

The IASB completes its first round of IFRS 17 amendments

Only the balance sheet presentation is amended

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Agenda

- Highlights of the IASB meeting on 13 December 2018
- Detailed analysis of the IASB discussion and of the decisions reached
- Next steps

Highlights of the IASB meeting on 13 December 2018

- The IASB has now kicked off the analysis of the 25 concerns identified for potential amendment at its October meeting when the criteria for assessing them were approved unanimously
- Two concerns on the timeline were dealt with at the November IASB meeting with the approval of a 12 months delay on IFRS 17 effective date and a parallel extension of the IFRS 9 deferral
- The IASB had an education session on reinsurance concerns on 11 December 2018
- The set of agenda papers for this meeting covered 13 concerns. Only one has resulted in an approved amendment: the presentation of insurance contracts in the balance sheet will be changed to be done at a higher level of aggregation – portfolio instead of group of contracts
- Little disagreement was observed on the decisions to not make amendments for any of the other 12 concerns tabled
- The remaining 10 concerns will be covered in the IASB meetings in January and February 2019, five of these have been highlighted by the IASB Staff as concerns where valid amendments could be passed

Agenda Paper 2A Presentation of insurance contracts on the statement of financial position

15 - Presentation in the statement of financial position | Separate presentation of groups of assets and groups of liabilities & 9 - Measurement | Premium allocation approach: premiums received

- Those requirements reflect all the rights and obligations arising from a group of insurance contracts as a single asset or liability, i.e. **the unit of account for IFRS 17 is a group of insurance contracts.**
- Premium allocation approach (“PAA”) is an optional simplification of the general model to measure the liability for remaining coverage of contracts that meet specified criteria.
- Balance sheet groups would combine the liability/asset for remaining coverage (both PAA and general model/VFA) with the liability for incurred claims (if any).
- The **need to allocate cash flows to the individual groups represents a significant implementation challenge** for many preparers who have several different systems currently allocating cash at a much higher aggregation level, reflecting the way these cash flows are managed.
- Stakeholder proposals range from amending the level of aggregation for the presentation in the statement of financial position to be a portfolio, rather than group, to amending the measurement requirements for PAA.

Do you agree that the Board should amend paragraph 78 of IFRS 17 as follows?

An entity shall present separately in the statement of financial position the carrying amount of groups portfolios of....

Agenda Paper 2A Presentation of insurance contracts on the statement of financial position

15 - Presentation in the statement of financial position | Separate presentation of groups of assets and groups of liabilities & 9 - Measurement | Premium allocation approach: premiums received

- IASB Staff noted that:
 - there is merit in providing a **practical relief for entities** by requiring entities to present insurance contracts at a **higher level of aggregation than the group level**.
 - amending IFRS 17 in this way **would not unduly disrupt implementation processes and might significantly reduce implementation costs and simplify implementation for many entities**.
- The Staff proposed to require entities to **offset assets and liabilities at group of contracts level at the portfolio level for presentational purposes**.
- The Board noted that the Staff recommendation is not consistent with the principles of the Conceptual Framework, IAS 1 Presentation of Financial Statements and IAS 32 Financial Instruments: Presentation. Nonetheless, most of the Board members **agreed** with the Staff recommendation as the **benefits of the amendment outweigh its costs**.
- The Board **tentatively voted 13:1 to agree with the Staff** recommendation to amend the Standard.

Agenda Paper 2A Presentation of insurance contracts on the statement of financial position 16 - Presentation in the statement of financial position - Premiums receivable

- IFRS 17 requires an entity to measure a group of insurance contracts on the basis of all the cash flows expected to arise from fulfilling the contracts in the group, including premiums receivable and claims payable.
- Some stakeholders think that the premiums receivable and the claims payable would be better reflected if entities were to measure and present them separately applying IFRS 9 Financial instruments.

Do you agree that the Board should not amend the requirements of IFRS 17 to require separate presentation and measurement of premiums receivable and claims payable?

- IASB Staff noted that measuring premiums receivable and claims payable separately from insurance contracts would result in **internal inconsistencies** in IFRS 17 and would **reduce comparability** between entities. This would also **unduly disrupt implementation already underway**.
- IASB Staff recommended **no amendments** to IFRS 17.
- IASB Staff however noted that IAS 1:55 permits the presentation of additional line items by disaggregating the required line items, headings and subtotals if required to understand an entity's financial position.
- The Board **tentatively agreed** with the Staff recommendation not to amend, **voting unanimously**.

Agenda Paper 2B Discount rates, risk adjustment and OCI option

4 - Measurement | Use of locked-in discount rates to adjust the CSM

- IFRS 17 requires an entity to adjust (i.e. unlock) the CSM for changes in estimates of cash flows that relate to future service, measured at the locked-in discount rate that applied on initial recognition.
- Difference to the current discount rate measurement represents an insurance finance income or expense reflected separately in P&L or OCI depending on the presentation accounting policy choice.
- Some stakeholders prefer the CSM to be re-measured using current discount rates instead while the IASB noted this approach would only be applicable for insurance contracts with direct participation features.

Do you agree that the Board should not amend the requirements in IFRS 17 relating to the discount rates used to determine the adjustments to the CSM?

Agenda Paper 2B Discount rates, risk adjustment and OCI option

4 - Measurement | Use of locked-in discount rates to adjust the CSM

- IASB Staff noted that using a locked-in discount rate in CSM unlocking is still valid because:
 - a. is **consistent with the rationale for unlocking the CSM** - i.e. to ensure there is consistency between the unearned profit that is determined on initial recognition of a group and the effect of changes in estimates on that profit.
 - b. ensures that the **effects of changes in discount rates on the difference in estimated cash flows are not included in the CSM and therefore do not affect the insurance service result**. This is consistent with the principle in IFRS 17 that the insurance service result is shown separately from the insurance finance income or expenses.
 - c. ensures that the **revenue recognized as an entity provides service reflects the price charged for that service**, rather than being affected by an arbitrary amount arising from changes in discount rates at different dates.
- The IASB Staff concluded that the Board **should not amend the requirements** in IFRS 17 relating to the discount rates used to determine the adjustments to the CSM.
- Some Board members noted that this implementation concern is not widespread. The Board **tentatively agreed** to support the Staff recommendation not to amend the standard, **voting unanimously**.

Agenda Paper 2B Discount rates, risk adjustment and OCI option

5 - Measurement | Subjectivity | Discount rates and risk adjustment

- IFRS 17 is principle-based and requires an entity to measure insurance contracts by discounting cash flows using current, market-consistent discount rates that reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contract and reflecting the risk adjustment for non-financial risk.
- IFRS 17 supplements this with extensive disclosure requirements to allow users of financial statements to understand how those amounts might differ from entity to entity.
- Some investors expressed concerns that the principle-based nature of IFRS 17 could limit comparability between insurance entities.

Do you agree that the Board should not amend the requirements in IFRS 17 to prescribe the discount rates used to measure insurance contracts or to limit the number of risk adjustment techniques that an entity can use?

- The IASB Staff concluded that the Board **should not amend the requirements** in IFRS 17.
- Some Board members noted that this implementation concern is not widespread. The Board **tentatively agreed** to support the Staff recommendation not to amend the standard, **voting unanimously**.

Agenda Paper 2B Discount rates, risk adjustment and OCI option

6 - Measurement | Risk adjustment in a group of entities

- At the May 2018 IFRS 17 TRG meeting, there were split views on the level of aggregation for determining the risk adjustment:
 - a. Measurement of risk adjustment for non-financial risk for a group of contracts at different reporting levels is allowed; or
 - b. Risk adjustment for non-financial risk is to be determined from the perspective of the entity issuing the contract, which does not change depending on whether the reporting entity is the issuing entity or a consolidated group that includes the issuing entity.

Do you agree that the Board should not amend the requirements in IFRS 17 for the risk adjustment for non-financial risk?

- IASB Staff acknowledged that an **amendment to clarify** that only the issuing entity that is party to the contract determines the compensation the entity would require for bearing non-financial risk would (a) further clarify the Board's objective when setting the IFRS 17 requirements for the RA; and (b) help some entities to apply IFRS 17 in a slightly more consistent way and might, therefore, reduce possible diversity in practice.
- However, they concluded that there is **no need to amend** IFRS 17 at this time because such a clarification **would not help to address all the possible differences** among entities.
- Several Board members highlighted the RA measurement is inherently diverse and disclosures deal with it. The benefits of consistency in this case would not outweigh the significant disruption from amending the Standard. The Board **tentatively agreed** with the Staff recommendation not to amend the Standard, **voting 13:1**.

Agenda Paper 2B Discount rates, risk adjustment and OCI option

17 - Presentation in the statement(s) of financial performance | OCI option for insurance finance income or expenses

- IFRS 17 permits an entity to choose to present insurance finance income or expenses either in profit or loss or disaggregated between profit or loss and OCI. This choice is made on a portfolio-by-portfolio basis.
- However, stakeholders expressed concerns on this presentation on impairing comparability between entities and adding unnecessary complexity to their analysis of the information reported by entities applying IFRS 17.

Do you agree that the Board should not amend the requirements in IFRS 17 about the presentation of insurance finance income or expenses?

- The IASB Staff recommended that the Board **should not amend** IFRS 17 to require, rather than permit, entities to present insurance finance income or expenses either entirely in profit or loss or partly in OCI.
- Several Board members considered this to be a difficult issue, as offering an accounting policy choice disrupts comparability. However, the Board debated this issue at length during the standard-setting phase. The Chairman stated that he hopes the market forces would act as a discipline and would deter entities from using the OCI option. Furthermore, the Standard requires additional disclosures to bring comparability. The Board **tentatively agreed** with the Staff recommendation and **voted 13:1** in favour of not amending the Standard.

Agenda Paper 2C Variable fee approach

18 - Defined terms | Insurance contract with direct participation features

- IFRS 17 distinguishes between insurance contracts with and without direct participation features.
- The general model for insurance contracts without direct participation features is modified for insurance contracts with direct participation features — measured using the variable fee approach (“VFA”).
- Some stakeholders are concerned of the narrow scope of VFA whereby economically similar contracts are being accounted for differently.
- The concern was raised due to some types of insurance contracts are economically similar to insurance contracts with direct participation features except that:
 - a. the relationship between investments and the insurance contract arises from a constructive rather than contractual obligation; and
 - b. the contractual terms do not specify a clearly identified pool of underlying items.

Do you agree that the Board should not amend the requirements in IFRS 17 relating to the definition of an insurance contract with direct participation features?

Agenda Paper 2C Variable fee approach

18 - Defined terms | Insurance contract with direct participation features

- IASB Staff observed:
 - a. the **contractual obligation relationship between investments and the insurance contract is a fundamental aspect of the VFA** where the entity's share of the underlying items is regarded as a variable fee, i.e. the contract needs to specify the fee
 - b. Contracts where **a clearly identified pool of underlying items is not specified in the contractual terms cannot be regarded as in effect providing asset management services** if there are no specified assets.
- IASB Staff did not think it would be possible to amend the scope of the variable fee approach without also **reconsidering the modifications to the general model that comprise the VFA**. Any approach to amend it is likely to **add complexity** to IFRS 17.
- The IASB Staff recommended that the Board **should not amend** the requirements in IFRS 17 relating to the definition of an insurance contract with direct participation features.
- Several Board members noted that having a variable fee model invariably draws a distinction between different types of contracts. Having two variants of the model (general and VFA) will always have a cross over point.
- The Board **voted unanimously** to tentatively agree with the Staff recommendation not to amend the Standard.

Agenda Paper 2C Variable fee approach

8 - Measurement | CSM: limited applicability of risk mitigation exception

- Some entities hedge direct participating insurance contracts with derivatives, measured applying IFRS 9. To prevent mismatches, IFRS 17 includes an option for the entity in specified circumstances to recognise the effect of some changes in financial risk in the insurance contracts in profit or loss, instead of adjusting the CSM.
- IFRS 17, consistent with the transition requirements for hedge accounting in IFRS 9, requires prospective application of the risk mitigation option from the date of initial application of the Standard.
- Some stakeholders are still concerned of the narrow approach to risk mitigation activities in IFRS 17.

Do you agree that the Board should not amend the non-transitional requirements in IFRS 17 relating to risk mitigation activities?

Do you agree that the Board should not amend the requirements in IFRS 17 relating to the prohibition of retrospective application of the risk mitigation option?

Agenda Paper 2C Variable fee approach

8 - Measurement | CSM: limited applicability of risk mitigation exception

- IASB Staff observed that the existing risk mitigation exception was **intentionally designed** to reduce accounting mismatches.
- IASB Staff thought that an amendment to IFRS 17 to permit retrospective application of the risk mitigation option would cause **significant loss of useful information**, by creating a **further inconsistency with IFRS 9**. It may enable entities to 'cherry pick' favourable outcomes for designation and retrospective application, because of its optional basis.
- The Staff recommended that the Board **should not amend the non-transitional requirements in IFRS 17 relating to risk mitigation activities and relating to the prohibition of retrospective application of the risk mitigation option**.
- On non-transitional requirements, the Board members noted that there is no new information to make any changes in this aspect. The Board **voted unanimously** to tentatively support the Staff recommendation not to amend the Standard.
- Regarding transitional requirements, the Board did not vote. Amending the Standard would bring a conflict with the principle prohibiting the use of hindsight. Not amending the Standard would have a potentially significant CSM impact and potentially a long-term effect on future profitability. Future discussion needs to consider this issue again together with the discussion of transitional requirements for the OCI option.
- The issue about the risk mitigation for reinsurance contracts held will be discussed in a separate paper at a future meeting.

Agenda Paper 2D Business combinations

10 - Measurement | Business combinations: classification of contracts

- IFRS 17 amended IFRS 3 so that the assessment of whether contracts acquired in a business combination are insurance contracts is made on the basis of terms and conditions at the acquisition date, rather than at the inception of the contract as previously required by IFRS 3.
- In June 2018, the Board tentatively decided to amend IFRS 3 so that the amendment applies only to business combinations that occur when or after IFRS 17 is effective.
- This requirement adds complexity and costs and it could result in a different accounting treatment at different reporting levels within a group. Some stakeholders suggest re-introducing an exception to the general classification requirements of IFRS 3 for insurance contracts and making use of that exception optional for an entity.

Do you agree that the Board should not amend the requirements in IFRS 17 or IFRS 3 relating to the classification of contracts acquired in a business combination as insurance contracts?

- The IASB Staff recommended that the **Board should not amend IFRS 17 or IFRS 3 relating to classification of contracts acquired in a business combination.**
- The Board members noted that one of the objectives of IFRS 17 is to bring it more in line with other Standards. For this, it is important to remove the exemption from IFRS 3. The Board **tentatively agreed with the Staff recommendation not to amend the Standard, voting unanimously.**

Agenda Paper 2D Business combinations

11 - Measurement | Business combinations: contracts acquired during the settlement period

- Stakeholders noted that users of financial statements could consider the information provided applying IFRS 17 requirements to be misleading or counterintuitive because similar contracts will be accounted for differently based on whether they have been issued by an entity or acquired by the entity during their settlement period.
- Similar to an issue discussed in September 2018 IFRS 17 TRG meeting – whether the entity’s obligation to pay amounts subject to insurance risk after an incurred claim should be treated as a liability for incurred claims or a liability for remaining coverage.

Do you agree that the Board should not amend the requirements in IFRS 17 relating to the determination of the insured event for insurance contracts acquired in a business combination?

- The Staff noted that an amendment to introduce an exception to the general requirements for the determination of the insured event for insurance contracts acquired in a business combination would **cause significant loss of useful information**. It would also **increase the complexity** for users of financial statements by **reducing comparability**.
- The Staff recommended that the Board **should not amend** the requirements.
- Several Board members agreed with the Staff recommendation based on the IFRS 3 principles. While some had sympathy for preparers applying only the PAA to their issued contracts, the vast majority disagreed with introducing further expedients at this stage.
- The Board **tentatively agreed** with the Staff recommendation not to amend the IFRS 17, **voting 13:1**.

Agenda Paper 2E Future cash flows in the measurement of reinsurance contracts held

14 - Measurement | Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued

- Insurance contracts issued and reinsurance contracts held are measured applying the same measurement model.
- A fundamental aspect of measuring an insurance contract is determining which future cash flows should be included in the measurement, i.e. determining which cash flows are within the contract boundary. Contract boundary should be determined on the basis of the substantive rights and substantive obligations created by the contract for the entity.
- Stakeholders have expressed three concerns about applying the contract boundary requirements to reinsurance contracts held:
 1. operational complexity of estimating cash flows related to future underlying reinsured contracts;
 2. potential mismatch between an insurance contract liability and a reinsurance contract asset; and
 3. inconsistent recognition of the CSM on reinsurance contracts held and underlying insurance contracts issued.
- Stakeholders suggest modifying the contract boundary requirements in IFRS 17:34 and recognition requirements in IFRS 17: 62(a) for reinsurance contracts held.

Do you agree that the Board should not amend the requirements in IFRS 17 relating to future cash flows in the measurement of reinsurance contracts held?

Agenda Paper 2E Future cash flows in the measurement of reinsurance contracts held

14 - Measurement | Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued

- **Cash flows of uncertain timing and amounts** is **not unique** to reinsurance contracts held.
- Future underlying insurance contracts are reflected in the cash inflows. Those amounts sum to nil up until the entity pays or receives amounts relating to the reinsurance; or those underlying contracts are issued and the entity starts receiving reinsurance services.
- In circumstances that the service the entity receives from the reinsurer is **proportionate** to the service that the entity provides to the policyholder, allocation of coverage units for reinsurance contracts held will result in a pattern of **CSM recognition** which reflects symmetry.
- IASB Staff noted that modifying the contract boundary requirements in IFRS 17 for reinsurance contracts has the following negative impacts:
 - a. **significant loss of useful information**
 - b. does **not fully reflect the entity's substantive right** to receive services from the reinsurer.
 - c. goes **against the fundamental principle** in IFRS 17 that all future cash flows within the contract boundary are reflected in the measurement of an insurance contract.
- The Staff therefore recommend that the Board **should not amend** the requirements.
- The Board **tentatively agreed** with the Staff recommendation not to amend the Standard, **voting unanimously**.

Agenda Paper 2F The treatment of accounting estimates in interim financial statements

19 - Interim financial statements | Treatment of accounting estimates

- IFRS 17 requires entities not 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 financial statements.
- Timing of the reporting date matters because changes in expected fulfilment cash flows relating to future coverage are reflected in CSM, whereas most experience adjustments are presented in profit or loss.
- Depending on the frequency of reporting, the entity may have updated its expectation at the last reporting date, so that the change in current cash flows was expected and reflected in the CSM.
- For entities that report more frequently than annually, stakeholders have raised concerns that the CSM recalculation and profit amounts would be burdensome and would make the interim reports less indicative of the annual results.
- Some stakeholders suggest extending IFRS 17:B137 to other types of reports, e.g. management accounts. Other stakeholders propose amending IFRS 17:B137, so that its application is optional to increase comparability between entities with different interim reporting frequencies.

Do you agree that the Board should not amend the requirements in IFRS 17 relating to the treatment of accounting estimates in interim financial statements?

Agenda Paper 2F The treatment of accounting estimates in interim financial statements

19 - Interim financial statements | Treatment of accounting estimates

- IASB Staff noted that amending the requirement in IFRS 17 applicable to interim financial reports as defined in IAS 34 accommodating the some stakeholders' concerns would:
 - a. add **complexity** for both preparers and users of financial statements; and
 - b. reduce **comparability** among entities.
- The Staff observed that if applying the requirement in IFRS 17 was an option, an entity might **decide whether or not to use the option** considering the below factors where different would have different priorities:
 - a. its reporting frequency compared to the reporting frequency of all or some of its competitors;
 - b. which option is less burdensome from a practical perspective; or
 - c. it might consider a combination of both of these factors.
- The Staff therefore recommended that the Board **should not amend** the requirements in IFRS 17 relating to the treatment of accounting estimates in interim financial statements.
- The Board **tentatively agreed** with the Staff recommendation not to amend the Standard, **voting unanimously**.

Next steps

IASB

- The IASB will complete its analysis of the remaining ten concerns over its meetings in **January and February 2019**.
- The next TRG meeting will be held on **4 April 2019** in the IASB office in London.
- The deadline for submissions of issues and comments is **14 February 2019**, with earlier submissions encouraged to allow for earlier publication of agenda papers.

Other related developments

- EFRAG endorsement advice will be published when the text of IFRS 17 is stable. However EFRAG will continue to proactively engage with the IASB on the possible amendments to IFRS 17.

Contact details

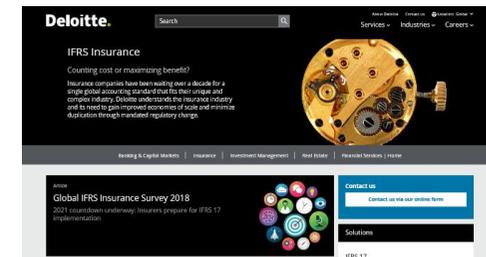
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