

## STAFF PAPER

February 2020

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 also noted that a small number of respondents included new concerns and implementation questions in their comment letters on the Exposure Draft. The Board asked the staff to 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.

7. Following the plan for redeliberating some of the matters raised by respondents on the Exposure Draft, at its December 2019 and January 2020 meetings, the Board:
- (a) tentatively decided to finalise six amendments as proposed in the Exposure Draft, without substantive redeliberation;
  - (b) considered further the feedback from respondents and concluded to retain, unchanged, the requirements in IFRS 17 for the following topics:
    - (i) transition—the prohibition from applying the risk mitigation option retrospectively; and
    - (ii) business combinations—contracts acquired in their settlement period.
  - (c) considered further the feedback from respondents and redeliberated proposed amendments to IFRS 17 on the following topics:
    - (i) expected recovery of insurance acquisition cash flows, including the requirements for an asset for insurance acquisition cash flows at transition and for contracts acquired;
    - (ii) reinsurance contracts held—recovery of losses;
    - (iii) scope exclusion for credit cards; and
    - (iv) interim financial statements.

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

8. The papers for this meeting provide an analysis of the following topics:
- (a) Contractual service margin attributable to investment services—see Agenda Paper 2A *Contractual service margin attributable to investment services*;
  - (b) Level of aggregation—annual cohorts for insurance contracts with intergenerational sharing of risks between policyholders—see Agenda Paper 2B *Level of aggregation—annual cohorts for insurance contracts with intergenerational sharing of risks between policyholders*;
  - (c) Risk mitigation option—non-derivative financial instruments at fair value through profit or loss—see Agenda Paper 2C *Applicability of the risk*

*mitigation option—non-derivative financial instruments at fair value through profit or loss;*

- (d) Minor amendments—see Agenda Paper 2D *Minor amendments*;
- (e) Transition—additional reliefs—see Agenda Paper 2E *Additional specific transition modifications and reliefs*; and
- (f) Other topics—see Agenda Paper 2F *Other topics raised by respondents to the Exposure Draft Amendments to IFRS 17*.

9. The following paragraphs summarise the staff recommendations in these papers.

***Contractual service margin attributable to investment services (Agenda Paper 2A)***

10. In Agenda Paper 2A the staff recommend the Board:

- (a) finalise the proposed amendment to IFRS 17 that would require an entity to identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage.
- (b) confirm the specified criteria for when those contracts may provide an investment-return service in paragraph B119B of the Exposure Draft, but replace references to ‘positive investment return’ with ‘investment return’ in these criteria.
- (c) require an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service.
- (d) finalise the proposed amendments to IFRS 17 that would require an entity to disclose:
  - (i) quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period; and

- (ii) the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.
- (e) confirm the addition of the definition of ‘insurance contract services’ to Appendix A of IFRS 17, but not change other terminology used in the Standard (ie not replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’).

***Level of aggregation—annual cohorts for insurance contracts with intergenerational sharing of risks between policyholders (Agenda Paper 2B)***

11. In Agenda Paper 2B the staff recommend the Board retain, unchanged, the annual cohort requirement in IFRS 17.

***Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss (Agenda Paper 2C)***

12. In Agenda Paper 2C the staff recommend the Board amend IFRS 17 to extend the risk mitigation option for insurance contracts with direct participation features in paragraph B115 of IFRS 17. The extension would permit an entity to apply the option when the entity mitigates the effect of financial risk on the fulfilment cash flows set out in paragraph B113(b) of IFRS 17 using non-derivative financial instruments measured at fair value through profit or loss. An entity would apply the option if, and only if, the conditions in paragraph B116 of IFRS 17 are met.

***Minor amendments (Agenda Paper 2D)***

13. In Agenda Paper 2D the staff recommend the Board finalise the minor amendments proposed in the Exposure Draft with the following changes:
- (a) the amendment to paragraph B128 of IFRS 17 should specify that changes in the measurement of a group of insurance contracts caused by changes in the *value* of underlying items (excluding additions and withdrawals) are changes arising from the effect of the time value of money and financial risk and changes therein (rather than changes in the *fair value* of underlying

items as incorrectly referred to in the Exposure Draft). The last sentence of paragraph B134 of IFRS 17 should clarify that, applying paragraph B134 of IFRS 17, the amount included for the insurance contracts is determined by considering all income or expenses included in profit or loss for the underlying items, wherever in profit or loss the income or expenses are presented.

- (b) the amendment to paragraph B96(c) of IFRS 17 should also apply to loans to policyholders—ie for insurance contracts without direct participation features, the contractual service margin is not adjusted for changes in fulfilment cash flows arising from differences that relate to the time value of money and assumptions that relate to financial risk between:
  - (i) any loan to a policyholder expected to become payable in the period; and
  - (ii) the actual loan to the policyholder that becomes payable in the period.
- (c) the amendment to paragraphs 106(a) and B124 of IFRS 17 should specify that an entity should present experience adjustments for premium receipts *that relate to current or past service* as insurance revenue.
- (d) the consequential amendment to paragraph 2.1 of IFRS 9 *Financial Instruments* to clarify that insurance contracts held are not in the scope of IFRS 9 should refer to financial guarantee contracts *issued* as being in the scope of IFRS 9 (rather than to financial guarantee contracts—ie issued and held—as incorrectly referred to in the Exposure Draft).

***Additional specific transition modifications and reliefs (Agenda Paper 2E)***

- 14. In Agenda Paper 2E the staff recommend the Board amend the transition requirements in IFRS 17 to:
  - (a) extend the modification in the modified retrospective approach and relief in the fair value approach relating to assessments that would have been made at inception or initial recognition to include the assessment of whether an investment contract meets the definition of an investment contract with

discretionary participation features. The extension would permit an entity to determine whether an investment contract meets the definition of an investment contract with discretionary participation features using information available at the transition date (rather than at inception or initial recognition). Consistent with other modifications in the modified retrospective approach, an entity would apply the extended modification only to the extent that the entity does not have reasonable and supportable information to apply a retrospective approach.

- (b) amend the proposed modification in the modified retrospective approach for reinsurance contracts held when underlying insurance contracts are onerous. The amendment would specify that if an entity does not have reasonable and supportable information to identify whether the reinsurance contract held was acquired before or at the same time that the insurance contracts were issued, the entity would assume that the reinsurance contract held was acquired *after* the insurance contracts were issued. Accordingly, the reinsurance contract held would not have a loss-recovery component at the transition date.
- (c) add a modification to the modified retrospective approach for entities that make an accounting policy choice *not* to change the treatment of accounting estimates made in previous interim financial statements. An entity would apply the modification to the extent the entity does not have reasonable and supportable information to apply retrospectively its accounting policy choice. Applying the modification, the entity would determine the contractual service margin, loss component and amounts related to insurance finance income or expenses at the transition date as if the entity had not prepared any interim financial statements before the transition date.

**Other topics raised by respondents to the Exposure Draft Amendments to IFRS 17 (Agenda Paper 2F)**

15. In Agenda Paper 2F the staff recommend the Board:
- (a) amend paragraph B66(f) of IFRS 17 to resolve an inconsistency between that paragraph and paragraph B65(m) of IFRS 17. After that amendment, an entity would apply paragraph B65(m) of IFRS 17 to include in the fulfilment cash flows the income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract.
  - (b) retain, unchanged, the requirements in paragraph B113(b) of IFRS 17. That paragraph requires an entity to adjust the contractual service margin of insurance contracts with direct participation features for the changes in the effect of the time value of money and financial risks not arising from the underlying items.
  - (c) not add any new requirements to IFRS 17 or publish any educational material relating to the accounting for insurance contracts that change their nature over time.
  - (d) retain, unchanged, the requirements in IFRS 17 relating to the other topics discussed in Appendix A to this paper.

**Next steps**

16. The staff expect to present papers to the Board on the remaining two topics—the effective date of IFRS 17 and the extension of the IFRS 9 temporary exemption in IFRS 4—at the March 2020 meeting. At the same meeting, the staff expect to request the Board’s permission to start the balloting process for finalising the amendments to IFRS 17.
17. The staff expect that the amendments will be finalised in mid-2020, in line with the Board’s plan as stated in the Exposure Draft.

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

Topic	Agenda Paper
Scope exclusion for loans	AP2A December 2019
Contractual service margin attributable to investment services—coverage units for insurance contracts with direct participation features	AP2A December 2019
Presentation in the statement of financial position—portfolio instead of group level	AP2A December 2019
Applicability of the risk mitigation option—reinsurance contracts held	AP2A December 2019
Transition reliefs for business combinations	AP2A December 2019
Transition reliefs for the risk mitigation option—application from the transition date and the option to apply the fair value approach	AP2A December 2019
Scope exclusion for credit cards	AP2A January 2020
Expected recovery of insurance acquisition cash flows	AP2B December 2019
Contractual service margin attributable to investment services—coverage units for insurance contracts without direct participation features, disclosures and terminology	<b>AP2A February 2020</b>
Reinsurance contracts held—recovery of losses	AP2C December 2019
Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss	<b>AP2C February 2020</b>
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	AP2B January 2020
Minor amendments	<b>AP2D February 2020</b>
Level of aggregation—annual cohorts for some specific insurance contracts	<b>AP2B February 2020</b>
Business combinations—contracts acquired in their settlement period	AP2C January 2020
Interim financial statements	AP2D January 2020
Additional specific transition modifications and reliefs (including transition requirements for insurance acquisition cash flows)	<b>AP2E February 2020</b> AP2E January 2020 (insurance acquisition cash flows)