IFRS

# STAFF PAPER

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| **Project** | **Amendments to IFRS 17** |
| Paper topic | Comment letter summary—feedback on the questions in the Exposure Draft |


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## Purpose of the paper

1. This paper summarises the feedback from comment letters on the ten questions in the Exposure Draft *Amendments to IFRS 17*.
2. For each question in the Exposure Draft, this paper summarises:
   (a) the proposals in the Exposure Draft;
   (b) the feedback; and
   (c) staff thoughts.
3. Comments on areas the International Accounting Standards Board (Board) considered but for which it did not propose amendments to IFRS 17, as well as on other areas of IFRS 17 *Insurance Contracts* that the Board did not consider when developing the Exposure Draft, are summarised in Agenda Paper 2C *Comment letter summary—other comments*.
4. This paper should be read in the context of Agenda Paper 2D *Redeliberation plan*, which includes the staff recommended plan for redeliberations based on staff thoughts discussed in this paper and in Agenda Paper 2C.

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## Feedback on the ten specific questions in the Exposure Draft

5. The following table lists the topics covered by the questions in the Exposure Draft and provides references to the paragraphs in this paper that summarise the feedback on those topics.

| Topic | Paragraphs of this paper |
| --- | --- |
| Question 1(a)—Scope exclusion for credit cards | 6–9 |
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| Question 2—Expected recovery of insurance acquisition cash flows | 15–21 |
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### *Question 1(a)—Scope exclusion for credit cards*

#### *Proposals in the Exposure Draft*

6. The Exposure Draft proposed that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The entity would instead apply IFRS 9 *Financial Instruments* to such credit card contracts.

#### *Feedback*

7. Of the respondents who commented on the proposed scope exclusion for the credit card contracts discussed in paragraph 6 of this paper:
   (a) many respondents generally agreed with the Board's proposal and rationale for proposing the amendment to IFRS 17.
   (b) some respondents—including all banks and auditors / accounting firms—agreed with the Board's proposal but suggested extending the scope exclusion to other contracts typically issued by banks that might meet the definition of an insurance contract. Examples provided by those respondents include debit card contracts, consumer financing contracts, current account contracts and deposit account contracts that meet the definition of an insurance contract through consumer protection provisions by contract, law or regulation.
   (c) some respondents expressed concerns that the proposed requirement for an entity to apply IFRS 9, rather than IFRS 17, to such credit card contracts might result in an entity accounting for some credit card contracts at fair value through profit or loss. Those respondents noted that entities providing insurance coverage on a voluntary basis as part of the contractual terms of the credit cards (rather than as a result of law or regulation) would be required to include the insurance coverage related cash flows in the credit card contract cash flows. Those respondents noted, therefore, that such

contracts might fail the solely payments of principal and interest (SPPI) test applying IFRS 9. Some of those respondents expressed the view that accounting for some credit card contracts at fair value through profit or loss would not be appropriate and provided suggestions to avoid this outcome including:

(i) amending the SPPI requirements in IFRS 9—for example, to specify that credit card cash flows relating to the insurance coverage should not be factored into the SPPI test. They said this would make comparable the accounting for credit card contracts that provide insurance coverage on a voluntary basis as part of the contractual terms of the credit cards and credit card contracts that provide insurance coverage as a result of law or regulation.[1]

(ii) accounting separately for the insurance component in the credit card contracts applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(d) a small number of respondents suggested the Board clarify whether the proposed amendment would result in some credit card contracts that provide insurance services being brought into the scope of IFRS 9 in their entirety or whether other services provided by those credit card contracts, such as access to airport lounges, would continue to be in the scope of other IFRS Standards, such as IFRS 15 *Revenue from Contracts with Customers*.

(e) a small number of respondents disagreed with the Board's proposal because they think either:

(i) an entity should be required to apply IFRS 17 to all credit card contracts that meet the definition of an insurance contract to appropriately reflect the insurance feature of those contracts; or

[1] As explained in paragraph BC4.191 of the Basis for Conclusions on IFRS 9, IFRS 9 requires the holder of a financial asset to analyse the contractual terms to determine whether the asset gives rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The holder would not consider the payments that arise only as a result of regulation as cash flows in its analysis because that regulation and the related payments are not contractual terms of the financial instrument (see paragraph B4.1.13 of IFRS 9, Instrument E).

(ii) an entity should be permitted to apply IFRS 17 or IFRS 9 to the credit card contracts that would be captured by the proposed scope exclusion for various reasons (for example, to ensure consistency with choices available in IFRS 17 for fixed-fee service contracts and financial guarantee contracts).

*Staff thoughts*

8. The staff think that:

(a) the feedback from outreach and comment letters provides support for the Board to confirm the proposed scope exclusion for the credit card contracts discussed in paragraph 6 of this paper; and

(b) the Board should consider the concerns and suggestions from respondents discussed in paragraphs 7(b)–7(d) of this paper as part of the redeliberations.

9. The staff think that the Board does not need to consider further the concerns and suggestions from respondents discussed in paragraph 7(e) of this paper. The Board considered these when developing the Exposure Draft and the staff have not identified points the Board has not considered previously. Specifically, as explained in paragraphs BC14–BC15 of the Basis for Conclusions on the Exposure Draft:

(a) the Board considered whether an entity should apply IFRS 17 to the credit card contracts discussed in paragraph 6 of this paper. IFRS 9 and IFRS 17 both have requirements that can address credit risk and insurance risk, which are prominent features of such credit card contracts. IFRS 9 is more focused on credit risk and IFRS 17 is more focused on insurance risk. The Board noted there is a balance between the usefulness of the information about such contracts that would be provided by applying IFRS 9 and the usefulness of the information about such contracts that would be provided by applying IFRS 17.

(b) when an entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer, the Board concluded that IFRS 9 would

provide more useful information about those contracts. When the entity does reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer, the Board concluded that IFRS 17 would provide more useful information about those contracts. Hence, the Board decided that the Standard to be applied should not be a matter of choice. Furthermore, the Board has not been made aware of entities applying insurance contract accounting practices today to credit card contracts for which the entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer.

## *Question 1(b)—Scope exclusion for loans*

### *Proposals in the Exposure Draft*

10. The Exposure Draft proposed that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

### *Feedback*

11. Of the respondents who commented on the proposed scope exclusion for the loan contracts discussed in paragraph 10 of this paper:
    - (a) most respondents generally agreed with the Board's proposal and rationale for proposing the amendment to IFRS 17; and
    - (b) a small number of respondents:
        - (i) opposed the scope exclusion because they think that an entity should be required to apply IFRS 17 to all loan contracts that meet the

definition of an insurance contract to appropriately reflect the insurance feature of those contracts; or

(ii) suggested the Board amend the proposal so that an entity would be required to apply IFRS 9 to the loans that would be captured by the proposed scope exclusion because they believe that mandating the use of the same accounting requirements for the same type of contracts would ensure consistency and comparability between entities, without imposing IFRS 17 implementation costs to entities issuing those contracts.

12. Of the respondents who agreed with the Board's proposal, a small number of respondents commented on the implications of accounting for such loans applying IFRS 9. Those respondents suggested the Board clarify that the contractual cash flows of such loans are not solely payments of principal and interest (SPPI) and, therefore, applying IFRS 9, such loans should be accounted for at fair value through profit or loss.

### *Staff thoughts*

13. The staff think that the feedback from outreach and comment letters provides support for the Board to confirm the proposed scope exclusion for the loan contracts discussed in paragraph 10 of this paper.

14. The staff think that the Board does not need to consider further the concerns and suggestions from respondents discussed in paragraphs 11(b)–12 of this paper. The Board considered these when developing the Exposure Draft and the staff have not identified points the Board has not considered previously. Specifically, at the February 2019 Board meeting, the Board considered whether to:

(a) propose an amendment to IFRS 17 so that entities would be required, rather than permitted, to apply IFRS 9 to the loan contracts discussed in paragraph 10 of this paper. The Board agreed with staff recommendations in Agenda Paper 2A *Loans that transfer significant insurance risk* of the February 2019 Board meeting not to require an entity to apply IFRS 9 to such loans for the following reasons:

(i) amending IFRS 17 to require entities to apply IFRS 9 to such loan contracts might introduce a significant change for entities that currently account for those contracts applying IFRS 4 *Insurance Contracts* and are preparing to implement IFRS 17. Some entities might need to develop systems to account for contracts with insurance and non-insurance components in accordance with IFRS 9, while they are already developing systems to implement IFRS 17 to account for those contracts.

(ii) prohibiting entities from applying IFRS 17 to those loan contracts would not enable entities that issue those loan contracts and other types of insurance contracts to account for both types of contracts in the same way.

(iii) those loan contracts meet the definition of an insurance contract because they transfer significant insurance risk. IFRS 17 was developed with the objective that entities issuing contracts that transfer significant insurance risk faithfully represent those contracts. The accounting model in IFRS 17 appropriately reflects the features of these contracts.

(b) specify that, if an entity chooses to apply IFRS 9 to such loan contracts, the entity would always measure them at fair value through profit or loss. The Board concluded that such specification was not necessary noting that IFRS 9 is a principle-based and sufficiently robust Standard to handle complex financial instruments.

## Question 2—Expected recovery of insurance acquisition cash flows

### Proposals in the Exposure Draft

15. The Exposure Draft proposed that an entity:

(a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group

and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;

(b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised;

(c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired; and

(d) provide the following disclosures about such assets:

(i) a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows, showing separately any recognition of impairment losses and reversals of impairment losses; and

(ii) quantitative information, in appropriate time bands, about when an entity expects to derecognise an asset for insurance acquisition cash flows and include those cash flows in the measurement of the group of insurance contracts to which they are allocated.

*Feedback*

16. Most respondents who commented on Question 2 in the Exposure Draft agreed with the Board's proposal and rationale for proposing the amendment to IFRS 17. Of the respondents who agreed with the Board's proposal:

(a) some respondents suggested the Board:

(i) provide guidance on allocating insurance acquisition cash flows to expected renewals and determining any impairment loss (for example, how expected net cash inflows should be discounted when assessing the recoverability of the asset);

(ii) clarify the unit of account used to recognise an asset for insurance acquisition cash flows and to assess the recoverability of the asset;

(iii) clarify the interaction between the wording of the proposed amendment and the requirements in IFRS 17 (for example, in

defining insurance acquisition cash flows, Appendix A of IFRS 17 refers to costs that are directly attributable to the portfolio of insurance contracts to which the group belongs, whereas the proposed amendment in the Exposure Draft refers to an allocation of insurance acquisition cash flows that are directly attributable to a group of insurance contracts); and

(iv) provide transition reliefs to determine an asset for insurance acquisition cash flows when applying IFRS 17 for the first time.

(b) some respondents expressed the view that the proposed requirements to assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired are unduly complex. In contrast, a small number of respondents suggested that an entity should be required to assess the recoverability of an asset for insurance acquisition cash flows annually, regardless of the existence of facts and circumstances indicating the asset may be impaired.

17. A small number of respondents, including one insurer, one user of financial statements, one national standard-setter and one regulator, disagreed with the proposal because, in their view, it would:

(a) impair comparability between entities, in the light of the significant judgement they think would be involved in allocating insurance acquisition cash flows to expected renewals; and

(b) add complexity to IFRS 17 implementation.

18. A small number of respondents suggested that an entity should be permitted, rather than required, to allocate insurance acquisition cash flows to expected renewals to reduce IFRS 17 application costs and complexity.

19. A small number of respondents expressed concerns that the disclosures proposed in the Exposure Draft would require entities to disclose commercially sensitive information.

20. A small number of respondents expressed the view that, should the Board confirm the proposal in the Exposure Draft, any asset for insurance acquisition cash flows should

be presented separately in the statement of financial position (rather than as part of the carrying amount of the related portfolios of insurance contracts issued).

*Staff thoughts*

21. The staff think that:

    (a) the feedback from outreach and comment letters provides support for the Board to confirm the proposal for insurance acquisition cash flows in the Exposure Draft; and

    (b) the Board should consider the concerns and suggestions from respondents discussed in paragraphs 16–20 of this paper as part of the redeliberations.

## Question 3(a)—Contractual service margin attributable to investment services | Coverage units for insurance contracts without direct participation features

*Proposals in the Exposure Draft*

22. The Exposure Draft:

    (a) proposed that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage; and

    (b) specified criteria for when those contracts may provide an investment-return service (paragraph B119B of the Exposure Draft). Those contracts may provide an investment-return service if, and only if:

        (i) an investment component exists, or the policyholder has a right to withdraw an amount;

        (ii) the entity expects the investment component or amount the policyholder has a right to withdraw to include a positive investment return (a positive investment return could be below zero, for example, in a negative interest rate environment); and

(iii) the entity expects to perform investment activity to generate that positive investment return.

*Feedback*

23. Almost all respondents who commented on Question 3(a) in the Exposure Draft agreed that an entity should identify coverage units considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Of those respondents:

(a) almost half of the respondents did not provide any comments about the specified criteria for when insurance contracts without direct participation features may provide an investment-return service.

(b) some respondents expressed concerns about:

(i) the specified criteria for when insurance contracts without direct participation features may provide an investment-return service, with or without providing an alternative suggestion. Some of those respondents expressed concerns that the proposed amendment to IFRS 17 would not capture economically similar contracts that, in their view, provide both insurance coverage and an investment-return service but do not meet the criteria discussed in paragraph 22(b) of this paper because the contracts cannot be surrendered nor transferred.

(ii) the additional complexity introduced by the proposed amendment to IFRS 17, particularly for contracts that provide multiple services. A small number of respondents suggested the Board simplify the requirements for determining coverage units (for example, allowing the use of the passage of time or granting an exemption when it is impracticable to separately identify any investment-return service).

(c) some respondents suggested the Board:

   (i) clarify the wording in paragraph B119B of the Exposure Draft discussed in paragraph 22(b) of this paper (for example, the meaning of positive investment return); and

   (ii) provide application guidance, illustrative examples or educational materials on determining coverage units for contracts that provide multiple services and on distinguishing between investment-return services (for insurance contracts without direct participation features) and investment-related services (for insurance contracts with direct participation features).

(d) a small number of respondents expressed the view that insurance contracts with direct participation features may provide investment-return services, in addition to investment-related services and insurance coverage.

*Staff thoughts*

24. The staff think that:

   (a) the feedback from outreach and comment letters provides support for the Board to proceed with the direction of the proposal for identifying coverage units for insurance contracts without direct participation features; and

   (b) the Board should consider the concerns and suggestions from respondents discussed in paragraph 23(b)–23(d) of this paper as part of the redeliberations.

## *Question 3(b)—Contractual service margin attributable to investment services | Coverage units for insurance contracts with direct participation features*

*Proposals in the Exposure Draft*

25. The Exposure Draft proposed clarifying that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity

of benefits and expected period of both insurance coverage and investment-related service.

*Feedback*

26. All respondents who commented on Question 3(b) in the Exposure Draft supported the clarification proposed by the Board.

*Staff thoughts*

27. The staff think that the feedback from outreach and comment letters provides support for the Board to confirm the proposed clarification for identifying coverage units for insurance contracts with direct participation features.

## *Question 3(c)—Contractual service margin attributable to investment services | Disclosures*

*Proposals in the Exposure Draft*

28. The Exposure Draft proposed that an entity disclose:

    (a) quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period (paragraph 109 of the Exposure Draft); and

    (b) the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service (paragraph 117(c)(v) of the Exposure Draft).

*Feedback*

29. Respondents generally supported the additional disclosures proposed in the Exposure Draft.

30. A small number of respondents expressed concerns about the proposed requirement to provide quantitative information about the expected recognition in profit or loss of the contractual service margin remaining at the end of a reporting period. Those

respondents suggested the Board continue to allow entities to provide only qualitative information. They think that qualitative information:

(a) could be sufficient to achieve the Board's objective;

(b) would reduce the costs of applying IFRS 17; and

(c) would avoid the risk of providing commercially sensitive information in some circumstances.

### *Staff thoughts*

31. The staff think that the Board should consider the concerns and suggestions from respondents discussed in paragraph 30 of this paper as part of the redeliberations regarding the proposal for identifying coverage units for insurance contracts without direct participation features (Question 3(a) in the Exposure Draft discussed in paragraphs 22–24 of this paper).

## *Question 4—Reinsurance contracts held—recovery of losses*

### *Proposals in the Exposure Draft*

32. The Exposure Draft proposed an amendment to the measurement of a group of reinsurance contracts held. The proposed amendment would require an entity to adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income would be determined by multiplying:

(a) the loss recognised on the group of underlying insurance contracts; and

(b) the fixed percentage of claims on the group of underlying insurance contracts the entity has a right to recover from the group of reinsurance contracts held.

33. The Exposure Draft defined a reinsurance contract held that provides proportionate coverage as a reinsurance contract that provides the entity with the right to recover from the reinsurer a percentage of all claims incurred on groups of underlying

insurance contracts. The percentage the entity has a right to recover is fixed for all contracts in a single group of underlying insurance contracts but can vary between groups of underlying insurance contracts.

34. The proposed amendment would apply only when a reinsurance contract held is entered into before or at the same time as the loss is recognised on the underlying insurance contracts.

*Feedback*

35. Most respondents expressed support for the objective of the proposed amendment to IFRS 17. However, they expressed the view that the proposed amendment requires refinement to achieve the Board's objective of making it easier for entities to explain their results to investors. Respondents expressed concerns about:

    (a) the proposed population of reinsurance contracts held to which the amendment would apply. Most respondents, particularly preparers, expressed concerns that the proposed amendment would apply only to a limited population of reinsurance contracts held. Those respondents either expressed the view that:

        (i) the definition of a reinsurance contract held that provides proportionate coverage should be expanded; or

        (ii) the proposed amendment should apply to all reinsurance contracts held.

    (b) the proposed calculation of income (loss recovery). In particular, some respondents, including a regulator and a national standard-setter, expressed concerns that the proposal would result in an entity recognising income on a reinsurance contract held that is in a net cost position. Those respondents noted that for such reinsurance contracts the proposed calculation would result in the entity deferring losses and, in their view, could be open to abuse to achieve an accounting outcome.

*Staff thoughts*

36. The staff think that:

    (a) the feedback from outreach and comment letters provides support for the Board to proceed with the direction of the proposal for reinsurance contracts held; and

    (b) the Board should consider the concerns and suggestions from respondents discussed in paragraph 35 of this paper as part of the redeliberations.

## Question 5—Presentation in the statement of financial position

*Proposals in the Exposure Draft*

37. The Exposure Draft proposed that an entity present separately in the statement of financial position the carrying amount of portfolios (rather than groups) of insurance contracts issued that are assets and those that are liabilities. The proposed amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

*Feedback*

38. Overall, respondents expressed support for the proposed amendment to the presentation of insurance contracts in the statement of financial position and agreed with the Board's conclusion that the proposed amendment would decrease operational complexity and IFRS 17 implementation costs.

39. However, consistent with feedback during the development of the Exposure Draft:

    (a) a small number of respondents continued to express the view that they would prefer the Board to require an entity to present insurance contract assets and liabilities at an entity level, rather than at a portfolio level. Those respondents noted that different entities will identify portfolios in different ways and, therefore, those respondents think that a higher level of presentation in the statement of financial position would provide more useful information for users of financial statements to compare entities.

(b) a small number of respondents continued to suggest that the Board amend IFRS 17 to require an entity to present separately in the statement of financial position premiums receivable and claims payable. Those respondents think that requiring an entity to present those amounts separately—similar to existing practice—would provide useful information to users of financial statements. In particular, one user of financial statements mentioned that existing practice provides useful information about credit risk. Those respondents who supported presenting amounts receivable and payable separately expressed the view that separate presentation of those amounts would also decrease operational complexity and reduce implementation costs. In contrast, a small number of respondents agreed with the Board's decision not to amend the requirements of IFRS 17 relating to the presentation and measurement of premiums receivable and claims payable.

*Staff thoughts*

40. The staff think that the feedback from outreach and comment letters provides support for the Board to confirm the proposal for the presentation of insurance contracts in the statement of financial position.

41. The staff think that the Board does not need to consider further the concerns and suggestions from respondents discussed in paragraph 39 of this paper. The Board considered these when developing the Exposure Draft and the staff have not identified points the Board has not considered previously. Specifically, as explained in paragraphs BC97–BC100 of the Basis for Conclusions on the Exposure Draft:

(a) when developing the Exposure Draft, the Board considered but rejected some stakeholders' suggestions that presentation of insurance contracts in the statement of financial position should be at an entity level because that would risk a significant loss of useful information for users of financial statements.

(b) applying IFRS 4, some entities present separately in the statement of financial position different amounts arising from an insurance contract, as if those different amounts were separate assets or liabilities. For example,

some entities present line items labelled as premiums receivable, claims payable and deferred acquisition costs separately from the insurance contract liability. Different entities present different line items and have different definitions of what those line items are (for example, some entities present as premiums receivable amounts that are not yet billed while other entities present only billed amounts). Some stakeholders expressed the view that they would like to continue that practice of further disaggregation because they view such disaggregated line items as providing meaningful information to users of financial statements. The Board disagreed with the suggestion to amend IFRS 17 to permit that practice to continue because it could result in the presentation of amounts that are not separable assets or liabilities. For example, premiums receivable for future coverage is not a gross asset separable from the related liability for the future coverage.

## *Question 6—Applicability of the risk mitigation option*

### *Proposals in the Exposure Draft*

42. The Exposure Draft proposed to extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features (ie contracts to which the variable fee approach applies). That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features. The entity would be permitted to include in profit or loss some or all of the changes in the effect of financial risk on insurance contracts with direct participation features that usually adjust the contractual service margin. Doing so reduces accounting mismatches because the change resulting from financial risk in a reinsurance contract held is included in profit or loss.

### *Feedback*

43. All respondents who commented on Question 6 in the Exposure Draft supported the proposal to extend the risk mitigation option to circumstances when an entity uses

reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features. Respondents agreed with the Board’s view that the proposal would reduce accounting mismatches.

44. However, consistent with feedback during the development of the Exposure Draft, to further reduce accounting mismatches, some respondents suggested that the Board also amend IFRS 17 to:

    (a) permit an entity to apply the risk mitigation option when the entity uses financial instruments measured at fair value through profit or loss other than derivatives (for example, bonds) to mitigate financial risk arising from insurance contracts with direct participation features. Respondents generally expressed the view that the Board has not adequately explained the reasons for precluding an entity from using the risk mitigation option when the entity uses non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk arising from insurance contracts with direct participation features.

    (b) add a risk mitigation option for insurance contracts without direct participation features (ie contracts to which the general model applies). Some respondents acknowledged that entities could use general hedge accounting requirements in IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* to address some accounting mismatches for insurance contracts without direct participation features. However, those respondents:

        (i) noted that, for various reasons, hedge accounting solutions in IFRS 9 and IAS 39 are not well suited for the more macro approach that is common within the insurance industry; and

        (ii) expressed the view that the Board’s dynamic risk management project might not be able to address, in the medium term, the concerns about possible accounting mismatches for insurance contracts without direct participation features.

    (c) permit an entity to account for reinsurance contracts held applying the variable fee approach. A small number of respondents continued to express

the view that some reinsurance contracts held might meet the definition of an insurance contract with direct participation features in paragraph B101 of IFRS 17 and, therefore, that those contracts should be eligible for the variable fee approach.

*Staff thoughts*

45. The staff think that:

(a) the feedback from outreach and comment letters provides support for the Board to confirm the proposal that would permit an entity to apply the risk mitigation option when the entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features; and

(b) the Board should reconsider in the redeliberations whether to extend the applicability of the risk mitigation option to circumstances when an entity uses non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk arising from insurance contracts with direct participation features, in the light of the feedback from respondents discussed in paragraph 44(a) of this paper.

46. The staff think that the Board does not need to consider further the concerns and suggestions from respondents discussed in paragraph 44(b)–44(c) of this paper. The Board considered these when developing the Exposure Draft and the staff have not identified points the Board has not considered previously. Specifically, the staff observe that some of the feedback on Question 6 in the Exposure Draft indicates two underlying differences in perspective between the Board and some respondents. The Board:

(a) developed the variable fee approach for contracts that are substantially investment-related service contracts. The variable fee approach was not intended to provide entities with a method of matching financial income from assets with insurance finance expenses across a broad range of contracts.

(b) developed the requirements for reinsurance contracts held following the principle that they are separate contracts from the underlying insurance contracts and should be accounted for separately, rather than in a way that mirrors the underlying insurance contracts.

47. Accordingly, paragraphs BC107–BC109 of the Basis for Conclusions on the Exposure Draft explain that:

(a) the risk mitigation option was designed to address a specific accounting mismatch between insurance contracts with direct participation features and derivatives that arises because of the introduction of the variable fee approach. It was not intended to address broader risk mitigation activities. The Board also noted that IFRS 9 and IAS 39 include general hedge accounting requirements and IAS 39 includes specific 'macro hedge accounting' requirements (fair value hedge accounting for portfolio hedges of interest rate risk) that may enable entities to address some accounting mismatches.

(b) some stakeholders suggested that a risk mitigation option should be added to address perceived accounting mismatches that might arise if an entity applies the option in paragraph 88 of IFRS 17 to recognise some insurance finance income or expenses in other comprehensive income. Those mismatches might arise for both insurance contracts without direct participation features and insurance contracts with direct participation features. The Board disagreed with this suggestion, because an entity can avoid such mismatches by not applying the option.

(c) some stakeholders suggested the Board could resolve the accounting mismatch for reinsurance contracts held by permitting an entity to choose to account for reinsurance contracts held applying the variable fee approach if the underlying insurance contracts are insurance contracts with direct participation features. The Board disagreed with this suggestion because the variable fee approach was designed specifically so that profit earned by an entity issuing insurance contracts that are substantially investment-related service contracts would be accounted for similarly to the profit earned by an entity issuing asset management contracts. When an entity purchases a

reinsurance contract, it does not provide asset management services, rather, it receives insurance coverage.

## Question 7(a)—Effective date of IFRS 17

### *Proposals in the Exposure Draft*

48. The Exposure Draft proposed a one-year deferral of the effective date of IFRS 17 so that an entity would be required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2022.

### *Feedback*

49. Almost all respondents supported the Board's proposal to defer the effective date of IFRS 17. The remainder of respondents did not express a view on the proposal but commented on the importance of entities in jurisdictions around the world applying IFRS 17 for the first time at the same time. The importance of having the same effective date of IFRS 17 in different jurisdictions around the world was also noted by some respondents who agreed with the Board's proposal.

50. Of the respondents who agreed with the Board's proposal:

    (a) almost half of the respondents generally agreed with the Board's proposal and rationale for a one-year deferral.

    (b) some respondents expressed the view that the Board should defer the effective date of IFRS 17 by more than one year to allow more time for implementation, particularly for smaller entities. Most of those respondents suggested 1 January 2023 as a possible effective date for IFRS 17.

    (c) a small number of respondents—including all regulators, some insurers from Germany, South Korea and South Africa and two user representative bodies—opposed any deferral of the effective date beyond 1 January 2022 because this would further increase implementation costs or further delay improvements in existing insurance accounting practices that are urgently needed.

51. Some respondents suggested the Board consider permitting entities not to present adjusted comparative information on initial application of IFRS 17 as an alternative to deferring the effective date of IFRS 17 by more than one year. However, a small number of respondents expressed disagreement with the suggestion of not requiring entities to restate comparative information, which had been raised before by stakeholders.

*Staff thoughts*

52. The staff think that:

    (a) the feedback from outreach and comment letters provides support for the Board to confirm the proposal to defer the effective date of IFRS 17; and

    (b) the Board should consider the concerns and suggestions from respondents discussed in paragraph 50 of this paper as part of the redeliberations.

53. The staff think that the Board does not need to consider further the suggestion from respondents, discussed in paragraph 51 of this paper, not to present adjusted comparative information on initial application of IFRS 17. The Board considered this when developing the Exposure Draft and the staff have not identified points the Board has not considered previously. Specifically, as explained in paragraph BC117 of the Basis for Conclusions on the Exposure Draft, the Board views the restatement of comparative information about insurance contracts on initial application of IFRS 17 as:

    (a) necessary to allow users of financial statements to assess the effects of applying IFRS 17 for the first time; and

    (b) particularly important given the diversity in existing insurance accounting practices and the extent of change introduced by IFRS 17.

### *Question 7(b)—IFRS 9 temporary exemption in IFRS 4*

#### *Proposals in the Exposure Draft*

54. The Exposure Draft proposed extending the temporary exemption from applying IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

#### *Feedback*

55. Overall, respondents supported the Board's proposal to further delay the implementation of IFRS 9 for some insurers to continue to enable them to first apply IFRS 17 and IFRS 9 at the same time.

56. Some respondents—mainly located in Europe—expressed the view that the alignment of insurers applying IFRS 17 and IFRS 9 for the first time at the same date is essential.

57. In contrast, a small number of respondents—located in Australia, Germany, New Zealand and South Africa—noted they have already implemented IFRS 9 and, therefore, the proposed amendment does not affect them.

58. Users of financial statements who commented on the proposal to further delay the implementation of IFRS 9 for some insurers by one year did not oppose the proposal. However:

    (a) a global user representative body specialised in the insurance industry noted that it had not agreed with the need for the temporary exemption from applying IFRS 9 when it was introduced in 2016.

    (b) a European user representative body, which expressed the view that insurers should continue to be able to apply IFRS 17 and IFRS 9 for the first time at the same date, suggested introducing additional disclosure requirements on financial asset ratings to reduce information gaps between insurers and other financial entities until insurers apply IFRS 9. This respondent noted that investments in credit assets are an increasing risk in the insurance industry particularly in jurisdictions where insurers have

increased their investment in government bonds and the interest rates on those bonds have for years been, and remain, low.

*Staff thoughts*

59. The staff think that:

    (a) the feedback from outreach and comment letters provides support for the Board to confirm the proposal to extend the temporary exemption from IFRS 9; and

    (b) the Board should consider the feedback from respondents discussed in paragraphs 56–58 of this paper as part of the redeliberations at the same time it considers the concerns and suggestions from respondents about the effective date of IFRS 17.

### *Question 8(a)—Transition reliefs for business combinations*

60. IFRS 17 requires an entity to classify a liability for settlement of claims as a liability for remaining coverage if the entity acquired the insurance contract during the claims settlement period and, at the acquisition date, the amount of claims is still uncertain.

*Proposals in the Exposure Draft*

61. The Exposure Draft proposed that, when applying IFRS 17 for the first time, an entity:

    (a) applying the modified retrospective approach, to the extent the entity cannot apply the requirement discussed in paragraph 60 of this paper retrospectively, classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired; and

    (b) applying the fair value approach be permitted to classify such a liability as a liability for incurred claims.

*Feedback*

62. Overall, respondents expressed support for the proposed amendment to IFRS 17 transition requirements. Some respondents agreed with the Board's view that the proposed amendment would provide practical relief when an entity does not have information to apply the requirements of IFRS 17 retrospectively.

63. A small number of respondents suggested the Board clarify that the proposed amendment would apply to contracts acquired in a transfer of insurance contracts that do not form a business (for example, a portfolio transfer), in addition to contracts acquired in a business combination within the scope of IFRS 3 *Business Combinations*.

64. A small number of respondents suggested that, similar to the proposed relief applying the fair value approach, an entity should be permitted a choice to classify such a liability as a liability for incurred claims when applying the full retrospective approach or the modified retrospective approach.

65. As further discussed in Agenda Paper 2C, some respondents continued to suggest the Board amend IFRS 17 to permit in all circumstances (that is, before and after the transition date) an entity to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired. Those respondents expressed the view that such an amendment would:

    (a) improve the usefulness of information provided by IFRS 17 by increasing comparability between insurance contracts issued by an entity and insurance contracts acquired by an entity;

    (b) reduce complexity and cost because such an amendment would be consistent with most existing insurance accounting practices; and

    (c) particularly, reduce complexity and costs for entities that plan to apply only the premium allocation approach to the contracts they issue and that would be required to apply the general model, rather than the premium allocation approach, to contracts acquired.

*Staff thoughts*

66. The staff think that:

(a) the feedback from outreach and comment letters provides support for the Board to confirm the proposed additional transition relief for insurance contracts acquired;

(b) the Board should clarify in the final drafting that the proposed amendment would apply to contracts acquired in a transfer of insurance contracts that do not form a business, in the light of the feedback discussed in paragraph 63 of this paper;

(c) the Board does not need to consider further the suggestions discussed in paragraph 64 of this paper because permitting any reliefs within the full retrospective approach or general optionality and flexibility in the modified retrospective approach would contradict the objective of those approaches, as further discussed in Agenda Paper 2C; and

(d) the Board should consider the concerns and suggestions from respondents discussed in paragraph 65 of this paper as part of the redeliberations, as further discussed in Agenda Paper 2C.

## *Question 8(b)–(c)—Transition reliefs for the risk mitigation option*

*Proposals in the Exposure Draft*

67. The Exposure Draft proposed that an entity:

(a) apply the risk mitigation option for insurance contracts with direct participation features prospectively from the transition date, rather than the date of initial application. An entity would be required to designate risk mitigation relationships at or before the date it applies the option.

(b) that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participation features be permitted to instead apply the fair value

approach to that group if it meets specified criteria relating to risk mitigation.

*Feedback*

68. Overall, respondents expressed support for the proposed amendments to the IFRS 17 transition requirements.

69. However, some respondents continued to suggest that the Board amend IFRS 17 to permit an entity to apply the risk mitigation option retrospectively, either in addition to, or instead of, the proposed amendments. In their view, the benefit of an entity reflecting risk mitigation activities before the transition date in a consistent way to risk mitigation activities after the transition date would outweigh the risk of the entity using hindsight to apply the option based on a known accounting outcome.

70. A small number of those respondents suggested that, should the Board agree that it would be appropriate for an entity to apply the risk mitigation option retrospectively, the Board could reduce the risk of an entity using hindsight to apply the option based on a known accounting outcome by reconsidering permitting an 'all or nothing' approach to applying the risk mitigation option retrospectively.

71. A small number of respondents agreed with the Board's decision not to amend IFRS 17 to permit an entity to apply the risk mitigation option retrospectively.

*Staff thoughts*

72. The staff think that:

    (a) the feedback from outreach and comment letters provides support for the Board to confirm the proposals discussed in paragraph 67 of this paper; and

    (b) the Board should consider the concerns and suggestions from respondents discussed in paragraphs 69–71 of this paper as part of the redeliberations.

### *Question 9—Minor amendments*

#### *Proposals in the Exposure Draft*

73. The Exposure Draft:

    (a) proposed minor amendments to the requirements in IFRS 17 to address a number of cases in which the drafting of IFRS 17 does not achieve the Board's intended outcome; and

    (b) included a number of editorial corrections to IFRS 17 that the Board had identified after IFRS 17 was issued.

#### *Feedback*

74. Overall, respondents expressed support for the proposed minor amendments.

75. However, some respondents expressed concerns or asked for clarifications about some of the proposed minor amendments, including the following:

    (a) editorial correction to paragraph B107 of IFRS 17—for consistency with the wording of the requirements in paragraph B101 of IFRS 17, the Exposure Draft included an editorial correction to paragraph B107 of IFRS 17. Paragraph B101 of IFRS 17 requires an entity to assess contracts eligible for the variable fee approach at individual contract level. Paragraph B107 of IFRS 17, which is related to paragraph B101 of IFRS 17, incorrectly referred to a group of insurance contracts. Some respondents view the editorial correction to paragraph B107 of IFRS 17 as a major change to the requirements in IFRS 17 that would disrupt implementation.

    (b) proposed amendment to paragraph B128 of IFRS 17—the Exposure Draft proposed amending paragraph B128 of IFRS 17 to clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items are changes arising from the effect of the time value of money and assumptions that relate to financial risk for the purposes of IFRS 17. Some respondents continued to express concerns that the proposed requirement to present all changes in underlying items as

insurance finance income or expenses would distort the presentation of the different sources of profits from insurance contracts. Although more complex, some respondents suggested that the effects of changes in cash flows from participating in underlying items that are not financial in nature[2] are instead presented within the insurance service result in line with how the changes in those underlying items are presented applying other requirements in IFRS 17.

(c) proposed amendment to the definition of an investment component—the Exposure Draft proposed amending the definition of an investment component in Appendix A of IFRS 17 to clarify the Board's intention that an investment component is the amount an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs. Some respondents:

    (i) suggested alternative definitions of an investment component;

    (ii) asked the Board to clarify whether policy loans meet the definition of an investment component; and

    (iii) asked the Board to define a premium refund in IFRS 17 to make it easier to distinguish repayments of investment components from premium refunds.

(d) proposed amendment to paragraph 28 of IFRS 17—the Exposure Draft proposed amending paragraph 28 of IFRS 17 to require that in recognising a group of insurance contracts in a reporting period, an entity should include only contracts that meet the criteria for recognition in paragraph 25 of IFRS 17 (rather than contracts issued by the end of the reporting period) to clarify that insurance contracts are added to a group when they meet the recognition criteria (which may or may not be when those contracts are issued). Respondents generally supported the proposed amendment to paragraph 28 of IFRS 17. However, some respondents disagreed with the Board's decision not to propose the same amendment to paragraph 22 of

[2] Paragraph B106 of IFRS 17 states that underlying items can comprise any items, for example a reference portfolio of assets, net assets of the entity, or a specified subset of the net assets of the entity, as long as they are clearly identified by the contract.

IFRS 17 (prohibition from including contracts issued more than one year apart in the same group). Those respondents said that tracking insurance contracts based on the issue date requires a data base which is not currently available in most systems. Paragraph BC150 of the Basis for Conclusions on the Exposure Draft explains that, in contrast to paragraph 28 of IFRS 17, the intention of paragraph 22 of IFRS 17 is to refer to the time at which insurance contracts are issued, rather than recognised. Therefore, the Board did not propose amending paragraph 22 of IFRS 17.

(e) proposed amendment to paragraph 2 of IFRS 9—the Exposure Draft proposed amendments to IFRS 9, IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation* to clarify that, consistent with the scope of these Standards before IFRS 17 was issued, insurance contracts held are not in the scope of IFRS 9, IFRS 7 and IAS 32. Some respondents noted a mistake in drafting the proposed consequential amendment to IFRS 9 that would result in the unintended consequence of requiring entities to account for financial guarantee contracts held applying IFRS 9.

76. A small number of respondents also expressed concerns or asked clarifications about other proposed minor amendments, including the following:

(a) proposed amendment to paragraph B124 of IFRS 17—the Exposure Draft proposed that an entity should present experience adjustments for premium receipts as insurance revenue. A small number of respondents expressed concerns that this proposed amendment seems inconsistent with the requirement in paragraph B96(a) of IFRS 17, which states that experience adjustments arising from premium received in the period that relate to future service should adjust the contractual service margin, and suggested specifying that the proposed amendment refers to experience adjustments for premium receipts that relate to current or past service.

(b) proposed amendment to paragraph B96(c) of IFRS 17—the Exposure Draft proposed clarifying that, for insurance contracts without direct participation features, changes in fulfilment cash flows relating to the time value of money and assumptions that relate to financial risk that arise from

differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period do not adjust the contractual service margin. A small number of respondents expressed concerns that the proposed amendment:

(i) would add operational complexity because it would require segregation of any unexpected investment component payments into a part which is due to a change in financial variables and a part which is due to a change in non-financial variables; and

(ii) does not clearly state whether an entity should present such changes as part of the insurance service result or insurance finance income or expenses.

(c) proposed amendment to paragraph 11 of IFRS 17—the Exposure Draft proposed clarifying that if an entity separates an investment component from a host insurance contract and the component meets the definition of an investment contract with discretionary participation features, the entity should account for that component applying IFRS 17. A small number of respondents asked the Board to clarify that an investment contract with discretionary participation features may contain a distinct investment component that could be separated and measured applying IFRS 9.

(d) proposed amendment to paragraph B96(d) of IFRS 17—the Exposure Draft proposed clarifying that if an entity disaggregates the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses, the entity should adjust the contractual service margin only for the changes related to non-financial risk, measured at the discount rates determined on initial recognition (locked-in discount rates). A small number of respondents disagreed with this proposed amendment, particularly with the reference to locked-in discount rates.

(e) proposed amendment to IFRS 3—the Exposure Draft proposed amending IFRS 3 to clarify that an entity can continue to classify insurance contracts acquired through a business combination that occurred before the date of initial application of IFRS 17 based on the contractual terms and other factors at the inception of the contract, rather than at the acquisition date. A small number of respondents commented to support the clarification, but continued to suggest the Board amend IFRS 17 to extend this exception to the principle in IFRS 3 (ie an acquirer classifies assets acquired and liabilities assumed based on the terms and conditions as they exist at the acquisition date) to contracts acquired through a business combination that occurred after the date of initial application of IFRS 17 (refer to Agenda Paper 2C for further information about comments from respondents on the requirements for business combinations in IFRS 17).

(f) proposed amendment to paragraph B123 of IFRS 17—the Exposure Draft proposed clarifying that changes caused by cash flows from loans to policyholders do not give rise to insurance revenue. A small number of respondents questioned whether this proposed amendment would apply to policy loans.

(g) proposed amendments to the definitions of a liability for remaining coverage and a liability for incurred claims—the Exposure Draft proposed consequential amendments to the definitions of liability for remaining coverage and liability for incurred claims to reflect the proposed amendments relating to the insurance contract services provided by the group of insurance contracts in the period. A small number of respondents expressed the view that the proposed definitions are unclear and provided some drafting suggestions.

*Staff thoughts*

77. The staff think that the Board should consider the concerns and suggestions from respondents about proposed minor amendments discussed in paragraphs 75–76 of this paper as part of the redeliberations.

### *Question 10—Terminology*

#### *Proposals in the Exposure Draft*

78. The Exposure Draft:

    (a) proposed to add to Appendix A of IFRS 17 the definition 'insurance contract services' to be consistent with other proposed amendments in the Exposure Draft; and

    (b) asked stakeholders whether they would find helpful if the Board were to make consequential changes in terminology by amending the terms in IFRS 17 to replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage', in the light of the amendments proposed in the Exposure Draft.

#### *Feedback*

79. The majority of respondents who commented on Question 10 in the Exposure Draft expressed the view that it would be helpful to amend the terms in IFRS 17 to reflect the proposed addition to Appendix A of IFRS 17 of the defined term 'insurance contract services'.

80. However, the remainder of respondents who commented on Question 10 in the Exposure Draft expressed concerns that widespread changes throughout the Standard might cause unintended consequences and might disrupt implementation under way, although they understood the rationale for the possible changes in terminology. In addition, those respondents noted that the terminology used in IFRS 17 as originally issued has been used widespread throughout educational materials published by the Board, national standard-setters, auditors and others.

81. When commenting on the proposed definition of 'insurance contract services', a small number of respondents noted that the proposed amendment in Question 3 of the Exposure Draft (see paragraphs 22–27 of this paper) would, for some insurance contracts providing investment services amend the coverage period compared to IFRS 17 as originally issued. Those respondents noted that such an amendment might have implications on the implementation of other requirements of IFRS 17, for

example, the requirements for the identification of cash flows within the boundary of an insurance contract in paragraph 34 of IFRS 17.

*Staff thoughts*

82. The staff think that the Board should consider the feedback on possible terminology changes as part of the redeliberations of the proposal for identifying coverage units and the related proposed definition of ‘insurance contract services’ (Question 3 in the Exposure Draft).