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IFRS 17 *Insurance Contracts* Project Update

Objective

- 1 The objective of this session is to:
 - (a) provide the EFRAG Board with an update on activities associated with IFRS 17 *Insurance Contracts* since the EFRAG Board meeting on 18 December 2018; and
 - (b) seek comments from the EFRAG Board on the project plan for the next six months.

IASB forthcoming Exposure Draft

- 2 The IASB work plan as issued after the IASB December 2018 meeting shows that the IASB expects to issue an Exposure Draft proposing amendments to IFRS 17 in Q2 2019.
- 3 The IASB has already tentatively decided to propose amendments to IFRS 17 to:
 - (a) require the presentation of insurance contract assets and liabilities in the statement of financial position using portfolios of insurance contracts rather than groups of insurance contracts;
 - (b) defer the mandatory effective date of IFRS 17 by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022 and that the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 should be amended to require application of IFRS 9 no later than the same date;
 - (c) clarify that the coverage period for insurance contracts with direct participation features includes periods in which the entity provides investment-related services; and
 - (d) make other minor improvements.
- 4 At its January 2019 meeting, the IASB will be considering a number of topics:
 - (a) *Insurance acquisition cash flows for renewals outside the contract boundary*: the IASB staff are recommending that IFRS 17 is amended to require an entity to:
 - (i) Allocate to any anticipated contract renewals that part of the insurance acquisition cash flows that are directly attributable to newly issued contracts.
 - (ii) Recognise the insurance acquisition cash flows allocated to anticipated contract renewals as an asset until the renewed contracts are recognised. The asset is to be tested for impairment based on the expected fulfilment cash flows of the related group of contracts. Any

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impairment loss is recognised in profit or loss and is reversed when the impairment conditions no longer exist or have improved.

- (b) *Reinsurance contracts held*: the IASB staff are recommending that IFRS 17 is amended:
 - (i) For insurance contracts under the general model and the premium allocation approach, to require recognition of a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that a reinsurance contract held covers the losses of each contract on a proportionate basis.
 - (ii) For insurance contracts under the variable fee approach, to expand the scope of the risk mitigation exception so that the exception applies when an entity uses a derivative or a reinsurance contract held to mitigate financial risk.
- (c) *Recognition of the contractual service margin in profit or loss in the general model*: the IASB staff are recommending that IFRS 17 is amended to:
 - (i) Ensure that the contractual service margin is allocated on the basis of coverage units that are determined by considering both insurance coverage and any investment return service;
 - (ii) Establish that an investment return service exists only when an insurance contract includes an investment component;
 - (iii) Require an entity to use consistent judgement in deciding whether to include an investment return service when determining coverage units, and not to provide an objective or criteria for that determination;
 - (iv) Establish that the period of investment return services should be regarded as ending when the entity has made all investment component payments to the policyholder of the contract, i.e. not including payments to future policyholders;
 - (v) Require the assessments of the relative weighting of the benefits provided by insurance coverage and investment return services and their pattern of delivery to be made on a systematic and rational basis;
 - (vi) Confirm that cash flows relating to fulfilling the investment return service are included in the measurement of the insurance contract; and
 - (vii) Establish that the one-year eligibility criterion for the premium allocation approach should be assessed by considering insurance coverage and an investment return service, if any.

5 At its meeting on 23 January 2019, the IASB tentatively decided to support the IASB staff recommendations together with proposed drafting improvements.

6 The remaining topics for discussion by the IASB at future meetings are:

- (a) Scope of IFRS 17 – loans and other forms of credit that transfer insurance risk;
- (b) Level of aggregation of insurance contracts;
- (c) Comparative information;
- (d) Transition – optionality;
- (e) Transition – modified retrospective approach; and
- (f) Transition – fair value approach: OCI on related financial assets.

Question for the EFRAG Board

7 Does the EFRAG Board have any comments on the developments at the IASB?

Project plan

- 8 As discussed with EFRAG TEG, during the next few months, the work on the IFRS 17 project will focus on:
 - (a) preparation for the forthcoming IASB Exposure Draft; and
 - (b) continuing to analyse IFRS 17 from a technical perspective with a particular focus on the six matters EFRAG identified as meriting further consideration by the IASB.
- 9 To achieve this, the EFRAG IAWG will be asked to consider:
 - (a) issues identified by the IASB where the IASB is proposing changes, as input into the forthcoming draft comment letter;
 - (b) issues identified by the IASB where the IASB is not proposing changes, as input into a draft endorsement advice, in order to gather the views of the EFRAG IAWG on their impact on the technical and other endorsement criteria; and
 - (c) the basis for the concerns leading to the solutions that have been proposed by parties other than the IASB, including the CFO Forum and the ANC.
- 10 The insights provided by the EFRAG IAWG will be reported to EFRAG TEG. EFRAG TEG will then consider the input from the EFRAG IAWG in developing its advice on a draft comment letter and, in due course, a draft endorsement advice on the stable version of IFRS 17. EFRAG TEG may also identify other matters on which it would like the EFRAG IAWG's advice.
- 11 As time permits, other technical issues relevant to the draft endorsement advice will be included in the agendas of the EFRAG IAWG and EFRAG TEG.
- 12 The outcome of discussions will be reported to the EFRAG Board at the next available meeting.
- 13 The proposed work plan, which follows the preferred process of consideration by the EFRAG IAWG, and then EFRAG TEG before being reported to the EFRAG Board, is summarised in the following table.

Topic	EFRAG IAWG	EFRAG TEG	EFRAG Board
Issues discussed at the IASB meeting December 2018	January 2019	February 2019	Update February 2019
Presentation by EIOPA		February 2019	April 2019
Issues discussed at the IASB meeting January and February 2019	February 2019	March 2019	Update April 2019
CFO Forum explanation of issues		March 2019	Update April 2019
Issues to be discussed at the IASB TRG meeting April 2019	March 2019	April 2019	May 2019
Detailed analysis of six matters raised by EFRAG	May 2019	May 2019	June 2019

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Topic	EFRAG IAWG	EFRAG TEG	EFRAG Board
IASB ED draft comment letter	Consideration June 2019	Recommendation July 2019	Approval July 2019

Questions for the EFRAG Board

14 Does the EFRAG Board have comments on the proposed work plan?