

## STAFF PAPER

December 2019

IASB<sup>®</sup> meeting

Project	Amendments to IFRS 17		
Paper topic	Cover note		
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## Introduction

1. This cover note provides:
  - (a) background information about the tentative decisions made by the International Accounting Standards Board (Board) at its recent meetings about amendments to IFRS 17 *Insurance Contracts*;
  - (b) an overview of the papers for this meeting, including a summary of staff recommendations;
  - (c) an outline of next steps; and
  - (d) an appendix listing the topics that the Board decided at its November 2019 meeting to discuss at future meetings.

## Background

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

3. In the light of that feedback, at its November 2019 meeting, the Board decided on its plan for redeliberating some of the matters raised by respondents on the Exposure Draft. The Board tentatively decided:
  - (a) the proposed amendments the Board will confirm at a future meeting without substantive redeliberation;
  - (b) the topics for which the Board will consider further the feedback from respondents; and
  - (c) the topics for which the Board will not consider further the feedback from respondents.
  
4. The Board noted that its tentative decision about the topics that it will not consider further should reduce uncertainty about any possible additional amendments to IFRS 17 and, therefore, limit disruption to implementation processes under way.
  
5. IFRS 17 is urgently needed to address many inadequacies in the wide range of insurance accounting practice used in applying IFRS 4 *Insurance Contracts* and significant implementation activities are underway. Accordingly, the Board decided that, in considering further the feedback from respondents, the Board will apply the same criteria that it applied when developing the Exposure Draft. The Board decided that any amendments to IFRS 17 must not:
  - (a) change the fundamental principles of the Standard because that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17;
  - (b) unduly disrupt implementation already underway; or
  - (c) further delay the effective date of IFRS 17.
  
6. The Board noted that a small number of respondents included new concerns and implementation questions in their comment letters on the Exposure Draft. The staff will analyse the new concerns and implementation questions and report to the Board at a future meeting so that the Board can decide what, if any, action is needed to address them. The staff think that, at this stage, further changes to IFRS 17 are more likely to disrupt rather than help the implementation process. However, other action such as educational material might be appropriate to continue to support implementation of IFRS 17.

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

7. The papers for this meeting provide an analysis of the following topics:
- (a) proposed amendments to confirm without substantive redeliberation—see Agenda Paper 2A *Proposed amendments to be finalised*;
  - (b) insurance acquisition cash flows—see Agenda Paper 2B *Expected recovery of insurance acquisition cash flows*; and
  - (c) reinsurance contracts held—see Agenda Paper 2C *Reinsurance contracts held—recovery of losses*.
8. The following paragraphs summarise the staff recommendations in these papers.

### ***Proposed amendments to be finalised (Agenda Paper 2A)***

9. In Agenda Paper 2A the staff recommend the Board finalise the following amendments to IFRS 17 as proposed in the Exposure Draft:
- (a) scope exclusion for loans;
  - (b) contractual service margin attributable to investment services—coverage units for insurance contracts with direct participation features;
  - (c) presentation in the statement of financial position—portfolio instead of group level;
  - (d) applicability of the risk mitigation option—reinsurance contracts held;
  - (e) transition reliefs for business combinations; and
  - (f) transition reliefs for the risk mitigation option—application from the transition date and the option to apply the fair value approach.

### ***Expected recovery of insurance acquisition cash flows (Agenda Paper 2B)***

10. In Agenda Paper 2B the staff recommend the Board:
- (a) finalise the proposed amendment to IFRS 17 that would require an entity to allocate insurance acquisition cash flows that are directly attributable to a group of insurance contracts applying a systematic and rational method:
    - (i) to that group; and

- (ii) to any groups that include contracts that are expected to arise from renewals of the contracts in that group.
- (b) confirm that the unit of account for an asset for insurance acquisition cash flows is the group of insurance contracts to which those cash flows have been allocated.
- (c) finalise the proposed requirements for an entity to assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.
- (d) finalise the proposed requirements for an entity to disclose:
  - (i) a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows, showing separately any recognition of impairment losses and reversals of impairment losses; and
  - (ii) quantitative information, in appropriate time bands, about when an entity expects to derecognise an asset for insurance acquisition cash flows and include those cash flows in the measurement of the group of insurance contracts to which they are allocated.
- (e) retain, unchanged, the requirement in IFRS 17 for an entity to present any asset for insurance acquisition cash flows in the carrying amount of the related portfolios of insurance contracts issued.

***Reinsurance contracts held—recovery of losses (Agenda Paper 2C)***

11. In Agenda Paper 2C the staff recommend the Board:
- (a) extend the scope of the proposed amendment to IFRS 17 to require an entity to adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group.
  - (b) amend the proposed calculation of the income, as a consequence of the extension of the scope of the proposed amendment, to require an entity to

determine the amount of a loss recovered from a reinsurance contract held by multiplying:

- (i) the loss recognised on the group of underlying insurance contracts;  
and
  - (ii) the percentage of claims on underlying insurance contracts the entity expects to recover from the reinsurance contract held.
- (c) not add the proposed footnote to paragraph BC304 of the Basis for Conclusions on IFRS 17.
- (d) confirm that the amendment to IFRS 17 described in paragraph 11(a) of this paper would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- (e) clarify, in the final amendments to IFRS 17, that paragraph 66(c)(ii) of IFRS 17—for subsequent measurement of a group of reinsurance contracts held when a group of underlying insurance contracts become onerous—applies when underlying insurance contracts are measured applying the premium allocation approach.

## Next steps

12. The staff expect to present papers to the Board on the remaining topics for discussion at future meetings. The staff anticipate presenting a paper to the Board regarding the proposed effective date of IFRS 17 and the proposed extension of the IFRS 9 *Financial Instruments* temporary exemption in IFRS 4 towards the end of redeliberations.
13. The staff expect that the timetable will allow sufficient time for the Board to consider further the feedback on the remaining topics and to finalise any resulting amendments, in line with the Board’s plan as stated in the Exposure Draft, in mid-2020.

## Appendix A—topics the Board decided at its November 2019 meeting to discuss at future meetings

Topic	Agenda Paper
Scope exclusion for loans	<b>AP2A December 2019</b>
Contractual service margin attributable to investment services—coverage units for insurance contracts with direct participation features	<b>AP2A December 2019</b>
Presentation in the statement of financial position—portfolio instead of group level	<b>AP2A December 2019</b>
Applicability of the risk mitigation option—reinsurance contracts held	<b>AP2A December 2019</b>
Transition reliefs for business combinations	<b>AP2A December 2019</b>
Transition reliefs for the risk mitigation option—application from the transition date and the option to apply the fair value approach	<b>AP2A December 2019</b>
Scope exclusion for credit cards	Future meeting
Expected recovery of insurance acquisition cash flows	<b>AP2B December 2019</b>
Contractual service margin attributable to investment services—coverage units for insurance contracts without direct participation features, disclosures and terminology	Future meeting
Reinsurance contracts held—recovery of losses	<b>AP2C December 2019</b>
Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss	Future meeting
Effective date of IFRS 17	Future meeting
Extension of the IFRS 9 temporary exemption in IFRS 4	Future meeting
Transition—the prohibition from applying the risk mitigation option retrospectively	Future meeting
Minor amendments	Future meeting
Level of aggregation—annual cohorts for some specific insurance contracts	Future meeting
Business combinations—contracts acquired in their settlement period	Future meeting
Interim financial statements	Future meeting
Additional specific transition modifications and reliefs (including transition requirements for insurance acquisition cash flows)	Future meeting