

Final sweep issues approved and comment period set **The ballot process on the proposed amendments to IFRS 17 completes**

Francesco Nagari, Deloitte Global IFRS Insurance Leader | 23 May 2019

Agenda

- Highlights of the IASB meeting on 15 May 2019
- Detailed analysis of the IASB discussions and decisions reached
- A few additional observations from the TRG meeting on 4 April 2019
- Next steps

Highlights of the IASB meeting on 15 May 2019

- The IASB addressed four sweep issues. Two of these are significant: **Investment-return service** and **Mutual entities issuing insurance contracts**.
 - Revised the tentative decision to establish in IFRS 17 that an **investment-return service** exists only when an insurance contract includes an investment component, stating instead that an **investment-return service** exists in specified circumstances, sometimes even **without an investment component**. This revision represent a significant improvement to IFRS 17.
 - **No amendments** of IFRS 17 or its Basis for Conclusions (BC) will be produced to clarify that the considerations in the BC apply only to some **mutual entities**, except for the addition of a small footnote in the BC.
- The Board approved a comment period of 90 days for the Exposure Draft of proposed amendments to IFRS 17.
- Finally, the IASB provided an update on the discussions of the Transition Resource Group (TRG) for IFRS 17 Insurance Contracts meeting, held on 4 April 2019, confirming no additional TRG meetings are planned for now.

Sweep Issues

A- Investment return service

- At its January 2019 meeting, the Board tentatively decided to amend IFRS 17 so that in the general model the CSM 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. The Board also tentatively decided to establish that **an investment-return service** can exist only when **an insurance contract includes an investment component**.
- The Staff recommended the Board revise its tentative decision to establish in IFRS 17 that an investment-return service exists only when an insurance contract includes an investment component, to instead specify that an investment-return service exists if, and only if:
 - (a) there is an investment component, or the policyholder has a right to withdraw an amount;
 - (b) the investment component or amount the policyholder has a right to withdraw is expected to include a positive investment return; and
 - (c) the entity expects to perform investment activity to generate that positive investment return.
- The Board **voted unanimously in favour** of the Staff recommendation under the premise that the Standard would explain what is meant by 'positive' investment return.

Sweep Issues

B- Amendment to clarify that an entity need not separately disclose refunds of premiums

- The Board tentatively decided to **amend** IFRS 17 to clarify the definition of an investment component, by stating that it is the amounts that an insurance contract requires an entity to repay to a policyholder in all circumstances. TRG members were concerned that this proposed amendment requires an entity to separate the amount payable when a claim occurs into:
 - The amount that would have been paid if the policyholder cancelled the contract (premium refunds)
 - The amount that would have been paid if the policyholder did not cancel the contract or make a claim (investment component)
 - The remainder (insurance service expense)
- The Staff recommended to **amend** IFRS 17:103 to clarify that, in the reconciliation from the opening to the closing balance of the insurance contract liability, an entity need not disclose premium refunds separately.
- The Board **voted unanimously in favour** of the Staff recommendation.

C- Amendment to clarify that changes resulting from cash flows of amounts lent to policyholders and waivers of amounts lent to policyholders are excluded from insurance revenue

- When an insurance contract includes a loan component, the payment or receipt of amounts lent to and repaid by policyholders should not give rise to insurance revenue. IFRS 17 omits the exclusion of these amounts from changes in the liability for remaining coverage that give rise to insurance revenue.
- The Staff recommended the Board **amend** IFRS 17:B123(a) to add this exclusion and therefore clarify that those amounts are **excluded from insurance revenue**.
- The Board **voted unanimously in favour** of the Staff recommendation.

Sweep Issues

D- Mutual entities issuing insurance contracts

- Some stakeholders were concerned that with regard to mutual entities the explanations included in the Basis for Conclusions (BC) on IFRS 17 and the educational materials developed by the Staff do not adequately reflect the nature of some mutual entities and might be used as prescriptive guidance for mutual entities applying IFRS Standards.
- To address their concerns, those stakeholders suggested the Board clarify that the consideration in the BC on IFRS 17 apply only to some mutual entities and develop further considerations for the treatment of other types of mutual entities. The Staff recommended the Board **not amend** IFRS 17 to develop specific requirements for mutual entities or amend the BC on IFRS 17.
- Many Board members struggled with retaining the guidance in the BC. The term '**mutual entity**' is applied differently in different jurisdictions and deleting the paragraphs or amending them to emphasise that they do not apply to all mutual entities would alleviate confusion. The Staff replied that the requirements in IFRS 17 apply to all entities, whether they call themselves a mutual or not. Some Board members agreed with the Staff that the BC does not state anything incorrect.
- The Board **voted unanimously in favour** of the Staff recommendation under the premise that a footnote would be added to avoid any confusion in the BC.

Comment period for Exposure Draft Amendments to IFRS 17

- The **Exposure Draft** responds to the concerns and implementation challenges raised by stakeholders since IFRS 17 was issued in May 2017. In considering possible amendments to IFRS 17, the Board noted that:
 - (a) the application of IFRS 17 is urgent to address the many inadequacies in the wide range of insurance accounting practices used today applying IFRS 4 *Insurance Contracts*; and
 - (b) delaying the effective date of a recently issued Standard that entities are in the process of implementing risks disrupting their implementation processes.
- The Exposure Draft will propose **12 targeted amendments** to IFRS 17 in eight areas. In April 2019, the Board confirmed that these amendments:
 - (a) are needed to support entities implementing the Standard.
 - (b) do not result in significant loss of useful information relative to that which would otherwise be provided by IFRS 17 to users of financial statements. The amendments do not change the fundamental principles of the Standard.
 - (c) do not unduly disrupt implementation processes already under way or do not risk undue delays in the effective date of IFRS 17.
- Thus, the proposed amendments are both urgent and narrow in scope.

Comment period for Exposure Draft Amendments to IFRS 17 (continued)

- The Staff recommend the Board set a shortened comment period of **90 days for the Exposure Draft**. A comment period of 90 days would:
 - (a) be the same as the comment period set for the Exposure Draft of the narrow-scope amendments to IFRS 15 Revenue from Contracts with Customers that the Board issued in July 2015. As for that Exposure Draft, a 90-day comment period would balance the need to allow sufficient time for stakeholders to respond to the targeted amendments and, yet, also provide clarity about the proposed amendments on a timely basis.
 - (b) facilitate issuing the amendments to IFRS 17 in the second quarter of 2020—including confirming the mandatory effective date of 1 January 2022—to minimise disruption to implementation.
- In accordance with paragraph 6.7 of the Due Process Handbook, the Board can set a comment period of less than 120 days only after consulting, and obtaining approval from, the Due Process Oversight Committee (DPOC). At its meeting on 23 April 2019, the DPOC gave approval for a shortened comment period of 90 days for the forthcoming Exposure Draft of proposed amendments to IFRS 17.

Do you agree with a comment period of 90 days for the Exposure Draft of proposed amendments to IFRS 17?

- The Board **voted unanimously** in favour of the Staff recommendation

Summary of the Transition Resource Group for IFRS 17 Insurance Contracts meeting held on 4 April 2019

From February 2018 to April 2019 there have been **four TRG meetings** covering all **127 submissions** up to April 2019. The TRG Chair noted that:

- (a) many submissions for the last two TRG meetings cover mechanical or narrow aspects of the requirements in IFRS 17 or include specific fact patterns as many entities are now at an advanced stage of IFRS 17 implementation.
- (b) at present, **no further TRG meetings are scheduled**. Stakeholders can continue to submit implementation questions that meet the submissions criteria to the TRG as those questions arise. **A TRG meeting may be scheduled in the future depending on the nature of any new submissions** and whether discussion of those submissions would provide helpful education to stakeholders at this stage of implementing IFRS 17, without disrupting implementation processes under way.
- (c) comments or questions relating to the forthcoming **Exposure Draft of proposed amendments to IFRS 17** should be included in **comment letters** to that Exposure Draft.

Summary of the Transition Resource Group for IFRS 17 Insurance Contracts meeting held on 4 April 2019

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17

S86 - Definition of a portfolio when determining the boundary of a contract

- Does the reference to a 'portfolio of insurance contracts' in paragraph 34(b) of IFRS 17 corresponds to a 'portfolio of insurance contracts' as defined in Appendix A of IFRS 17?

Response: A 'portfolio of insurance contracts' is a defined term in Appendix A of IFRS 17. There is no difference between the use of that defined term in paragraph 14 of IFRS 17 and paragraph 34 of IFRS 17.

S96 & S107 - Definition of an insurance contract and contract boundary

- S96 asks whether the contract boundary requirements in paragraphs 33–35 of IFRS 17 apply to the assessment of whether a contract meets the definition of an insurance contract, or whether they apply only to the measurement of contracts that have already been determined to meet the definition of an insurance contract.
- S107: How a contract which transfers insurance risk after a period of time, as discussed in paragraph B24 of IFRS 17, should be classified?

Response: For a contract to meet the definition of an insurance contract there needs to be a transfer of significant insurance risk. Paragraph B24 of IFRS 17 explains that contracts that transfer insurance risk only after an option is exercised do not meet the definition of insurance contracts at inception.

A contract which only transfers insurance risk after a period of time is different than an insurance contract that provides an option to add further insurance coverage (refer to Agenda Paper 3 of the May 2018 TRG meeting).

Summary of the Transition Resource Group for IFRS 17 Insurance Contracts meeting held on 4 April 2019

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17

S98 – Exercising an option included within the contract

- How the exercise of an option to convert a contract to a different type of contract should be treated?

Response: Several discussions at previous TRG meetings are helpful in considering the accounting for such contracts. These include:

- *Agenda Paper 3 at the May 2018 TRG meeting*
- *Agenda Paper 5 at the September 2018 TRG meeting*

The assessment of whether an insurance contract is accounted for applying the general model or the VFA is made at inception applying the definition of an insurance contract with direct participation features in Appendix A of IFRS 17 to a contract in its entirety. See S107 for contracts that are not insurance contracts at inception.

Summary of the Transition Resource Group for IFRS 17 Insurance Contracts meeting held on 4 April 2019

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria

S111 - Accounting for the reinstatement of a lapsed contract

- The submission describes a contract with a feature that provides a policyholder of a contract that lapsed an option to reinstate the contract within a contractually specified period, as long as the contract had not been surrendered. A contract lapses when the policyholder fails to pay premiums.
- The submission considers the liability related to contract's reinstatement as an insurance liability and questions its classification as liability for remaining coverage or liability for incurred claims. The submission also questions the accounting for experience adjustments related to reinstatement of contracts.

Response: Providing detailed application guidance for specific transactions is not within the remit of the TRG.

Summary of the Transition Resource Group for IFRS 17 Insurance Contracts meeting held on 4 April 2019

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17

S117 - Premium waiver presentation in profit or loss

- Should an entity exclude from revenue premiums waived as a result of an insured event or account for them as part of insurance service expense (as an incurred claim)?

Response: Insured events give rise to claims. To the extent that a premium waiver results from an insured event, it is a claim. IFRS 17 requires an entity to recognise insurance service expenses for claims incurred in the period regardless of whether claims were settled net of premiums due. Treating premium waivers as claims is therefore consistent with the requirements of IFRS 17.

- September TRG discussed whether a **premium waiver** is an insured event. In the case discussed, it was concluded that it was an insured event and it would be accounted for as a claim.
- In that case, the claim should be presented gross of the insurance revenue in the P&L.
- The occurrence of the event that actually triggers the waiver would result in **future lost premiums** being reported as **insurance service expenses** with the difference to the associated expected value reported as an experience variance in the period (disclosed under IFRS 17:104(b)(iii)).

Summary of the Transition Resource Group for IFRS 17 Insurance Contracts meeting held on 4 April 2019

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria

S122 - Changes in fulfilment cash flows as a result of inflation

- The submission questions whether changes in fulfilment cash flows as a result of changes in inflation assumptions are treated as changes in non-financial risk (and adjust the CSM) or changes in financial risk for contracts measured under the general model.

Response: Paragraph B128 of IFRS 17 requires that for the purpose of IFRS 17:

(a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; and

(b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk.

Therefore, cash flows that an entity expects to increase with an index are considered to be an assumption that relates to financial risks, even if they are not contractually linked to a specified index.

- Several TRG members expressed concern for cases where preparers are using inflation indices to anticipate their future expense base for the fulfilment cash flows, e.g. an expectation that salaries will increase over time.
- Contrary to the Staff analysis, that variable was not seen as a financial risk. However, one TRG member said that this just means being careful in labelling internal assumptions and not calling them inflation based.

Next steps

IASB

- The IASB Technical Plan states that the **Exposure Draft amending IFRS 17** will be published in **June 2019**.
- There are no IASB meeting on IFRS 17 expected till after the comment period expires sometimes in September 2019.

Contact details

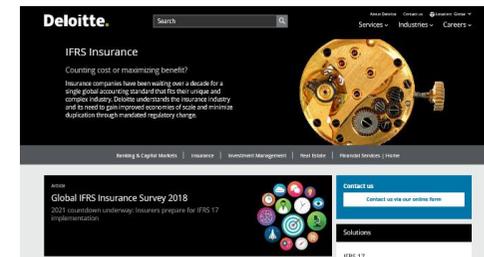
Francesco Nagari

Deloitte Global IFRS Insurance Leader

+852 2852 1977 or fnagari@deloitte.co.uk

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