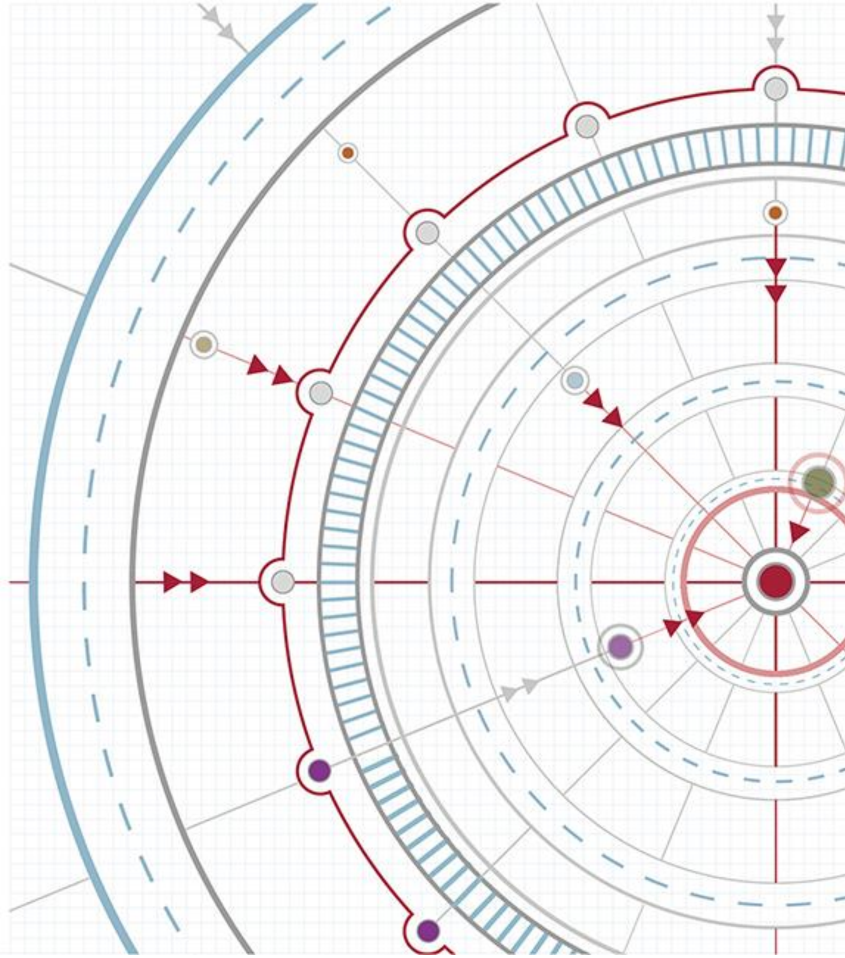
IFRS® Foundation



Amendments to IFRS 17

The forthcoming Exposure Draft

Brussels, 4 June 2019

Sue Lloyd, Vice-Chair
Martin Edelmann, member
International Accounting Standards Board

Today's agenda

- IASB stakeholder engagement and implementation support
- What are the objectives of the Exposure Draft
- What happens next
- Appendix—Overview of the targeted amendments

IASB support for IFRS 17 implementation

A comprehensive programme of stakeholder engagement and implementation support

- Webinars
- Articles and other materials
- Conferences
- Transition Resource Group (TRG)
  - 4 meetings
  - 127 implementation questions

Education for

- investors
- regulators
- standard-setters
- preparers

Over 100 meetings with investors

Informal technical discussion with

- regulators
- standard-setters
- preparers
- auditors

Over 300 meetings with stakeholders

Concerns and challenges raised

- 25 topics brought to IASB's attention
- IASB considered each topic and where it could ease implementation, if necessary, by making targeted refinements to IFRS 17 requirements that are meaningful to companies

20 Effective date of IFRS 17

22 Temporary exemption from applying IFRS 9

4 Locked-in discount rates

5 Discount rates and risk adjustment

6 Risk adjustment in a group of entities

8 Limited applicability of risk mitigation option

9 PAA premiums received

10 Business combinations classification of contracts

11 Contracts acquired in settlement period

14 Reinsurance contract boundary

15 Separate presentation of groups of assets and liabilities

16 Presentation of premiums receivable

17 Reducing OCI optionality

18 Insurance contracts with direct participation features

3 Acquisition cash flows for renewals

7 CSM—coverage units in the general model

13 Reinsurance contracts held—ineligibility for the VFA

12 Reinsurance contracts held initial recognition

1 Scope of IFRS 17

25 Transition Fair value approach—OCI

19 Interim reporting

2 Level of aggregation

21 Comparative information

23 Transition optionality

24 Transition Modified retrospective approach

Criteria for evaluating possible changes

- Making amendments to a recently issued Standard carries a risk of disruption to implementation processes that are already underway
- Need to demonstrate a change is justified
- Need to consider only possible changes that meet the following criteria

1 Avoid significant loss of useful information for investors

- Relevance and faithful representation
- Comparability
- Consistency
- Understandability / Complexity

2 Not unduly disrupt implementation processes under way

Not risk undue delays in the effective date of IFRS 17

IASB discussions and due process

October 2018	• Overview of concerns and challenges raised (25 topics) • Criteria for evaluating possible changes
November 2018	• Implications of exploring amendments to IFRS 17 for effective dates
December 2018 – March 2019	• Analysis of individual topics: assessment of the need for change and evaluation of possible changes against criteria
April 2019	• Analysis of proposed amendments as a whole and of likely effects of proposed amendments
May 2019	• Minor technical issues (sweep issues) • Comment period

Objectives of the Exposure Draft

Maintain IFRS 17 benefits

- The targeted amendments
  - do not change the fundamental principles of the Standard
  - will not result in a significant loss of useful information for investors
  - refine the requirements for some topics, in the light of insurers' experience when starting implementation

Aid implementation

- The targeted amendments
  - are narrow in scope but provide meaningful change and address a number of concerns raised by insurers
  - will ease IFRS 17 implementation, without unduly disrupting implementation processes already under way

The forthcoming Exposure Draft
12 targeted amendments in 8 areas

Deferral of effective date by one year IFRS 17 IFRS 9 1	**Additional scope exclusions** Loans Credit cards 2	**Allocation of acquisition costs to expected contract renewals** 3	**Attribution of profit to service relating to investment activities** 4
Extension of risk mitigation option 5	**Reduced accounting mismatches for reinsurance** 6	**Simplified balance sheet presentation** 7	**Additional transition reliefs** Business combinations Risk mitigation—transition date Risk mitigation—fair value approach 8

See Appendix for an overview of the targeted amendments

IFRS

Not all possible changes meet the criteria

Change not justified	or	Significant loss of information	or	Unduly disrupt implementation

Reinsurance contract boundary	Excluding cash flows of reinsurance contracts held relating to underlying contracts not yet issued would go against the fundamental principle in IFRS 17 that all future cash flows are reflected in the measurement of an insurance contract
Level of aggregation	Suggested changes could result in: • loss of information about trends in the entity's profitability • delayed recognition of losses on onerous contracts / profit on profitable contracts
Reducing OCI optionality	Requiring, rather than permitting, insurance finance income or expenses to be presented either entirely in profit or loss or partly in OCI to improve comparability could require significant rework for preparers

IFRS

What happens next

IASB will set out proposed amendments in an Exposure Draft (expected end of June 2019)

90 day comment period

Outreach to obtain additional feedback

Comments welcomed from all stakeholders

IASB will finalise amendments to IFRS 17 considering the feedback on the Exposure Draft

IFRS 17 timeline

First IFRS 17 compliant annual reports published*

2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023

IFRS 17 issued

Expected issuance of Exposure Draft

Expected finalisation

Amendments to IFRS 17*

Start of IFRS 17 comparative period*

IFRS 17 is effective (1 January 2022)*

Early application permitted

IASB support for IFRS 17 implementation

* proposed deferral of effective date to 2022 and other amendments will be subject to public consultation

Appendix

Overview of the targeted amendments

1 Deferral of effective date by one year

Concerns and challenges raised

- Limitations in the availability of internal or third party experts, particularly actuaries and IT systems providers
- Entities need more time to prepare than they originally expected
- Uncertainty arising from the discussion about possible amendments to IFRS 17 and subsequent changes affects planning and budget of entities implementing IFRS 17

IASB's response

- One-year deferral of the effective date of IFRS 17 (based on uncertainty created by possible amendments)
- Extension to 2022 of the expiry date for the temporary exemption from applying IFRS 9 (for some insurers)
- Need to have timely application of IFRS 17 and IFRS 9

Proposal in the forthcoming Exposure Draft

2 Scope exclusion for some loans

Concerns and challenges raised

- A loan contract that transfers significant insurance risk is an insurance contract that contains both a loan and an insurance component
- Applying IFRS 4 some entities separate the loans in such contracts and apply IFRS 9 to those loans
- IFRS 17 does not permit the continuation of this practice
- IFRS 17 currently applies to the loan contract in its entirety

IASB's response

- Permitted to apply either IFRS 17 or IFRS 9 to 'insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract'
- The choice would be made portfolio by portfolio, using the IFRS 17 definition of a portfolio

Proposal in the forthcoming Exposure Draft

2 Scope exclusion for some credit cards

Concerns and challenges raised

- Some credit card contracts provide insurance coverage—for purchases made using the credit card—free or for a fixed fee
- Entities that today account for those credit card contracts applying IFRS 9 would need to change the accounting when IFRS 17 is effective, shortly after having incurred costs to comply with IFRS 9

IASB's response

- IFRS 17 would not apply to credit card contracts for which the fee charged to the customer does not reflect an assessment of the insurance risk associated with that individual customer
- Other relevant IFRS Standards apply (eg IFRS 9, IFRS 15 or IAS 37)

Proposal in the forthcoming Exposure Draft

3

Acquisition costs for renewals

Concerns and challenges raised

- Commissions paid unconditionally on contracts that have been issued cannot be allocated to expected contract renewals
- In some cases, commissions may exceed the premium for the initially written contracts causing the contracts to be onerous – viewed as being inconsistent with economics

IASB's response

- Part of insurance acquisition cash flows would be allocated to expected contract renewals
- Cash flows recognised as an asset until the entity recognises contract renewals
- Recoverability of the asset assessed each period

Proposal in the forthcoming Exposure Draft

Attribution of profit to service relating to investment activities

Concerns and challenges raised

- For insurance contracts without direct participation features, contractual service margin recognised in profit or loss considering only insurance coverage
- For some contracts the insurance coverage period differs from the period in which the policyholder gets return on an investment component

IASB's response

- For insurance contracts without direct participation features, recognise the contractual service margin in profit or loss considering both insurance coverage and any investment-return service

Proposal in the forthcoming Exposure Draft

5 Extension of risk mitigation option

Concerns and challenges raised

- Derivatives or reinsurance contracts may be used to mitigate financial risks arising from insurance contracts with direct participation features
- When derivatives mitigate financial risks, the entity can choose to recognise changes in insurance contracts in profit or loss, rather than as adjustments to the contractual service margin, to offset the changes in fair value of derivatives (risk mitigation option)

IASB's response

- For insurance contracts with direct participation features, permitted to use the risk mitigation option also when the entity uses reinsurance contracts held to mitigate financial risks

Proposal in the forthcoming Exposure Draft

6 Reduced accounting mismatches for reinsurance

Concerns and challenges raised

- On initial recognition of onerous insurance contracts losses recognised immediately
- When those losses are covered by a reinsurance contract held any corresponding gains are recognised over the coverage period
- Accounting mismatches may arise

IASB's response

- An entity that recognises losses on onerous insurance contracts at initial recognition would also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts (i) cover the losses of the underlying contracts on a proportionate basis and (ii) are entered into before the onerous underlying contracts are issued

Proposal in the forthcoming Exposure Draft

7 Simplified balance sheet presentation

Concerns and challenges raised

- Groups of insurance contracts presented in an asset position separately from groups of insurance contracts in a liability position
- To do this, need to identify premiums received and premiums receivable for each group of insurance contracts
- Better IT systems integration is needed resulting in significant implementation costs

IASB's response

- Insurance contract assets and insurance contract liabilities presented in the balance sheet using portfolios of insurance contracts rather than groups of insurance contracts

Proposal in the forthcoming Exposure Draft

8 Transition—business combinations

Concerns and challenges raised

- Liabilities for claims settlement are treated as a 'liability for remaining coverage' if the contracts were acquired in a business combination and as a 'liability for incurred claims' if the contracts were issued by the entity
- Some entities use a single system to manage all liabilities for claims settlement and find it difficult to obtain the required data to separate and measure liabilities for claims settlement in two different ways

IASB's response

- At transition account for liabilities for claims settlement acquired in a business combination as a 'liability for incurred claims' if the entity does not have reasonable and supportable information to apply a retrospective approach

Proposal in the forthcoming Exposure Draft

8 Risk mitigation—transition date

Concerns and challenges raised

- The risk mitigation option cannot be applied for periods before the date of initial application of IFRS 17—ie before the beginning of the annual reporting period in which IFRS 17 is first applied
- This prohibition may affect comparative information for the period immediately before the date of initial application

IASB's response

- An entity would be permitted to apply the risk mitigation option from the date of transition to IFRS 17—ie the beginning of the annual reporting period immediately before the date of initial application—if the entity designates the risk mitigation relationships to which it will apply the risk mitigation option no later than that date

Proposal in the forthcoming Exposure Draft

8 Risk mitigation—use of fair value approach at transition

Concerns and challenges raised

- The risk mitigation option cannot be applied retrospectively
- If risk mitigation activities were in place before the date of initial application of IFRS 17 some stakeholders think that equity on transition and revenue recognised in future periods might be distorted

IASB's response

- An entity would be permitted to use the fair value approach to transition, if it chooses to apply the risk mitigation option prospectively from the transition date, has used derivatives or reinsurance to mitigate financial risk before the date of transition and can apply IFRS 17 retrospectively

Proposal in the forthcoming Exposure Draft

Get involved

Find out more: www.ifrs.org

Follow us:

@IFRSFoundation

IFRS Foundation
International Accounting Standards Board

IFRS Foundation

IFRS Foundation

Join our team: go.ifrs.org/careers