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Presentation under IFRS 17 *Insurance Contracts* Issues Paper

Objective

- 1 The objective of this session is to provide an overview of the EFRAG's Secretariat understanding of the issues raised by EFRAG IAWG members in relation to the presentation requirements of IFRS 17 *Insurance Contracts*.
- 2 The outcome of the discussion will be to make relevant changes to Appendix II of the draft endorsement advice of IFRS 17.

Background

- 3 IFRS 17 requires that an entity presents separately the carrying amount of groups of insurance contracts issued that are assets and insurance contracts issued that are liabilities. The same requirement also applies to reinsurance contracts held that are assets and reinsurance contracts held that are liabilities.
- 4 In the Basis for Conclusions (paragraph 328), the IASB highlighted that this requirement is consistent with the measurement of a group of insurance contracts as a package of cash inflows and cash outflows. Therefore, consistent with the requirement in IAS 1 *Presentation of Financial Statements* that an entity does not offset assets and liabilities, IFRS 17 prohibits entities from offsetting groups of insurance contracts in an asset position with groups of insurance contracts in a liability position.
- 5 Furthermore, IFRS 17 amended IAS 1, which specifies the line items that are required to be presented in the statement of financial position, to require an entity to present separately groups of insurance contracts issued and groups of reinsurance contracts held. The IASB concluded that such contracts are sufficiently distinct to warrant separate presentation in the statement of financial position (IFRS 17 paragraphs BC328-BC329).

Description of the issue

- 6 The concern about presentation under IFRS 17 that were raised to the EFRAG Secretariat was that separate presentation does not result in relevant information because the timing of the cash flows could make the insurance contracts move from a liability to an asset position or vice versa, for e.g. for travel insurance being sold by an agent, by the time the premium is received by the entity, the claims may already have been paid out.
- 7 Hence, the presentation of a group of insurance contracts does not increase relevance in the financial statements as it simply reflects the timing of cash flows. Therefore, recognition at portfolio level (which is the same level as the level management manages their insurance contracts) would be more relevant for users of the financial statements in their decision making.

EFRAG Secretariat analysis

- 8 The EFRAG Secretariat notes that for assets future economic benefits are expected to flow to the entity, while for liabilities outflows of resources embodying economic benefits from the entity are expected.
- 9 The EFRAG Secretariat acknowledges that whether a group of insurance contracts is expected to be in a liability position or in an asset position depends on the underlying characteristics. For example, insurance contracts are expected to be in a liability position where all of the premiums are received in advance of any claims. In contrast, contracts where the premium is paid periodically may end up in an asset position such as in the travel insurance example discussed above. This depends on the pattern of claim and expense payments compared with the pattern of premium receipts, the level of profitability and the related insurance acquisition costs.
- 10 Because of these different characteristics, the EFRAG Secretariat does not expect that presenting insurance contracts together which either reflect a net cash inflow or a net cash outflow results in relevant information.
- 11 Furthermore, the IFRS 17 requirements are in line with IAS 1, which generally prohibits the offsetting of assets and liabilities. Insurance contracts could be in an asset position if, for example, claims are already being paid out by the entity but premiums have not yet been received from the independent agents the entity is involved with. Thus, users of financial statements would be expected to consider that separate presentation of contracts in an asset position would provide relevant information because they would be able to assess whether there are late payments of premiums by policyholders.
- 12 Consequently, the EFRAG Secretariat is of the view that the requirement of separate presentation of contracts in an asset and liability position leads to the provision of relevant information.

Question for EFRAG TEG

- 13 What comments do EFRAG TEG members have on the EFRAG Secretariat analysis above?