IFRS

STAFF PAPER

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Project	Transition Resource Group for IFRS 17 *Insurance Contracts*		
Paper topic	Reporting on other questions submitted		
CONTACT(S)	Laura Kennedy	lkennedy@ifrs.org	+44 (0) 20 7246 0553
	Hagit Keren	hkeren@ifrs.org	+44 (0) 20 7246 6919

Introduction

1. This paper summarises other questions submitted to the Transition Resource Group for IFRS 17 *Insurance Contracts* (TRG). These submissions have been categorised as questions that:
    (a) can be answered applying only the words in IFRS 17;
    (b) do not meet the submission criteria; or
    (c) are being considered through a process other than a TRG discussion (such as a proposed annual improvement).
2. Submissions *not* summarised in this paper are those:
    (a) that are discussed in a separate agenda paper;
    (b) for which the staff have requested further information from the submitter; or
    (c) that will be addressed in a future meeting.

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

The staff will consider publishing educational materials on these topics in the future to further support implementation.

Log #	Topic	Question	Response
S04	Subsequent treatment of contracts acquired in their settlement period	The submission asks how insurance revenue and insurance service expenses should be presented for insurance contracts acquired in conjunction with a business combination or similar acquisition in their settlement period. More specifically, whether revenue would reflect the entire expected claims or not.	Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. Paragraph B5 of IFRS 17 states that for these contracts the insured event is the determination of the ultimate cost of the claim. Therefore, acquiring contracts in their settlement period is essentially providing coverage for the adverse development of claims. The subsequent treatment for the liability for remaining coverage is set out in paragraph 41 of IFRS 17. Accordingly, revenue would reflect the entire expected claims. If some cash flows meet the definition of an investment component, those cash flows will not be reflected in revenue or expenses.

Log #	Topic	Question	Response
S09	Allocating the contractual service margin at the end of a period to coverage units	The submission questions how to allocate the contractual service margin to coverage units provided in the current period and expected to be provided in the future applying paragraph B119(b) of IFRS 17.	Paragraph B119(b) of IFRS 17 states that the contractual service margin at the end of the period is allocated equally to each coverage unit provided in the current period and expected to be provided in the future. Therefore, the allocation is performed at the end of the period, identifying coverage units that were actually provided in the current period and coverage units that are expected at this date to be provided in the future.
S17	Using consistent assumptions for the measurement of reinsurance contracts held and the underlying insurance contracts	The submission notes that paragraph 63 of IFRS 17 requires the use of assumptions for the measurement of the estimates of the present value of the future cash flows for a group of reinsurance contracts held that are consistent with those used to measure the underlying insurance contracts. The submission questions whether this means that the use of an identical discount rates is required.	'Consistent' in paragraph 63 of IFRS 17 does not necessarily mean 'identical'. The extent of the dependency between the cash flows of the reinsurance contract held and the underlying contracts should be evaluated in applying paragraph 63 of IFRS 17.

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

Log #	Topic	Question	Response
S20	Grouping contracts using the modified retrospective approach to transition	The submission notes that applying the modified retrospective approach to transition, paragraphs C8 and C10 of IFRS 17 require that groups of insurance contracts do not include contracts issued more than one year apart if the entity has reasonable and supportable information to do that. The submission questions whether the wording in paragraph BC392 of the Basis for Conclusions on IFRS 17 and example 17 in the Illustrative Examples on IFRS 17 might suggest otherwise.	Paragraphs C8 and C10 of IFRS 17 require an entity to establish groups that do not include contracts issued more than one year apart if the entity has reasonable and supportable information to do that. This is consistent with the explanation in paragraph BC392 of Basis for Conclusions on IFRS 17 that the Board acknowledges that it may not always be practicable for entities to group contracts not issued more than one year apart retrospectively.
S23	Premiums received applying the premium allocation approach	The submission questions what is meant by "premiums, if any, received" in paragraphs 55(a)(i) and 55(b)(i) of IFRS 17 with respect to the measurement of the liability for remaining coverage applying the premium allocation approach. The submission considers three interpretations. The first based on a literal reading of the Standard refers to premiums actually received. The other interpretations are broader and include premiums due and premiums expected.	"Premiums, if any, received" as included in paragraphs 55(a)(i) and 55(b)(i) of IFRS 17 means premiums actually received at the reporting date. It does not include premiums due or premiums expected. We have received, very recently, a separate submission (#27 in the submissions log) that raises a question that relates to this submission. This new submission will be assessed for a future TRG discussion.

Log #	Topic	Question	Response
S26	Variable fee approach when the return is shared based on amortised cost measurement of the underlying items	The submission questions whether contracts where the return is based on an amortised cost measurement of the underlying items would fail the definition of insurance contract with direct participation features.	Contracts that provide a return that is based on an amortised cost measurement of the underlying items would not automatically fail the definition of insurance contract with direct participation features. Applying paragraph B107 of IFRS 17, entities expectations would be assessed over the duration of the contracts, and therefore returns based on amortised cost measurement might equal returns based on fair value of the underlying items over that duration.

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

(b) Questions that do not meet the submission criteria

The criteria established for the TRG state that implementation questions should meet the following criteria:

(a) must be related to, or arise from, IFRS 17;

(b) may result in possible diversity in practice; and

(c) are expected to be pervasive, ie relevant to a wide group of stakeholders.

Any question submitted should include a detailed description of the possible ways in which IFRS 17 could be applied.

Log #	Topic	Question	Response
S03	Presentation of groups of insurance contracts in the statement of financial position	The submission asks whether the requirement in paragraph 78 of IFRS 17 to present separately in the statement of financial position groups of insurance contracts issued that are assets and groups of insurance contracts that are liabilities is appropriate and whether presentation at a portfolio level would be more appropriate considering groups share similar risks and are managed together. The submission notes that as a result of implementation of paragraph 78 of IFRS 17 preparers will provide information which will not add value to the users of the financial statements and will be produced at significant cost for preparers on and after transition.	The submission acknowledges the IFRS 17 requirements for the separate presentation of groups of insurance contracts that are assets and groups of insurance contracts that are liabilities. A group of insurance contracts is the unit of account applying IFRS 17. The Conceptual Framework states: Offsetting occurs when an entity recognises and measures both an asset and liability as separate units of account, but combines them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate. The requirements in IFRS 17 are therefore consistent with the Conceptual Framework.

Log #	Topic	Question	Response
S10	Classification of contracts acquired in a business combination	The submission notes that according to the consequential amendments to IFRS 3 *Business Combinations*, classification of contracts acquired in a business combination is based on the terms and conditions at the transaction date. The submission acknowledges that this could result in different contract classifications for an acquirer and an acquiree. The submission states that this will result in onerous system implications and various consolidation complexities.	The submission correctly reflects the requirements of IFRS 3. Contracts might be classified differently in the financial statements of the acquiree and the acquirer as a result of applying the requirements in IFRS 3. It is noted that this accounting is consistent with business combination accounting generally.
S24	Discount rates applied to the contractual service margin for contracts without direct participation features	The submission outlines the differing discount rates to be used for initial measurement (paragraph B72(a) of IFRS 17) and subsequent measurement (paragraph B72(b) of IFRS 17) of insurance contracts without direct participating features. The submission considers that this will result in diversity between insurance revenue recognised for insurance contracts without direct participating features but that have some asset dependent cash flows and for insurance contracts with direct participation features accounted for applying the variable fee approach.	The submission acknowledges that paragraph B72(b) of IFRS 17 states that the specified rate is applied to determine the interest to accrete on the contractual service margin for insurance contracts without direct participation features.

Log #	Topic	Question	Response
S25	Investment components	The submission notes that paragraph B96 of IFRS 17 requires the carrying amount of the contractual service margin to be adjusted for a difference in the investment component as a result of the acceleration or delay of repayment. The submission questions whether this is appropriate because a result of this requirement is that the contractual service margin will be adjusted for changes solely in timing of payments. The submission considers that this appears to conflict with the principle underpinning insurance revenue set out in paragraph B120 of IFRS 17. The submission also provides examples of an alternative approach.	The submission acknowledges the requirements set out in paragraph B96 of IFRS 17. Paragraph BC235 of the Basis for Conclusions on IFRS 17 explains the Board's reasons for this requirement.

(c) Questions that are being considered through a process other than a TRG discussion

Log #	Topic	Question	Response
S06	Business combinations on transition - classification date	The submission asks what the relevant date is for determining whether contracts acquired in previous business combinations are classified as insurance contracts when an entity transitions to IFRS 17 retrospectively. The submission notes that there is an inconsistency in the requirements of the Standard and the intention of the Board set out in Agenda Paper 2C of the February 2017 Board meeting.	Paragraph B93 of IFRS 17 states that contracts acquired are treated as if the entity had entered into the contracts on the date of the transaction. IFRS 3 (as amended) requires that classification of contracts acquired be based on terms and conditions on the transaction date. When applying IFRS 17 retrospectively on transition these requirements would be applied retrospectively too. Agenda paper 2C of the February 2017 Board meeting states in relation to the classification of contracts acquired in a business combination that "The staff note that this consequential amendment to IFRS 3 applies to business combinations that occur when or after IFRS 17 is effective." This question will be considered as part of the annual improvements process.

Log #	Topic	Question	Response
S16	Discount rate to be used to adjust the contractual service margin of reinsurance contracts held	The submission asks what discount rate is used to adjust the contractual service margin of reinsurance contracts held applying paragraph 66(c) of IFRS 17.	Paragraph B72(c) of IFRS 17 is applicable to contracts without direct participating features, both insurance contracts issued and reinsurance contracts held, and requires the use of the discount rate determined on initial recognition. An editorial correction will be made to add a reference to paragraph B72(c) in paragraph 66(c) of IFRS 17.