apply paragraph C29 on the basis of the facts and circumstances that exist at the date of initial application of IFRS 17. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in IFRS 9. The date of initial application for that purpose shall be deemed to be the date of initial application of IFRS 17.
- C31 An entity that applies paragraph C29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between:

- (a) the previous carrying amount of those financial assets; and
- (b) the carrying amount of those financial assets at the date of initial application.

- C32 When an entity applies paragraph C29, it shall disclose in that annual reporting period for those financial assets by class:
- (a) if paragraph C29(a) applies—its basis for determining eligible financial assets;
 - (b) if any of paragraphs C29(a)–C29(e) apply:
 - (i) the measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of IFRS 17; and
 - (ii) the new measurement category and carrying amount of the affected financial assets determined after applying paragraph C29.
 - (c) if paragraph C29(b) applies—the carrying amount of financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.
- C33 When an entity applies paragraph C29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:
- (a) how it applied paragraph C29 to financial assets the classification of which has changed on initially applying IFRS 17;
 - (b) the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9; and
 - (c) why the entity came to any different conclusions in the new assessment applying paragraphs 4.1.2(a) or 4.1.2A(a) of IFRS 9.

Appendix B—Transition for *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) (extract from IFRS 9)

7.2 Transition

...

Transition for *Prepayment Features with Negative Compensation*

- 7.2.29 An entity shall apply *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) retrospectively in accordance with IAS 8, except as specified in paragraphs 7.2.30–7.2.34.
- 7.2.30 An entity that first applies these amendments at the same time it first applies this Standard shall apply paragraphs 7.2.1–7.2.28 instead of paragraphs 7.2.31–7.2.34.
- 7.2.31 An entity that first applies these amendments after it first applies this Standard shall apply paragraphs 7.2.32–7.2.34. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).
- 7.2.32 With regard to designating a financial asset or financial liability as measured at fair value through profit or loss, an entity:
- (a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.1.5 but that condition is no longer satisfied as a result of the application of these amendments;
 - (b) may designate a financial asset as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.1.5 but that condition is now satisfied as a result of the application of these amendments;
 - (c) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of these amendments; and
 - (d) may designate a financial liability as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of these amendments.

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

- 7.2.33 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements in this Standard. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.
- 7.2.34 In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that were affected by these amendments:
- (a) the previous measurement category and carrying amount determined immediately before applying these amendments;
 - (b) the new measurement category and carrying amount determined after applying these amendments;
 - (c) the carrying amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated; and
 - (d) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

STAFF PAPER

March 2019

IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Amendments to disclosure requirements resulting from the Board's tentative decisions to date		
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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

1. This paper discusses whether the tentative decisions of the International Accounting Standards Board (Board) for proposed amendments to IFRS 17 *Insurance Contracts* to date result in the need to amend the disclosure requirements in IFRS 17.
2. This paper should be read in conjunction with Agenda Paper 2H *Implications for disclosure and transition requirements*, which provides an overview of the implications for disclosure and transition requirements of the tentative decisions of the Board to amend IFRS 17 up to the February 2019 Board meeting.

Summary of staff recommendations

3. The staff recommend the Board amend the disclosure requirements in IFRS 17 to reflect the proposed amendments related to:
- (a) the contractual service margin recognised in profit or loss on the basis of coverage units determined by considering both insurance coverage and investment-related services or investment return services, if any, by requiring:
 - (i) quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period, ie removing the option of providing qualitative information allowed by paragraph 109 of IFRS 17 of providing qualitative information.
 - (ii) specific disclosure of the approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment return services, as part of the disclosure requirements in paragraph 117 of IFRS 17 related to significant judgements and changes in judgements made in applying IFRS 17.
 - (b) insurance acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts, by requiring:
 - (i) reconciliation of the asset created by these cash flows at the beginning and the end of the reporting period and its changes, specifically recognition of any impairment loss or reversals. The aggregation of the information provided in this reconciliation should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts.
 - (ii) quantitative disclosure, in appropriate time bands, of the expected inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts. The acquisition cash flows will be included in the measurement of the related group of insurance contracts when those contracts are recognised.

Structure of the paper

4. This paper includes background information and staff analysis for the disclosure implications of the following topics:
 - (a) the contractual service margin recognised in profit or loss determined by considering insurance coverage and investment-related services or investment return services (paragraphs 5–14 of this paper); and
 - (b) insurance acquisition cash flows for renewals outside of the contract boundary (paragraphs 15–28 of this paper).

The contractual service margin recognised in profit or loss determined by considering insurance coverage and investment-related services or investment return services

Background

Tentative decisions

5. In June 2018 the Board tentatively decided to amend IFRS 17 to clarify that the definition of the coverage period for insurance contracts with direct participation features includes periods in which the entity provides investment-related services.
6. In January 2019 the Board tentatively decided to amend IFRS 17:
 - (a) so that in the general model the contractual service margin is recognised in profit or loss on the basis of coverage units that are determined by considering both insurance coverage and investment return service, if any;
 - (b) to require an entity to use judgement applied consistently in deciding whether an investment return service exists when determining coverage units, and not provide an objective or criteria for that determination. However, the Board instructed the staff to consider including in the Basis for Conclusions on IFRS 17 some of the analysis in the Board paper, to indicate what such judgements might involve;

- (c) to require assessments of the relative weighting of the benefits provided by insurance coverage and investment return services and their pattern of delivery to be made on a systematic and rational basis.

IFRS 17 disclosure requirements

7. Paragraph 93 of IFRS 17 states that the objective of the disclosure requirements is for the entity to disclose information in the notes to the financial statement that gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on entity's financial position, financial performance and cash flows. Furthermore, to achieve that objective, an entity is required to disclose qualitative and quantitative information about:
 - (a) the amounts recognised in its financial statements for insurance contracts;
 - (b) the significant judgements, and changes in those judgements, made when applying IFRS 17; and
 - (c) the nature and extent of the risks from insurance contracts.

8. Paragraph 104 of IFRS 17 requires an entity to provide information about the contractual service margin as part of the reconciliation from the opening to the closing balance of the insurance contract as follows:
 - (a) changes that relate to future service, showing separately:
 - (i) the effects of contracts initially recognised in the period which includes amounts of the contractual service margin initially recognised for those contracts; and
 - (ii) changes in estimates that adjust the contractual service margin.
 - (b) changes that relate to current service, ie the amount of the contractual service margin recognised in profit or loss to reflect the transfer of services.

9. Paragraph 109 of IFRS 17 requires an entity to disclose an explanation of when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss, either quantitatively, in appropriate time bands, or by providing qualitative information.

10. Paragraph 117 of IFRS 17 requires an entity to disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:
- (a) the methods used to measure insurance contracts within the scope of IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.
 - (b) any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected.
11. Paragraph 117(c) of IFRS 17 further specifies that the entity is required to disclose the approach to:
- (a) distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features;
 - (b) determine the risk adjustment for non-financial risk;
 - (c) determine discount rates; and
 - (d) determine investment components.

Staff analysis

12. The Board has tentatively decided to propose amendments to IFRS 17 to consider investment-related services (for variable fee contracts) or investment return services (for general model contracts) as well as insurance coverage in determining the amount of the contractual service margin to recognise in profit or loss. Including these services in that determination makes it more subjective and complex. As a result, the pattern of recognition of profit for different products and between different entities can vary significantly. Consequently, specific disclosures about the amounts recognised in the financial statement and judgements used are important to ensure

users of the financial statement are able to understand the determination, and make informed comparisons between types of contracts and across entities.

13. The staff think that the quantitative disclosure required in paragraph 101 of IFRS 17 provides useful information about the changes in the contractual service margin as a result of the services provided in the period and adjustments related to the future services. The staff think it would be also helpful if an entity provided quantitative information about the expected recognition of the contractual service margin in profit or loss in the future periods. However, paragraph 109 of IFRS 17 currently allows an entity to provide qualitative information instead. Consequently, the staff recommend the Board amend IFRS 17 to *require* an entity to disclose quantitative information about the expected recognition in profit or loss in future periods without the option of providing qualitative information. The staff do not think that providing quantitative information will be burdensome for preparers because such information should be available to them. This is because in deciding the amount of the services provided in the period, an entity needs to consider the what coverage units are expected to be provided in the future.

14. Paragraph 117 of IFRS 17 requires an entity to disclose the significant judgements in measuring insurance contracts. In the staff's view, these judgements already include an assessment of the relative weighting of the benefits provided by insurance coverage and investment-related services or investment return services. However, because of the significance of the effect of assessing these relative weightings on the allocation of the contractual service margin in profit or loss for many insurance contracts, the staff propose highlighting the importance of that disclosure in IFRS 17. Consequently, the staff recommend the Board amend IFRS 17 to include a specific requirement needed to comply with the objective in paragraph 117 of IFRS 17, a disclosure about the approach used to assess the relative weightings of the benefits provided by insurance coverage and investment-related services or investment return services.

Question 1 for Board members

Do you agree the Board should amend IFRS 17 to require:

- (a) quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period—ie removing the option allowed by paragraph 109 of IFRS 17 of providing qualitative information; and
- (b) specific disclosure of the approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment return services, as part of the disclosure requirement in paragraph 117 of IFRS 17 related to significant judgments and changes in judgements made in applying IFRS 17?

Insurance acquisition cash flows for renewals outside of the contract boundary

Background information

Tentative decisions

15. Since the publication of IFRS 17, the Board has tentatively decided to propose the following amendments to IFRS 17 relating to insurance acquisition cash flows:
- (a) to amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued.
 - (a) to allocate to any expected contract renewals their related part of the insurance acquisition cash flows directly attributable to newly issued contracts.
 - (b) to recognise the insurance acquisition cash flows allocated to expected contract renewals as assets applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.
 - (c) to assess the recoverability of any asset recognised applying paragraph 27 of IFRS 17 each period before the related contracts are recognised. The

recoverability assessment would be based on the expected fulfilment cash flows of the related group of contracts.

- (d) to recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised applying paragraph 27 of IFRS 17.
- (e) to recognise in profit or loss the reversal of some or all of any such loss previously recognised when the impairment conditions no longer exist or have improved.

IFRS 17 disclosure requirements

16. Paragraph 93 of IFRS 17 states that the objective of the disclosure requirements is for the entity to disclose information in the notes that gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on entity's financial position, financial performance and cash flows. Paragraphs 94-96 of IFRS 17 further require an entity to:
 - (a) consider the level of detail necessary to satisfy the disclosure objective and to disclose information necessary to meet the objective.
 - (b) aggregate information in a way that does not obscure useful information and does not aggregate item with different characteristics. Furthermore, it requires an entity to aggregate information (subject to materiality) consistently with requirements in IAS 1 *Presentation of Financial Statements*, for example by type of contracts, geographical area or reportable segments.
17. The reconciliations of contract balances in paragraphs 97–105 of IFRS 17 require an entity to disclose specific quantitative information about acquisition cash flows included in the measurement of recognised groups of insurance contracts. However, IFRS 17 does not require any specific information about amounts of acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts.
18. Paragraph 117 of IFRS 17 requires an entity to disclose the significant judgements and changes in judgements made in applying IFRS 17 (see paragraphs 10–11 of this paper).

Staff analysis

Acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts

19. Paragraph 27 of IFRS 17 requires the recognition of an asset for insurance acquisition cash flows that occur before the related group of insurance contracts is recognised. The asset is derecognised when the cash flows are included in the measurement of the related group of insurance contracts on initial recognition.
20. The proposed amendments would extend the period for which such an asset exists for acquisition cash flows related to renewals, and consequently is expected to increase the amount of the asset. Furthermore, the timing of when the entity expects that asset to be derecognised and included in the measurement of the group of contracts will vary depending on the entity's assumptions related to renewals such as the timing and number of renewals. Consequently, even though such assets existed in IFRS 17 before the proposed amendments, the staff think it is appropriate to reconsider the related disclosure requirements.

Quantitative information

21. IFRS 17 does not require specific quantitative disclosures about insurance acquisition cash flows that have not yet been included in the measurement of a group of insurance contracts.
22. The staff think that quantitative information about such insurance acquisition cash flows will be more important for users of financial statements after the proposed amendments to IFRS 17. This is because, as discussed in paragraph 20 of this paper, there could be a longer period until the cash flows are included in the measurement of a group of insurance contracts and hence a greater amount not yet included in that measurement compared to those arising under the existing IFRS 17 requirements. Therefore, the staff recommend the Board amend IFRS 17 to require specific reconciliation of the acquisition cash flows asset at the beginning and the end of the period and its changes, specifically recognition of any impairment loss or reversals.

23. As noted in paragraph 16 of this paper, IFRS 17 requires disclosures aggregated in a way that provides useful information. The staff think that aggregation of quantitative information should be consistent across all reconciliations to allow an entity to understand the relationships between all amounts disclosed. Consequently, the staff recommends the Board require the aggregation of the information provided for the reconciliation of insurance acquisition cash flows not yet included in the measurement of a group of insurance contracts should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts.
24. In addition, the staff think it is important for users of financial statement to understand when the insurance acquisition cash flows are expected to be included in the measurement of a group of insurance contracts. This is because the insurance acquisition cash flows (and their recovery) will only be recognised as an expense (and revenue) once they are part of the measurement of a group of contracts.
25. Consequently, the staff recommend the Board amend IFRS 17 to require a quantitative disclosure, similar to that required in paragraph 109 of IFRS 17 on when the entity expects to recognise the contractual service margin in profit or loss (see paragraph 9 of this paper). This new disclosure would require an entity to disclose when it expects to include insurance acquisition cash flows as part of the initial measurement on recognition of a group of insurance contracts.

Qualitative information

26. The staff think that the disclosure requirement in paragraph 117 of IFRS 17 (see paragraph 18 of this paper) is sufficient to cover the inputs and assumptions related to the recoverability assessment of the acquisition cash flows asset balance. The staff does not propose adding specific requirements, in contrast with the proposal for a specific requirement related to the recognition of the contractual service margin in profit or loss in paragraph 14 of this paper. This is because the contractual service margin is a fundamental feature of the measurement of insurance contracts that will affect many insurance contracts and will have a significant effect on the amounts recognised in the financial statements.

Comparison with IFRS 15

27. The staff note that this recommendation (and the requirement in IFRS 17 explained in paragraph 26) would result in an entity providing similar information about acquisition cash flows to that provided for the costs incurred to obtain or fulfil a contract with a customer applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 requires:
- (a) qualitative disclosure related to the judgements made in determining the amount of those costs and the method it uses to determine the amortisation for each reporting period; and
 - (b) quantitative disclosure related to the closing balances of assets recognised from those costs and the amount of amortisation and any impairment losses recognised in the reporting period.
28. However, the staff note the following differences:
- (a) IFRS 15 does not require quantitative disclosure about contract balances in the form of a reconciliation. Paragraph BC357 of IFRS 15 notes this is because the cost of providing such a rigid disclosure would outweigh the benefit to users. However, the staff note that in IFRS 17 already requires reconciliation of insurance contract balances, hence the proposed disclosure in paragraph 22 is consistent with that approach. In addition, insurance acquisition costs are likely to be more significant than the acquisition costs for contracts within the scope of IFRS 15, at least in part because of the broader scope of costs that fall within the definition of insurance acquisition costs.
 - (b) The disclosure related to the expected derecognition of asset balances recommended in paragraph 25 is not required by IFRS 15. This is because IFRS 17 requires an entity to include acquisition costs in the measurement of the insurance contracts (once those contracts are recognised) while IFRS 15 does not.

Question 2 for Board members

Do you agree the Board should amend IFRS 17 to require:

- (a) a reconciliation of the asset created by insurance acquisition cash flows not yet included in the measurement of a group of insurance contracts at the beginning and the end of the reporting period and its changes, specifically the recognition of any impairment loss or reversals. The aggregation of the information provided for this reconciliation should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts.
- (b) quantitative disclosure, in appropriate time bands, of the expected inclusion of these acquisition cash flows in the measurement of related insurance contracts when the related insurance contracts are recognised.

STAFF PAPER

March 2019

IASB® meeting

Project	Amendments to IFRS 17 <i>Insurance Contracts</i>		
Paper topic	Implications for disclosure and transition requirements		
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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

1. This paper provides an overview of the implications for disclosure and transition requirements of the tentative decisions of the International Accounting Standards Board (Board) to amend IFRS 17 *Insurance Contracts* up to the February 2019 Board meeting. The implications for disclosure and transition requirements of any further possible amendments to IFRS 17 recommended by the staff and discussed in the agenda papers for the March 2019 Board meeting are discussed in those papers when relevant.
2. This paper should be read in conjunction with:
 - (a) Agenda Paper 2E—*Transition requirements—Risk mitigation option*, which discusses the application of the risk mitigation option at transition.
 - (b) Agenda Paper 2F—*Transition requirements—Loans that transfer significant insurance risk*, which discusses possible amendments to the transition requirements in IFRS 17 that would apply to insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract if an entity chooses to apply IFRS 9 *Financial Instruments* to those contracts it issues when IFRS 17 is effective.

- (c) Agenda Paper 2G—*Amendments to disclosure requirements resulting from the Board’s tentative decisions to date*, which discusses possible amendments to the disclosure requirements for the Board’s tentative decisions to amend IFRS 17 for the following topics:
- (i) the contractual service margin recognised in profit or loss determined by considering insurance coverage and investment-related services or investment return services; and
 - (ii) insurance acquisition cash flows for renewals outside of the contract boundary.

Summary of staff recommendations

3. The staff recommend the Board amend IFRS 17 as discussed in Agenda Papers 2E, 2F and 2G and retain all other disclosure and transition requirements in IFRS 17.

Structure of the paper

4. This paper is structured in two parts:
- (a) Part 1—Amendments the Board has tentatively decided to propose in response to the concerns and implementation challenges identified by stakeholders during their implementation processes; and
 - (b) Part 2—Minor amendments that the Board has tentatively decided to propose at its June 2018 meeting as part of the Board's annual improvements to IFRS Standards.¹
5. The staff propose to discuss the topics in this paper with the Board on an exception basis—ie the staff will ask only a general question as to whether the Board agrees with the staff recommendations. The staff would discuss a topic only if requested to

¹ The annual improvement on coverage units for insurance contracts with direct participation features that the Board tentatively decided to propose at its June 2018 meeting is included in the table in Part 1 of this paper in the light of the similar implications for disclosure and transition requirements with the amendment on coverage units for insurance contracts without direct participation features that the Board tentatively decided to propose at its January 2019 meeting.

do so by a Board member. The staff ask for advance notification from Board members if they intend to discuss any topics to assist in meeting planning.

Staff analysis and recommendation

Part 1—Amendments the Board has tentatively decided to propose in response to the concerns and implementation challenges identified by stakeholders during their implementation processes

6. The following table includes staff analysis and recommendation for each of the amendments the Board has tentatively decided to propose in response to the concerns and implementation challenges identified by stakeholders during their implementation processes.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
<p>1—Scope of IFRS 17 (February 2019)</p>	<p>Amendment of the scope of IFRS 17 and IFRS 9 for insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract to enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9.</p>	<p>The staff recommend no action, other than as discussed in Agenda Paper 2F about disclosures at transition.</p> <p>IAS 1 <i>Presentation of Financial Statements</i> requires an entity to disclose the accounting policies used in measuring insurance contracts. Applying IAS 1, an entity is expected to disclose whether it elects to apply IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract.</p> <p>IFRS 17 was developed with the objective that entities provide relevant information in a way that faithfully represents the features of all types of insurance contracts. Therefore, the staff think that the disclosure requirements in IFRS 17 are sufficient for insurance contracts that provide insurance coverage only for the</p>	<p>Refer to staff analysis and recommendation in Agenda Paper 2F.</p>

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
		<p>settlement of the policyholder’s obligation created by the contract.</p> <p>IFRS 9 was developed for the accounting for financial instruments with complex features and IFRS 7 <i>Financial instruments: Disclosures</i> requires an entity to disclose information about those complex features. Although IFRS 7 does not include any specific requirement to provide information about the insurance risk to which an entity is exposed, the staff think that the requirements in IFRS 7 are adequate to provide information about the features of insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract. IFRS 9 already applies to some insurance contracts (ie financial guarantee contracts) and the qualitative and quantitative disclosures for credit risk required by IFRS 7 apply to insurance contracts accounted for applying</p>	

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
		IFRS 9. ² The staff think that those disclosures are sufficient for insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract because those contracts mainly expose the entity to credit risk.	
2—Insurance acquisition cash flows for renewals outside the contract boundary (January 2019)	Allocation of part of the insurance acquisition cash flows to expected contract renewals.	Refer to staff analysis and recommendation in Agenda Paper 2G.	The staff recommend no action. An entity would treat insurance acquisition cash flows for renewals outside of the contract boundary in a similar way as other insurance acquisition cash flows relating to a group of issued insurance contracts before the group is recognised (see paragraph 27 of IFRS 17).

² Appendix A of IFRS 7 defines credit risk as ‘the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation’.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
<p>3—Contractual service margin: coverage units in the general model (January 2019)</p>	<p>Allocation of the contractual service margin of some general model contracts based on coverage units determined considering both insurance coverage and any investment return service.</p>	<p>Refer to staff analysis and recommendation in Agenda Paper 2G.</p>	<p>The staff recommend no action.</p> <p>Paragraph C15 of IFRS 17 includes specified modifications that an entity can use to determine the contractual service margin at transition for general model contracts, without specifying how to determine coverage units. Therefore, the staff have not identified any implication for the transition requirements of the Board’s tentative decision about determination of coverage units in the general model.</p>

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
4—Contractual service margin: coverage units in the variable fee approach (June 2018)	Clarification that the definition of the coverage period for insurance contracts with direct participation features includes periods in which the entity provides investment-related services.	Refer to staff analysis and recommendation in Agenda Paper 2G.	<p>The staff recommend no action.</p> <p>Paragraph C17 of IFRS 17 includes specified modifications that an entity can use to determine the contractual service margin at transition for variable fee approach contracts, without specifying how to determine coverage units. Therefore, the staff have not identified any implication for the transition requirements of the Board’s tentative decision about determination of coverage units in the variable fee approach.</p>

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
5—Risk mitigation exception (January 2019)	Application of the risk mitigation exception in the variable fee approach when an entity uses reinsurance contracts held to mitigate financial risks.	<p>The staff recommend no action.</p> <p>The amendment expands the scope of the existing risk mitigation exception in paragraph B115 of IFRS 17. An entity using reinsurance contracts held to mitigate financial risks will provide the disclosures required by IFRS 17 when entities apply the risk mitigation exception.</p> <p>Paragraph 95 of IFRS 17 requires an entity to consider appropriate aggregation or disaggregation of the information disclosed. Hence separate disclosure of the effect of applying the risk mitigation exception for the use of derivatives and for the use of reinsurance contracts held will be disclosed if considered useful.</p>	<p>The staff recommend no action because of this amendment.</p> <p>Refer to staff analysis and recommendation in Agenda Paper 2E about the application of the risk mitigation option at transition.</p>

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
<p>6—Reinsurance contracts held—onerous underlying insurance contracts (January 2019)</p>	<p>If an insurer recognises losses on underlying insurance contracts at initial recognition, it would also recognise a gain at the same time on proportionate reinsurance contracts held.</p>	<p>The staff recommend no action.</p> <p>The gain recognised on the reinsurance contract held is similar to the loss component on the underlying contracts. IFRS 17 requires the disclosure requirements to be adapted to reflect the features of reinsurance contracts held. The staff therefore do not think any additional disclosure requirements are necessary.</p>	<p>The staff recommend no action.</p> <p>The amendment expands the scope of the exception in paragraph 66(c)(ii) of IFRS 17. When drafting the amendments to IFRS 17, the staff will consider whether, for reinsurance contracts held, it is necessary to adapt the wording of the specified modifications that an entity applying the modified retrospective approach can use.</p>

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
7—Presentation of insurance contracts in the statement of financial position (December 2018)	Presentation of insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.	The staff expect the Exposure Draft to propose a consequential amendment to paragraph 99 of IFRS 17 so that when an entity discloses the reconciliations required by paragraphs 100–105 of IFRS 17, the entity presents, for each reconciliation, the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for portfolios (rather than groups) of contracts that are assets and a total for portfolios (rather than groups) of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78 of IFRS 17. ³	The staff recommend no action. The amendment does not affect the measurement of insurance contracts and therefore the staff have not identified any implication for the transition requirements.

³ The staff also expect the Exposure Draft to propose a consequential amendment to paragraph 79 of IFRS 17 about the presentation of portfolios (rather than groups) of insurance contracts in the statement of financial position.

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
8—Date of initial application of IFRS 17 (November 2018)	One-year deferral of the mandatory effective date of IFRS 17, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.	<p>The staff recommend no action.</p> <p>The staff note that paragraphs 30 and 31 of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> detail the disclosure requirements for the expected impact of new IFRS Standards which have not yet been adopted. An entity that does not early apply IFRS 17 would be required to provide those disclosures for one additional year.</p>	<p>The staff recommend no action.</p> <p>An entity that does not early apply IFRS 17 would apply the transition requirements one year later.</p>

Topic	Amendment tentatively decided by the Board	Disclosures—staff analysis and recommendation	Transition—staff analysis and recommendation
9—Temporary exemption from applying IFRS 9 (November 2018)	Amendment of the fixed expiry date for the temporary exemption in IFRS 4 <i>Insurance Contracts</i> from applying IFRS 9, so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.	<p>The staff recommend no action.</p> <p>The staff note that entities that continue to apply IAS 39 <i>Financial Instruments: Recognition and Measurement</i> are already required by IFRS 4 to make additional disclosures to enable users of financial statements to make comparisons with entities applying IFRS 9.</p> <p>An entity that defers the application of IFRS 9 by one additional year would provide those disclosures for that additional year.</p>	<p>The staff recommend no action.</p> <p>An entity that defers the application of IFRS 9 until IFRS 17 is effective would apply the transition requirements in IFRS 9 and in IFRS 17 at the same time.</p>
10—Transition (February 2019)	Additional specified modification to the transition approaches for the classification of a liability that relates to the settlement of claims incurred before an insurance contract was acquired.	<p>The staff recommend no action.</p> <p>Paragraph 115 of IFRS 17 requires an entity to explain how it determined the measurement of insurance contracts at the transition date to enable users of financial statements to understand the nature and significance of the methods used and judgements applied in determining the transition amounts.</p>	Not applicable.

Part 2—Minor amendments that the Board has tentatively decided to propose as part of the Board's annual improvements to IFRS Standards

7. Annual improvements to IFRS Standards are limited to changes that either clarify the wording in a Standard or correct relatively minor unintended consequences. The staff have not identified any implications for disclosure and transition requirements of the tentative decisions of the Board at its June 2018 meeting. An extract of the June 2018 *IASB Update* summarising the Board's tentative decisions is reported below:

The Board tentatively decided to propose the following minor amendments to IFRS 17 (and other Standards amended by IFRS 17):

- (a) to amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued.
- (b) to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group.
- (c) to remove requirements that could result in double-counting of the risk-adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses.
- (d) to correct the terminology in the sensitivity analysis disclosures.
- (e) to exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17.
- (f) to amend IFRS 3 *Business Combinations* so that the amendment made by IFRS 17 on the classification of insurance contracts applies prospectively.⁴
- (g) to amend IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments* and IAS 32 *Financial Instruments: Presentation* to achieve the intended scopes of these financial instruments Standards and the scope of IFRS 17, particularly with respect to insurance contracts held.

⁴ This amendment relates to transition requirements.

- (h) to add an explanation that, in Example 9 of the Illustrative Examples on IFRS 17, the time value of the guarantee changes over time.

Question for Board members

Except for the topics discussed in Agenda Paper 2E, 2F and 2G, which are subject to separate questions for Board members, do you agree that the Board should not amend the transition and disclosures requirements in IFRS 17?