

STAFF PAPER

January 2020

IASB[®] 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.

7. Following the plan for redeliberating some of the matters raised by respondents on the Exposure Draft, at its December 2019 meeting the Board:
 - (a) tentatively decided to finalise six proposed amendments without substantive redeliberation; and
 - (b) 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; and
 - (ii) reinsurance contracts held—recovery of losses.

Papers for this meeting and summary of the staff recommendations

8. The papers for this meeting provide an analysis of the following topics:
 - (a) Scope exclusion for credit cards—see Agenda Paper 2A *Scope exclusion from IFRS 17 for some credit card contracts*;
 - (b) Transition—risk mitigation option—see Agenda Paper 2B *Transition—the prohibition from applying the risk mitigation option retrospectively*;
 - (c) Business combinations—see Agenda Paper 2C *Business combinations—contracts acquired in their settlement period*;
 - (d) Interim financial statements—see Agenda Paper 2D *Interim financial statements*; and
 - (e) Insurance acquisition cash flows—transition and business combinations requirements—see Agenda Paper 2E *Asset for insurance acquisition cash flows—transition and business combinations*.
9. The following paragraphs summarise the staff recommendations in these papers.

Scope exclusion from IFRS 17 for some credit card contracts (Agenda Paper 2A)

10. In Agenda Paper 2A the staff recommend the Board:
- (a) confirm the proposed scope exclusion from IFRS 17, with some changes, as follows:

An entity is required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. If the entity provides the insurance coverage to the customer as part of the contractual terms of such a credit card contract, the entity is required to:

 - (i) separate that insurance coverage component and apply IFRS 17 to it; and
 - (ii) apply other applicable IFRS Standards, such as IFRS 9 *Financial Instruments*, to the other components of the credit card contract.
 - (b) extend the amendment described in paragraph 10(a) of this paper to other contracts that provide credit or payment arrangements that are similar to such credit card contracts if those similar contracts meet the definition of an insurance contract and 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—the prohibition from applying the risk mitigation option retrospectively (Agenda Paper 2B)

11. In Agenda Paper 2B the staff recommend the Board retain, unchanged, the prohibition from applying the risk mitigation option retrospectively.

Business combinations—contracts acquired in their settlement period (Agenda Paper 2C)

12. In Agenda Paper 2C the staff recommend the Board retain, unchanged, the requirements in IFRS 17 for insurance contracts acquired in their settlement period in

a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 *Business Combinations*.

Interim financial statements (Agenda Paper 2D)

13. In Agenda Paper 2D the staff recommend the Board amend the requirement relating to interim financial statements in paragraph B137 of IFRS 17 to require an entity to:
- (a) make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period; and
 - (b) apply its choice of accounting policy to all insurance contracts issued and reinsurance contracts held (ie accounting policy choice at entity level).

Asset for insurance acquisition cash flows—transition and business combinations (Agenda Paper 2E)

14. In Agenda Paper 2E the staff recommend the Board amend IFRS 17 as set out in paragraphs 15–19 of this paper.

Transition to IFRS 17

15. The staff recommend the Board amend IFRS 17 to require an entity to identify, recognise and measure an asset for insurance acquisition cash flows at the transition date.
16. In the modified retrospective approach, the staff recommend the Board amend IFRS 17 to require an entity, to the extent the entity does not have reasonable and supportable information to apply a retrospective approach, to measure an asset for insurance acquisition cash flows using information available at the transition date by:
- (a) identifying the amount of insurance acquisition cash flows paid before the transition date; and
 - (b) allocating the amount determined in paragraph 16(a) of this paper to:
 - (i) groups of insurance contracts that are recognised at the transition date (to adjust the contractual service margin of those groups); and

- (ii) groups of insurance contracts that are expected to be recognised after the transition date (to recognise an asset for insurance acquisition cash flows).
17. In the absence of reasonable and supportable information necessary to apply the modification described in paragraph 16 of this paper, an entity applying the modified retrospective approach would be required to determine the amount described in paragraph 16(a) of this paper as nil at the transition date.
18. In the fair value approach, the staff recommend the Board amend IFRS 17 to require an entity to recognise an asset for insurance acquisition cash flows measured as the amount of insurance acquisition cash flows that the entity would incur at the transition date if the entity had not already paid those insurance acquisition cash flows.

Transfer of insurance contracts that do not form a business and business combinations within the scope of IFRS 3

19. The staff recommend the Board amend IFRS 3 and IFRS 17 to require an entity that acquires insurance contracts in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3 to recognise a separate asset for insurance acquisition cash flows measured at fair value at the acquisition date.

Next steps

20. The staff expect to present papers to the Board on the remaining topics for discussion at a future meeting. 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	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	Future meeting
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	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	AP2B January 2020
Minor amendments	Future meeting
Level of aggregation—annual cohorts for some specific insurance contracts	Future meeting
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)	AP2E January 2020 (insurance acquisition cash flows) Future meeting (other)