IFRIC *Update* June 2022

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings. Past *Updates* can be found in the IFRIC *Update* archive.

The Committee met on 14–15 June 2022, and discussed:

Committee's tentative agenda decisions

- Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Paper 6

Agenda decisions for the IASB's consideration

- Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 *Financial Instruments*)—Agenda Paper 3
- Negative Low Emission Vehicle Credits (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)—Agenda Paper 4
- Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)—Agenda Paper 5
- Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)—Agenda Paper 7

Other matters

- Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*)—Agenda Paper 2
- Work in Progress—Agenda Paper 8

Addendum to IFRIC Update—Committee's agenda decisions

- Negative Low Emission Vehicle Credits (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)—Agenda Paper 4
- Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)—Agenda Paper 5
- Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)—Agenda Paper 7

Related information

The work plan

Supporting consistent application

Committee's tentative agenda decisions

The Committee discussed the following matters and tentatively decided not to add standard-setting projects to the work plan. The Committee will reconsider these tentative decisions, including the reasons for not adding standard-setting projects, at a future meeting. The Committee invites comments on the tentative agenda decisions. Interested parties may submit comments on the open for comment page. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. The Committee will consider all comments received in writing up to and including the closing date; comments received after that date will not be analysed in agenda papers considered by the Committee.

Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Paper 6

The Committee received a request about how to account for insurance contracts that generate cash flows in more than one currency.

The request asked:

a. whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and
b. how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts).

Identifying portfolios of insurance contracts

IFRS 17 requires an entity to recognise and measure groups of insurance contracts. The first step in establishing groups of insurance contracts is to identify portfolios of insurance contracts. Paragraph 14 of IFRS 17 states that 'a portfolio comprises contracts subject to similar risks and managed together'. The request asks whether currency exchange rate risks are among the risks an entity considers when assessing whether insurance contracts are 'subject to similar risks'.

IFRS 17 defines financial risk and insurance risk (a non-financial risk). Financial risk is defined to include 'the risk of a possible future change in … [a] currency exchange rate'. When IFRS 17 requires an entity to consider or reflect only particular risks (for example, only non-financial risk), it explicitly refers to the risks to be considered or reflected. Consequently, the Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' do not mean 'identical risks'. An entity could therefore identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

Measuring a multi-currency group of insurance contracts

An entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. Paragraph 30 of IFRS 17 states that 'when applying IAS 21 … to a group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the contractual service margin, as a monetary item'.

Paragraph 8 of IAS 21 defines monetary items as 'units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency' and paragraph 20 describes a foreign currency transaction as 'a transaction that is denominated or requires settlement in a foreign currency'. Paragraphs 21–24 of IAS 21 require an entity:

a. to recognise on initial recognition a foreign currency transaction in the functional currency at the spot exchange rate at the date of the transaction;
b. to determine the carrying amount of a monetary item in conjunction with other relevant Accounting Standards; and
c. to translate at the end of the reporting period foreign currency monetary items into the functional currency using the closing rate.

The requirements in both IFRS 17 and IAS 21 refer to transactions or items that are denominated or require settlement in a single currency. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items that generate cash flows in more than one currency.

Therefore, the Committee observed that, in measuring a multi-currency group of insurance contracts, an entity:

a. applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the contractual service margin—as a monetary item.
b. applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the contractual service margin—at the closing rate (or rates).
c. develops an accounting policy to determine on initial recognition the currency or currencies in which the group—including the contractual service margin—is denominated. The entity uses its judgement in developing and applying an accounting policy based on its specific circumstances and the terms of the contracts in the group. The accounting policy must result in information that is relevant and reliable (as described in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and be applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8). The entity could determine that the group—including the contractual service margin—is denominated in a single currency or in the multiple currencies of the cash flows in the group. The entity cannot simply deem the contractual service margin for the group to be denominated in the functional currency because simply deeming such a denomination would, in effect, fail to treat the contractual service margin as a monetary item as required by paragraph 30 of IFRS 17.

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. Accordingly, if an entity were to determine that for the purpose of applying IAS 21 the contractual service margin is denominated in the multiple currencies of the cash flows in the group, the entity would:

a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount, after translation into the functional currency; and
b. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future.

In the light of its analysis, the Committee considered whether to add to the work plan a standard-setting project on how to account for the foreign currency aspects of insurance contracts. The Committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee could address it in an efficient manner. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Agenda decisions for the IASB's consideration

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 *Financial Instruments*)—Agenda Paper 3

The Committee considered feedback on the tentative agenda decision published in the September 2021 IFRIC *Update* about the recognition of cash received via an electronic transfer system as settlement for a financial asset.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB will consider this agenda decision at a future meeting. If the IASB does not object to the agenda decision, it will be published in an addendum to this IFRIC *Update*.

Negative Low Emission Vehicle Credits (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)—Agenda Paper 4

The Committee considered feedback on the tentative agenda decision published in the February 2022 IFRIC *Update* about whether particular measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability in IAS 37.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB will consider this agenda decision at its July 2022 meeting. If the IASB does not object to the agenda decision, it will be published in July 2022 in an addendum to this IFRIC *Update*.

Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)—Agenda Paper 5

The Committee considered feedback on the tentative agenda decision published in the March 2022 IFRIC *Update* about whether a special purpose acquisition company that applies IAS 32 classifies public shares it issues as financial liabilities or equity instruments.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB will consider this agenda decision at its July 2022 meeting. If the IASB does not object to the agenda decision, it will be published in July 2022 in an addendum to this IFRIC *Update*.

Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)—Agenda Paper 7

The Committee considered feedback on the tentative agenda decision published in the March 2022 IFRIC *Update* about a group of annuity contracts—specifically, how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB will consider this agenda decision at its July 2022 meeting. If the IASB does not object to the agenda decision, it will be published in July 2022 in an addendum to this IFRIC *Update*.

Other matters

Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*)—Agenda Paper 2

The Committee discussed a request about the accounting applied by a parent, whose functional currency is the currency of a hyperinflationary economy, when it consolidates a subsidiary, whose functional currency is the currency of a non-hyperinflationary economy.

The Committee concluded that, applying the requirements in IAS 21 and IAS 29 to the submitted fact pattern, the parent could restate or not restate the subsidiary's results and financial position in terms of the measuring unit current at the end of the reporting period.

Next step

The Committee will decide whether to add a standard-setting project to the work plan at a future meeting after considering information to be obtained from further research and outreach on the topic.

Work in Progress—Agenda Paper 8

The Committee received an update on the status of open matters not discussed at its meeting in June 2022.

Addendum to IFRIC *Update*—Committee's agenda decisions

Agenda decisions, in many cases, include explanatory material. Explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Accounting Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (for example, an entity may need to obtain new information or adapt its systems to implement a change). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Accounting Standards.

The Committee discussed the following matters and decided not to add standard-setting projects to the work plan.

Negative Low Emission Vehicle Credits (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)—Agenda Paper 4

Published in July 2022[1]

The Committee received a request asking whether particular measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability in IAS 37.

The request

The request described government measures that apply to entities that produce or import passenger vehicles for sale in a specified market. Under the measures, entities receive positive credits if, in a calendar year, they have produced or imported vehicles whose average fuel emissions are lower than a government target. Entities receive negative credits if, in that year, they have produced or imported vehicles whose average fuel emissions are higher than the target.

The measures require an entity that receives negative credits for one year to eliminate these negative credits by obtaining and surrendering positive credits. The entity can obtain positive credits either by purchasing them from another entity or by generating them itself in the next year (by producing or importing more low-emission vehicles). If the entity fails to eliminate its negative credits, the government can impose sanctions on the entity. These sanctions would not require payment of fines or penalties, or any other outflow of resources embodying economic benefits, but could deny the entity opportunities in the future, for example by restricting the entity's access to the market.

The request considered the position of an entity that has produced or imported vehicles with average fuel emissions higher than the government target, and asked whether such an entity has a present obligation that meets the definition of a liability in IAS 37.

[1] In accordance with paragraph 8.7 of the *Due Process Handbook*, at its July 2022 meeting, the IASB discussed, and did not object to, this agenda decision.

Applicable requirements

Paragraph 10 of IAS 37:

a. defines a liability as 'a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits';
b. distinguishes legal obligations (which derive from a contract, legislation or other operation of law) from constructive obligations (which derive from an entity's actions); and
c. defines an obligating event as 'an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation'.

An entity has no realistic alternative to settling an obligation only where settlement can be enforced by law or, in the case of a constructive obligation, where the entity's actions have created valid expectations in other parties that the entity will discharge the obligation (paragraph 17 of IAS 37).

The Committee observed that, in determining whether it has a liability, the entity described in the request would consider:

a. whether settling an obligation to eliminate negative credits would result in an outflow of resources embodying economic benefits;
b. which event creates a present obligation to eliminate negative credits; and
c. whether the entity has no realistic alternative to settling the obligation.

The Committee's conclusions

Outflow of resources embodying economic benefits

An entity can settle an obligation to eliminate negative credits either by purchasing credits from another entity or by generating positive credits itself in the next year. The Committee concluded that either method of settling the obligation would result in an outflow of resources embodying economic benefits. These resources are the positive credits the entity would surrender to eliminate the negative balance. The entity could otherwise have used self-generated positive credits for other purposes—for example, to sell to other entities with negative credits.

The event that creates a present obligation

The definition of a liability in IAS 37 requires an entity to have a 'present obligation … arising from past events'. Paragraph 19 of IAS 37 adds that it is only those obligations arising from past events existing independently of an entity's future actions that meet the definition of a liability. Two IFRIC Interpretations of IAS 37 provide further relevant requirements—they address specific types of government-imposed charges and specify which events give rise to a present obligation for these types of charges:

a. IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* addresses a charge for the cost of waste management. Legislation links the charge to an entity's participation in a specified market in a specified period. The consensus in IFRIC 6 is that an obligation arises when an entity conducts the activity to which the charge is linked.

b. IFRIC 21 *Levies* addresses levies imposed by governments. The consensus in IFRIC 21 is that the event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified in the applicable legislation.

In the fact pattern described in the request, the activity that triggers a requirement to eliminate negative credits (or in other words, the activity to which the measures link that requirement) is the production or import of vehicles with average fuel emissions higher than the government target. If in a calendar year an entity has produced or imported vehicles with average fuel emissions higher than the government target, an obligation:

a. has arisen from past events.
b. exists independently of the entity's future actions (the future conduct of its business). The entity's future actions will determine only the means by which the entity settles its present obligation—whether it purchases positive credits from another entity or generates positive credits itself by producing or importing more low-emission vehicles.

Therefore, the Committee concluded that, in the fact pattern described in the request, the activity that gives rise to a present obligation is the production or import of vehicles whose fuel emissions, averaged for all the vehicles produced or imported in that calendar year, are higher than the government target.

The Committee observed that a present obligation could arise at any date within a calendar year (on the basis of the entity's production or import activities to that date), not only at the end of the calendar year.

No realistic alternative to settling an obligation

The Committee concluded that the measures described in the request could give rise to a legal obligation:

a. obligations that arise under the measures derive from an operation of law; and
b. the sanctions the government can impose under the measures would be the mechanism by which settlement may be enforceable by law.

An entity would have a legal obligation that is enforceable by law if accepting the possible sanctions for non-settlement is not a realistic alternative for that entity.

The Committee observed that determining whether accepting sanctions is a realistic alternative for an entity requires judgement—the conclusion will depend on the nature of the sanctions and the entity's specific circumstances.

The possibility of a constructive obligation

The Committee concluded that, if an entity determines that it has no legal obligation to eliminate its negative credits, it would then need to consider whether it has a constructive obligation to do so. It would have a constructive obligation if it has both:

a. in a calendar year, produced or imported vehicles with average fuel emissions higher than the government target; and

b. taken an action that creates valid expectations in other parties that it will eliminate the resulting negative credits—for example, made a sufficiently specific current statement that it will do so.

Other IAS 37 requirements

The request asked only whether the government measures give rise to obligations that meet the definition of a liability in IAS 37. The Committee observed that, having identified such an obligation, an entity would apply other requirements in IAS 37 to determine how to measure the liability. The Committee did not discuss these other requirements.

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine whether, in the fact pattern described in the request, it has an obligation that meets the definition of a liability in IAS 37. Consequently, the Committee decided not to add a standard-setting project to the work plan.

Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)—Agenda Paper 5

Published in July 2022[2]

The Committee received a request about whether a special purpose acquisition company (SPAC), in applying IAS 32, classifies public shares it issues as financial liabilities or equity instruments. A SPAC is a listed entity that is established to acquire a yet-to-be-identified target entity.

The request described a SPAC that issues two classes of shares: founder shares (Class A) and public shares (Class B). The Class B shareholders:

a. individually have the contractual right to demand a reimbursement of their shares if the SPAC's shareholders approve the acquisition of a target entity.
b. are reimbursed if the SPAC is liquidated. The SPAC is liquidated if no target entity is acquired within a specified period.
c. along with the Class A shareholders, have the contractual right to extend the SPAC's life indefinitely if no target entity is acquired.

The request asked about the effect of the shareholders' contractual right to extend the SPAC's life indefinitely on the classification of the Class B shares—in particular, whether the shareholders' decision to extend the SPAC's life is considered to be within the control of the SPAC. This assessment is needed to determine whether the SPAC has the unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.

[2] In accordance with paragraph 8.7 of the *Due Process Handbook*, at its July 2022 meeting, the IASB discussed, and did not object to, this agenda decision.

The Committee observed that IAS 32 includes no requirements on how to assess whether a decision of shareholders is treated as a decision of the entity. The Committee acknowledged that similar questions about shareholder decisions arise in other circumstances. Assessing whether a decision of shareholders is treated as a decision of the entity has been identified as one of the practice issues the International Accounting Standards Board (IASB) will consider in its Financial Instruments with Characteristics of Equity (FICE) project. The Committee concluded that the matter described in the request is, in isolation, too narrow for the IASB or the Committee to address in a cost-effective manner. Instead, the IASB should consider the matter as part of its broader discussions on the FICE project. For these reasons, the Committee decided not to add a standard-setting project to the work plan. The Committee nonetheless noted the importance of the SPAC disclosing information in the notes to its financial statements about the classification of its public shares.

Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)—Agenda Paper 7

Published in July 2022[3]

The Committee received a request about a group of annuity contracts. The request asked how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

Fact pattern

The request described a group of annuity contracts under which the policyholder of each contract:

a. pays the premium up front and has no right to cancel the contract or seek a refund;
b. receives a periodic payment from the start of the annuity period for as long as the policyholder survives (for example, a fixed amount of CU100 for each year that the policyholder survives); and
c. receives no other services under the contract (for example, no other types of insurance coverage or investment-return service).

The fact pattern referred to groups of contracts for which the annuity period starts immediately after contract inception ('immediate annuity') and also those for which the annuity period starts on a specified date after contract inception ('deferred annuity')—for example, a contract entered into in 2022 for which the annuity period starts in 2042.

Applicable requirements in IFRS 17

Paragraph 44(e) of IFRS 17 requires an entity to adjust the carrying amount of the contractual service margin for the amount recognised as insurance revenue because of the transfer of insurance contract services in the period. The entity determines this amount by allocating the contractual service margin over the current and remaining coverage period applying paragraph B119 of IFRS 17.

[3] In accordance with paragraph 8.7 of the *Due Process Handbook*, at its July 2022 meeting, the IASB discussed, and did not object to, this agenda decision.

Paragraph B119 of IFRS 17 states that an entity recognises in profit or loss in each period an amount of the contractual service margin to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount is determined by:

a. identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.
b. allocating the contractual service margin at the end of the period equally to each coverage unit provided in the current period and expected to be provided in the future.
c. recognising in profit or loss the amount allocated to coverage units provided in the period.

The definition of insurance contract services in Appendix A to IFRS 17 describes insurance coverage as 'coverage for an insured event'. An insured event is defined as 'an uncertain future event covered by an insurance contract that creates insurance risk'.

Methods for applying the requirements to the fact pattern

The request sets out two methods of determining, for each contract in the group, the quantity of the benefits of insurance coverage provided in the current period and expected to be provided in the future.

Method 1

Current period	Expected to be provided in the future
Determined based on the annuity payment the policyholder is able to validly claim in the current period.	Determined based on the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).

Method 2

Current period	Expected to be provided in the future
Determined based on the total of: (i) the annuity payment the policyholder is able to validly claim in the current period, and (ii) the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).	Determined based on the present value of the balances of the expected future annuity payments as at the beginning of each future period, until the end of the coverage period.

Applying paragraph B119 of IFRS 17

Applying paragraph B119(a) of IFRS 17, an entity:

a. identifies the insurance contract services to be provided under the group of contracts. In the fact pattern described in the request, insurance coverage for survival is the only insurance contract service provided under the group of contracts.

b. considers the expected coverage period for each contract in the group. In the fact pattern described in the request, the expected coverage period would reflect the entity's expectations of how long the policyholder will survive.
c. considers the quantity of the benefits provided under each contract in the group.

IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in paragraph B119 of reflecting the insurance contract services provided in each period. In selecting a method that meets that principle, an entity considers (a) the benefits provided to the policyholder under a contract with respect to the insurance contract services provided, and (b) when those benefits are provided. Different methods may achieve the principle depending on the facts and circumstances.

In the fact pattern described in the request, the terms of the annuity contract provide the policyholder with the right to claim a periodic amount (CU100 in the example) from the start of the annuity period for as long as the policyholder survives. Consequently, the Committee observed that:

a. the benefits provided to the policyholder under the contract with respect to the insurance coverage for survival are the policyholder's right to claim a periodic amount for as long as they survive. The policyholder also benefits from transferring to the entity the risk related to the uncertainty about how long they will survive. However, IFRS 17 requires an entity to account for that insurance risk in the risk adjustment for non-financial risk, separately from the contractual service margin.
b. the benefits of being able to claim a periodic amount are provided to the policyholder in each year of the policyholder's survival from the start of the annuity period:
    i. the policyholder has no right to claim an amount for surviving in periods before the start of the annuity period. The entity accepts insurance risk from inception of the contract but provides no benefits to the policyholder in the form of amounts that can be claimed until the annuity period starts. Paragraphs BC140-BC141 of the Basis for Conclusions on IFRS 17 explain that an entity can accept insurance risk before it is obliged to perform an insurance coverage service.
    ii. survival in one year does not provide the policyholder with the right to claim amounts that compensate the policyholder for surviving in future years; that is, the policyholder's right to claim amounts in future years is contingent on the policyholder surviving in those future years.

The Committee's conclusion

The Committee concluded that, in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, a method based on:

a. the amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period by:
    i. assigning a quantity of the benefits only to periods in which an insured event (survival of the policyholder) can occur, resulting in a policyholder having a right to make a valid claim; and
    ii. aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim if an insured event occurs in that period.
b. the present value of expected future annuity payments (Method 2) does not meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period because it would:

i. assign a quantity of the benefits to periods in which no insured event occurs (for example, to the deferral period of a deferred annuity contract); and
ii. misrepresent the quantity of the benefits provided in a period by considering amounts the policyholder is able to claim and benefit from only in future periods.

The request asked only about the recognition of the contractual service margin in profit or loss. For the annuity contracts described in the request, the entity accepts insurance risk related to the uncertainty about how long the policyholder will survive. The Committee noted that the entity would apply other requirements in IFRS 17 to recognise in profit or loss—separately from the contractual service margin—the risk adjustment for non-financial risk. The risk adjustment for non-financial risk represents the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. The Committee did not discuss these other requirements.

Under a group of annuity contracts, an entity could provide other insurance contract services to policyholders in addition to insurance coverage for survival—for example, insurance coverage for death in a deferral period or an investment-return service. The conclusion in this agenda decision applies to insurance coverage for survival, regardless of other services provided. If the contracts provide other insurance contract services, the entity would also need to consider the pattern of transfer of these services to the policyholder.

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contracts as described in the request to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period. Consequently, the Committee decided not to add a standard-setting project to the work plan.