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Project	**Amendments to IFRS 17**		
Paper topic	Comment letter summary—other comments		
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Purpose of the paper

1. This paper summarises comments received on the Exposure Draft *Amendments to IFRS 17* other than those in response to the questions in the Exposure Draft.

2. The paper summarises:

   (a) comments on areas for which amendments to IFRS 17 *Insurance Contracts* were considered but not proposed (paragraphs 5–79 of this paper); and

   (b) other comments (paragraphs 80–85 of this paper).

3. Feedback from comment letters on the ten questions in the Exposure Draft is discussed in Agenda Paper 2B *Comment letter summary—feedback on the questions in the Exposure Draft*.

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 2B.

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Comments on areas for which amendments to IFRS 17 were considered but not proposed

5. The following table lists the areas the International Accounting Standards Board (Board) considered but for which it did not propose amendments to IFRS 17 and provides references to the paragraphs in this paper that summarise, for each area:
   (a) background;
   (b) comments from respondents; and
   (c) staff thoughts.
6. The Exposure Draft did not include any specific questions on these areas. Therefore, not all respondents have commented on these areas. Respondents who commented on these areas mainly expressed concerns and disagreement with the Board's decisions not to propose amendments to IFRS 17 on these areas.

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Level of aggregation

Background

7. IFRS 17 prohibits an entity from including in the same group contracts issued more than one year apart (the annual cohort requirement).
8. When the Board considered proposing amendments to IFRS 17, it considered stakeholders' concerns and challenges relating to the annual cohort requirement, particularly for insurance contracts with risk sharing between different generations of policyholders. Stakeholders expressed concerns that the requirement:
   (a) will not provide users of financial statements with useful information;
   (b) is a major challenge for implementation and the benefits of the requirement do not outweigh its costs; and
   (c) is unnecessary because an entity can achieve the same outcome without applying that requirement.
9. The Board disagreed with some stakeholders' views that intergenerational sharing of returns between policyholders means that each generation of contracts is equally profitable for an entity and that identifying the contractual service margin for each annual cohort would be arbitrary.
10. The Board recognised that in identifying the contractual service margin at an annual cohort level an entity may incur costs. However, the Board concluded that information about higher or lower profits earned by the entity from different generations of contracts is sufficiently useful information to justify such costs. Therefore, the Board decided to retain the annual cohort requirement unchanged.

Comments from respondents

11. Some respondents commented on the Board's decision to retain the annual cohort requirement unchanged. Most of the respondents that commented on the annual cohort requirement were European stakeholders.

12. Of the respondents who commented on the annual cohort requirement:

    (a) a small number of respondents, including users of financial statements, expressed support for the Board's decision not to amend the requirement and urged the Board to reaffirm that decision.

    (b) some respondents would prefer that the Board amend or delete the annual cohort requirement for all insurance contracts, but suggested that, at a minimum, IFRS 17 is amended so that the requirement does not apply to insurance contracts with intergenerational sharing of risks between policyholders because, in the view of those respondents:

        (i) implementing the requirement would be particularly costly and complex for those contracts and the cost would not outweigh the benefit; and/or

        (ii) applying the requirement to those contracts would require arbitrary allocations and, therefore, the resulting information would not be useful.

    (c) some respondents expressed support for the requirement generally, or did not comment on the requirement generally, but suggested the Board require an exception to the annual cohort requirement for insurance contracts with intergenerational sharing of risks between policyholders. A small number of those respondents suggested that the Board could require additional disclosures for the insurance contracts to which the exception would apply.

    (d) one respondent urged the Board not to specify an exception to the annual cohort requirement for a specified sub-set of insurance contracts, because, in the view of this respondent, such an exception would suggest that an entity cannot use a practical approach to achieve the objective of the annual cohort requirement for insurance contracts outside the scope of any such exception.

    (e) some respondents suggested the Board provide further transition relief compared to the existing annual cohort transition reliefs in the modified retrospective approach and fair value approach. Those respondents suggested that, similar to the existing relief in the fair value approach, an entity should be permitted not to apply the annual cohort requirement when applying the full retrospective approach or modified retrospective approach

to transition. Those respondents think this suggestion would provide a significant practical relief.

Staff thoughts

13. The staff have identified from the feedback from outreach and comment letters additional information about the balance between the cost and benefits of annual cohorts for the contracts discussed in paragraph 12(c) of this paper. Therefore, the staff think that the Board should consider, as part of the redeliberations, whether this additional information is relevant to the decision the Board took previously for those specific contracts.

Cash flows in the boundary of a reinsurance contract held

Background

14. IFRS 17 requires an entity to include in the measurement of a group of insurance contracts issued (or reinsurance contracts held) all future cash flows within the boundary of each contract in the group. An entity estimates future cash flows for insurance contracts based on the expected value of the full range of possible outcomes. For a reinsurance contract held, that estimate of future cash flows will include future cash flows that relate to all insurance contracts the entity expects to be covered by the reinsurance contract held, including future insurance contracts the entity expects to issue.

15. When the Board considered proposing amendments to IFRS 17, it considered stakeholders' concerns and challenges relating to the requirement to estimate future cash flows of reinsurance contracts held. Stakeholders suggested the Board amend the contract boundary requirements for reinsurance contracts held to exclude cash flows of a reinsurance contract held that relate to underlying insurance contracts that have not yet been issued from the measurement of the reinsurance contract held until those underlying insurance contracts are issued.

16. The Board disagreed with this suggestion by stakeholders for the reasons explained in paragraphs BC181–BC185 of the Basis for Conclusions on the Exposure Draft:

    (a) the Board noted that the suggestion by stakeholders, which is consistent with feedback the Board received during the development of IFRS 17, would achieve an outcome similar to the practice often used applying IFRS 4 *Insurance Contracts*, whereby an entity measures reinsurance contracts held based on the measurement of the underlying insurance contracts. The Board reaffirmed its view that the accounting for a reinsurance contract held should be consistent with the accounting for insurance contracts issued. Such accounting includes measuring the expected value of all the entity's rights and obligations from a contract independently of the expected value of the entity's rights and obligations from other contracts. An entity's rights and obligations as the holder of a reinsurance contract differ from its rights and obligations as the issuer of underlying insurance contracts. When an entity holds a reinsurance contract that covers insurance contracts it expects to issue in the future, the entity has a substantive right to receive reinsurance coverage for those future insurance contracts. In contrast, the entity has no substantive rights or substantive obligations to policyholders under the future insurance contracts.

    (b) some stakeholders expressed the view that the requirements in IFRS 17 create an accounting mismatch because expected future cash flows related to insurance contracts expected to be issued may be reflected in determining the contractual service margin of a reinsurance contract held before those underlying insurance contracts are issued. The Board observed that the measurement of the carrying amount of the reinsurance contract held and the underlying insurance contracts does not create an accounting mismatch. If the reinsurance contract held is recognised before some of the underlying insurance contracts are recognised and no cash flows have been paid or received relating to the reinsurance of those underlying contracts, the carrying amount of the reinsurance contract held will include all the expected cash inflows and cash outflows relating to the reinsurance of those

future underlying contracts. The difference between the cash inflows and cash outflows (adjusted for non-financial risk) on initial recognition of the reinsurance contract held is recognised as a contractual service margin in the carrying amount of the reinsurance contract held asset. Before any cash flows occur and any service is received, the carrying amount of the reinsurance contract held is, therefore, zero.

(c) differences between the carrying amount of the reinsurance contract held and the underlying insurance contracts will arise because of differences in the provision of coverage and differences in the timing of cash flows, if any. Often insurance coverage under the reinsurance contract held will be received at the same time as insurance coverage is provided by the underlying insurance contracts, so will not create a difference in carrying amount. Differences in carrying amounts caused by different timings of cash flows are not accounting mismatches. Interest may be accreted on the contractual service margin of the reinsurance contract held from an earlier period, and at a different discount rate to the underlying insurance contracts. Differences caused by these factors also are not accounting mismatches but reflect the different effect of the time value of money on the contractual service margin and fulfilment cash flows.

(d) furthermore, in the Board's view, including all expected future cash flows in the measurement of the contractual service margin at initial recognition of the reinsurance contract held reflects the conditions under which the entity agreed, under specified terms, to receive services from the reinsurer for future insurance contracts it expects to issue. If a reinsurance contract held provides an entity with neither substantive rights nor substantive obligations relating to future insurance contracts it expects to issue, then those future insurance contracts will be outside the boundary of the reinsurance contract held. The requirements for expected future cash flows in paragraphs 33−35 of IFRS 17 are a core aspect of the Standard. The Board sees no reason why these requirements should not be applied consistently—both to insurance contracts issued and reinsurance contracts held.

(e) the Board noted there would be costs for some entities because such consistency represents a change from existing practice. However, the Board concluded that the benefits of appropriately reflecting an entity's rights and obligations as the holder of a reinsurance contract outweigh those costs.

Comments from respondents

17. Some respondents commented on the Board's decision to retain the contract boundary requirements in IFRS 17 for reinsurance contracts held unchanged. Almost all of those respondents disagreed with the Board's decision. Consistent with feedback the Board considered when developing the Exposure Draft, those respondents continued to express concerns about:

    (a) the complexity of the contract boundary requirements for reinsurance contracts held;

    (b) the cost-benefit analysis for these requirements;

    (c) the significance of the change that these requirements introduce to many existing insurance accounting practices;

    (d) the usefulness of the information that the application of those requirements would provide for investors; and

    (e) the perceived accounting mismatches that might arise between reinsurance contracts held and the underlying insurance contracts.

18. A small number of respondents continued to disagree with the Board's view explained in paragraph BC183 of the Basis for Conclusions on the Exposure Draft (see paragraph 16(c) of this paper) that differences arising between a reinsurance contract held and underlying insurance contracts are not accounting mismatches but predominantly relate to different timings of cash flows which are affected by the different discount rates that would apply. One of those respondents:

    (a) expressed the view that the differences arise from inconsistent measurement requirements regarding discount rates, do not reflect the underlying economics of the contracts and could be misleading to users of the financial statements.

(b) suggested, for the purpose of accounting for reinsurance contracts held and to mitigate the perceived accounting mismatches, that the Board amend IFRS 17 to:

  (i) require the application of current interest rates in the determination of the contractual service margin at each reporting period (see paragraphs 30–36 of this paper) or, at least, permit, or require, discount rates to be determined on initial recognition of underlying groups of insurance contracts (rather than on initial recognition of the group of reinsurance contracts held); and

  (ii) reconsider the contract boundary requirements for reinsurance contracts held when underlying insurance contracts have not yet been issued.

Staff thoughts

19. The staff think that the Board does not need to re-discuss this topic as part of the redeliberations. When developing the Exposure Draft, the Board considered the concerns and suggestions from respondents as discussed in paragraph 16 of this paper and the staff have not identified points the Board has not considered previously.

Subjectivity in the determination of discount rates and the risk adjustment for non-financial risk

Background

20. The requirements in IFRS 17 provide objectives that an entity is required to achieve when determining discount rates and the risk adjustment for non-financial risk. Those requirements do not prescribe how an entity achieves that outcome.

21. When the Board considered proposing amendments to IFRS 17, it considered concerns expressed by some stakeholders, in particular users of financial statements, that the principle-based nature of those requirements could limit comparability between entities and they would rather IFRS 17 constrained variability in practice.

22. The Board did not propose any change in the Exposure Draft to make the requirements for determining discount rates and the risk-adjustment for non-financial risk more prescriptive for the reasons explained in paragraphs BC187–BC188 of the Basis for Conclusions on the Exposure Draft:

    (a) insurance contracts have a variety of forms, terms and conditions. In the Board's view, requiring an entity to measure discount rates and the risk adjustment for non-financial risk for insurance contracts using a rule-based approach would result in outcomes that are appropriate only in some circumstances. The approach in IFRS 17 for determining discount rates and the risk adjustment for non-financial risk requires entities to apply judgement when determining the inputs most relevant to the circumstances and requires entities to disclose information in the notes to the financial statements about the methods used and judgements applied. Entities applying IFRS 17 are all required to meet the same measurement objectives. The requirements in IFRS 17 aim to achieve comparability without imposing arbitrary uniformity.

    (b) discount rates and the risk adjustment for non-financial risk are core components of the measurement model. Any change to make the requirements more prescriptive with implementation already under way would likely significantly disrupt implementation and could diminish the usefulness of information provided by IFRS 17.

Comments from respondents

23. A small number of respondents commented on the Board's decision to retain the requirements for determining discount rates and the risk adjustment for non-financial risk unchanged. Many of those respondents expressed support for the Board's decision. Consistent with the feedback the Board considered when developing IFRS 17, the remainder of those respondents suggested the Board provide more guidance about determining the risk adjustment for non-financial risk and recognising the risk adjustment for non-financial risk in profit or loss as the entity is released from risk.

Staff thoughts

24. The staff think that the Board does not need to re-discuss this topic as part of the redeliberations. When developing the Exposure Draft, the Board considered the suggestions from respondents as discussed in paragraph 22 of this paper and the staff have not identified points the Board has not considered previously.

Risk adjustment for non-financial risk in a consolidated group of entities

Background

25. Applying IFRS 17, the risk adjustment for non-financial risk reflects the degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk.

26. When the Board considered proposing amendments to IFRS 17, it considered concerns expressed by some stakeholders that the differing views about determining the risk adjustment for non-financial risk in an entity reporting as a consolidated group of entities discussed by the Transition Resource Group for IFRS 17 will result in diversity in practice. Those stakeholders suggested that the Board amend IFRS 17 to clarify its intention for determining the risk adjustment for non-financial risk in the consolidated financial statements of a group of entities.

27. As explained in paragraph BC192 of the Basis for Conclusions on the Exposure Draft, the Board concluded that clarifying this aspect of determining the risk adjustment for non-financial risk would not address all possible differences that could arise, given the judgement required in determining the risk adjustment for non-financial risk. In the Board's view, practice needs to develop in this area and, if necessary, the Board will seek to understand how the requirements are being applied as part of the Post-implementation Review of IFRS 17.

Comments from respondents

28. A small number of respondents commented on the Board's decision to retain the requirements for determining the risk adjustment for non-financial risk in the

consolidated financial statements of a group of entities unchanged. Those respondents expressed support for the Board's decision.

Staff thoughts

29. The staff think that the Board does not need to re-discuss this topic as part of the redeliberations because all respondents who commented on this topic agreed with the Board's decision.

Discount rate used to determine adjustments to the contractual service margin

Background

30. IFRS 17 requires an entity to adjust the contractual service margin for changes in fulfilment cash flows relating to future service.

31. When the Board considered proposing amendments to IFRS 17, it considered concerns expressed by some stakeholders about the difference that arises for groups of insurance contracts without direct participation features because fulfilment cash flows are measured at a current discount rate, whereas the resulting adjustment to the contractual service margin is measured at the discount rate determined at the date of initial recognition of the group of contracts (the 'locked-in rate'). The Board had also considered those concerns during the development of IFRS 17.

32. As explained in paragraph BC194–BC199 of the Basis for Conclusions on the Exposure Draft, the Board considered two alternative amendments to IFRS 17 suggested by stakeholders relating to the discount rate used to determine adjustments to the contractual service margin for insurance contracts without direct participation features. Some stakeholders suggested those amendments would reduce the operational burden of applying the Standard, while others said it would be conceptually appropriate to measure the contractual service margin using the same current discount rate used for the measurement of fulfilment cash flows. The two suggested amendments were that an entity be required to:

(a) determine adjustments to the contractual service margin for changes in fulfilment cash flows relating to future service using a current discount rate; or

(b) remeasure the contractual service margin as a whole using a current discount rate.

33. The Board disagreed with both suggestions and did not propose in the Exposure Draft any changes to the requirements for the discount rate used to determine adjustments to the contractual service margin. The Board concluded that:

(a) measuring the effect of future cash flows on the contractual service margin at different discount rates depending on when they become part of the expected cash flows would create an inconsistency in the measurement of profit; and

(b) if the contractual service margin were to be fully remeasured to reflect current discount rates for insurance contracts without direct participation features, the revenue recognised would reflect the effect of current interest rates on the price the entity would charge for the service if it were determining that price at the reporting date, rather than the revenue earned as the entity provides services, reflecting the price set at the contract issue date for that service.

Comments from respondents

34. Some respondents commented on the Board's decision to retain the requirements for the discount rate used to determine adjustments to the contractual service margin unchanged. They disagreed with the Board's decision and continued to suggest that the Board amend IFRS 17 for insurance contracts without direct participation features to require an entity to determine adjustments to the contractual service margin for changes in fulfilment cash flows relating to future service using a current discount rate, rather than the locked-in rate. Many respondents were preparers (and preparer representative bodies)—from Australia, Spain and the UK—that typically issue insurance contracts without direct participating features.

35. Of those respondents:

    (a) some respondents continued to say that it would be conceptually appropriate to apply current discount rates to all aspects of IFRS 17, including the determination of the adjustments to the contractual service margin and the accretion of interest on the contractual service margin. Respondents from Australia expressed the view that using current discount rates for all aspects of IFRS 17 would reduce accounting mismatches between reinsurance contracts held and underlying insurance contracts (see paragraph 18 of this paper).

    (b) respondents from Spain continued to express concerns about possible accounting mismatches in other comprehensive income when the effect of changes in fair value of financial assets accounted for at fair value through other comprehensive income applying IFRS 9 *Financial Instruments* do not equal the amount of insurance finance income or expenses that an entity, applying the option in paragraph 88 of IFRS 17, recognises in other comprehensive income (see paragraph 37 of this paper). Those respondents continued to suggest that the Board amend IFRS 17 to permit an entity to fully remeasure the contractual service margin to reflect current discount rates for insurance contracts without direct participation features to reduce the difference discussed in paragraph 31 of this paper.

    (c) some respondents from the UK continued to express the view that the requirement in IFRS 17 to use locked-in discount rates for the adjustments to the contractual service margin distorts the insurance service result of insurance contracts without direct participating features and is expected to lead to the use of alternative performance measures, particularly for entities that choose not to present some insurance finance income or expenses in other comprehensive income.

Staff thoughts

36. The staff think that the Board does not need to re-discuss this topic as part of the redeliberations. When developing the Exposure Draft, the Board considered the

concerns and suggestions from respondents as discussed in paragraphs 32–33 of this paper and the staff have not identified points the Board has not considered previously.

Other comprehensive income option for insurance finance income or expenses

Background

37. Paragraphs 88−89 of IFRS 17 provide an entity with an accounting policy choice between including insurance finance income or expenses for the period in profit or loss or disaggregating insurance finance income or expenses between profit or loss and other comprehensive income (referred to as the 'other comprehensive income option').

38. When the Board considered proposing amendments to IFRS 17, it considered concerns expressed by some stakeholders, in particular users of financial statements, that providing an option, rather than setting a requirement or a prohibition to present the effect of some changes in financial assumptions in other comprehensive income, could reduce comparability among entities and increase complexity. Those stakeholders would rather IFRS 17 required one consistent presentation.

39. As explained in paragraphs BC201–BC202 of the Basis for Conclusions on the Exposure Draft, the Board:

    (a) acknowledged that requiring entities to report insurance finance income or expenses entirely in profit or loss rather than permitting the choice in paragraphs 88−89 of IFRS 17 would improve comparability among entities. However, the Board concluded that the presentation of insurance finance income or expenses as a systematic allocation in profit or loss may provide more useful information than total insurance finance income or expenses in profit or loss for some contracts and less useful information for other contracts.

    (b) concluded that entities within the same jurisdiction are likely to make similar accounting policy choices because they are likely to issue similar contracts and adopt similar asset strategies for those contracts. Hence, they are likely to remain comparable.

Comments from respondents

40. A small number of respondents commented on the Board's decision to retain the requirements for the presentation of insurance finance income or expenses in profit or loss unchanged. Those respondents expressed support for the Board's decision.

Staff thoughts

41. The staff think that the Board does not need to re-discuss this topic as part of redeliberations because all respondents who commented on this topic agreed with the Board's decision.

Business combinations | Contracts acquired in their settlement period

42. The Board did not ask a question on the requirements for business combinations in the Exposure Draft (other than relating to transition reliefs and a clarification to IFRS 3 *Business Combinations* as discussed in Agenda Paper 2B). Therefore, many respondents did not comment on those requirements. However, some respondents commented on the Board's decision to retain, unchanged, the requirement that an entity classify a liability for settlement of claims as a liability for remaining coverage if the entity acquired the insurance contract during the settlement period of the claims.

Background

43. Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. In such contracts, IFRS 17 specifies that the insured event is the determination of the ultimate cost of those claims. Therefore, IFRS 17 requires that, for those contracts, the liability for the settlement of claims is classified as a liability for remaining coverage. One example of such an insurance contract is an insurance contract acquired during the settlement period of the claim, if the amount of the settlement of the claim is still uncertain at the acquisition date.

44. When the Board considered proposing amendments to IFRS 17, it considered stakeholders concerns that applying that requirement of IFRS 17 to contracts acquired in their settlement period would be a significant change from many existing insurance

accounting practices. The Board had also considered those concerns during the development of IFRS 17.

45. As explained in paragraph BC207 of the Basis for Conclusions on the Exposure Draft, the Board:

   (a) considered an amendment to IFRS 17 suggested by stakeholders that would exempt insurance contracts acquired in a business combination from the general requirements for the determination of the insured event; and

   (b) disagreed with the stakeholders' suggestion because, in the Board's view, exempting insurance contracts acquired in a business combination from the general requirements for the determination of the insured event, would create complexity for users of financial statements and reduce comparability with other transactions.

Comments from respondents

46. Many respondents who commented on the Board's decision to retain, unchanged, the requirement that an entity classify a liability for settlement of claims as a liability for remaining coverage if the entity acquired the insurance contract during the settlement period of the claims:

   (a) suggested the Board amend IFRS 17 to permit in all circumstances an entity to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired; and

   (b) expressed the view that such an amendment would:

      (i) 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;

      (ii) reduce complexity and costs because such an amendment would be consistent with many existing insurance accounting practices; and

      (iii) particularly, reduce complexity and costs for entities that would be required to apply the general model, rather than the premium

allocation approach, only as a result of the requirements for contracts acquired.

47. Some of those respondents suggested the Board introduce a business model approach, whereby an entity would classify such a liability as a liability for remaining coverage or a liability for incurred claims depending on whether it acquired those contracts for the purpose of making a profit from adverse development cover or for a different purpose, for example, as part of a wider growth strategy.

Staff thoughts

48. The staff have identified that some feedback from respondents challenges the determination of the insured event applying IFRS 17. Therefore, the staff think that the Board should consider, as part of the redeliberations, whether that feedback is relevant to the decision the Board took previously for contracts acquired in their settlement period.

Business combinations | Classification of contracts acquired

49. Some respondents also commented on the requirements in IFRS 17 that an entity should:

(a) assess whether a contract acquired is an insurance contract as at the acquisition date (rather than at the original inception date); and

(b) assess whether a contract acquired is within the scope of the variable fee approach considering the information available as at the acquisition date (rather than the information that was available at the acquiree's original inception date).

Background

50. Paragraph 15 of IFRS 3 requires an acquirer to classify assets acquired and liabilities assumed based on the terms and conditions as they exist at the acquisition date. As a relief, paragraph 17(b) of IFRS 3 provided an exception to that requirement for insurance contracts in the scope of IFRS 4. That exception required an acquirer to

classify insurance contracts based on the contractual terms and other factors at the inception of the contract, rather than at the acquisition date. That exception will no longer apply when an entity applies IFRS 17; an acquirer of an insurance contract will apply the requirements in paragraph 15 of IFRS 3 as would the acquirer of any other contract. As discussed in Agenda Paper 2B, the Exposure Draft proposed to clarify that an entity can continue to use the exception in paragraph 17(b) of IFRS 3 for business combinations that occurred before the date of initial application of IFRS 17.

51. When the Board considered proposing amendments to IFRS 17, it considered stakeholders' concerns that the requirement in paragraph 15 of IFRS 3 will:

    (a) be operationally burdensome to apply; and

    (b) result in differences in accounting between the acquirer's consolidated financial statements and the acquiree's financial statements.

52. As explained in paragraph BC206 of the Basis for Conclusions on the Exposure Draft, the Board:

    (a) considered the suggestion by stakeholders to reinstate the exception in IFRS 3 for acquired insurance contracts.

    (b) disagreed with that suggestions because it would result in a significant loss of useful information relative to that which would result from applying IFRS 3 as amended by IFRS 17—it would increase complexity for users of financial statements and reduce comparability with the requirements for other transactions and other industries. The Board noted that one of the objectives of IFRS 17 was to bring insurance accounting in line with accounting for other types of contracts.

Comments from respondents

53. A small number of respondents continued to disagree with the requirement to assess whether a contract acquired is an insurance contract as at the acquisition date. Those respondents continue to suggest that an entity should be permitted to adopt the classification as an insurance contract as determined by the acquiree at the original inception date. Those respondents expressed the view that such a requirement would

increase comparability between insurance contracts issued and insurance contracts acquired.

54. Similarly, a small number of respondents suggested the Board should permit an entity to determine whether an acquired insurance contract is within the scope of the variable fee approach considering the information that was available at the acquiree's original inception date, rather than the information that was available as at the acquisition date. Those respondents expressed the view that such a requirement would increase comparability between insurance contracts issued and insurance contracts acquired.

Staff thoughts

55. The staff think that the Board does not need to re-discuss this topic as part of the redeliberations. When developing the Exposure Draft, the Board considered the concerns and suggestions from respondents as discussed in paragraphs 51–52 of this paper and the staff have not identified points the Board has not considered previously.

Scope of the variable fee approach | Reinsurance contracts issued

Background

56. Insurance contracts with direct participation features (contracts in the scope of the variable fee approach) are substantially investment-related service contracts under which an entity promises an investment return based on underlying items and accepts significant insurance risk. Hence, paragraph B101 of IFRS 17 defines insurance contracts with direct participation features as insurance contracts for which:

    (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

    (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and

    (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

57. When the Board considered proposing amendments to IFRS 17, it considered a suggestion from stakeholders to expand the scope of the variable fee approach to include reinsurance contracts issued, which are explicitly excluded from the variable fee approach applying paragraph B109 of IFRS 17.[1]

58. As explained in paragraph BC213 of the Basis for Conclusions on IFRS 17, the Board disagreed with this suggestion because, although it had already acknowledged that in some specific circumstances a reinsurance contract issued might meet the criteria in paragraph B101 of IFRS 17, the Board did not intend the variable fee approach to apply to reinsurance contracts. The Board designed the variable fee approach for contracts that are substantially investment-related service contracts. In contrast, reinsurance contracts provide insurance coverage and do not provide substantially investment-related services. The Board also observed that adding an option for entities to apply the variable fee approach to reinsurance contracts issued would be inconsistent with the approach in IFRS 17 that using the variable fee approach is mandatory for contracts within its scope. Consequently, the Board did not propose in the Exposure Draft to expand the scope of the variable fee approach to include reinsurance contracts issued.

Comments from respondents

59. Some respondents commented on the Board's decision to retain the prohibition to apply the variable fee approach to reinsurance contracts issued. Most of those respondents were preparers and preparer representative bodies from Europe.

60. Those respondents disagreed with the Board's decision and continued to suggest that the Board amend IFRS 17 to permit an entity that issues reinsurance contracts to apply the variable fee approach to such contracts if they meet the criteria in paragraph B101 of IFRS 17. Those respondents think that accounting for reinsurance contracts issued that meet the criteria in paragraph B101 of IFRS 17 applying the variable fee approach would:

    (a) better reflect the economics of those reinsurance contracts;

[1] The Board also considered suggestions from stakeholders to expand the scope of the variable fee approach to include reinsurance contracts held. Feedback on the prohibition to apply the variable fee approach to reinsurance contracts held are discussed in Agenda Paper 2B, as part of the feedback on Question 6 in the Exposure Draft.

(b) reduce IFRS 17 implementation costs; and

(c) reduce mismatches—particularly at the entity level within a consolidated group—that they think might arise when an entity issues a reinsurance contract to reinsure contracts accounted for applying the variable fee approach, the reinsurance contract includes the link to underlying items and the entity holds those underlying items.

61. Some of those respondents:

(a) disagreed with the Board's view, explained in paragraph BC213 of the Basis for Conclusions on the Exposure Draft, that reinsurance contracts do not provide substantially investment-related services;

(b) noted that the Board acknowledged that in some specific circumstances a reinsurance contract issued might meet the criteria in paragraph B101 of IFRS 17 and provided examples of a limited number of reinsurance contracts that, in their view, would meet those criteria; and

(c) expressed the view that the Board has not adequately explained the conceptual arguments against the inclusion of reinsurance contracts in the scope of the variable fee approach.

Staff thoughts

62. The staff think that the Board does not need to re-discuss this topic as part of the redeliberations. When developing the Exposure Draft, the Board considered the concerns and suggestions from respondents as discussed in paragraph 58 of this paper and the staff have not identified points the Board has not considered previously. However, the staff think that the Board could consider better articulating in the Basis for Conclusions on IFRS 17 the reasons for which reinsurance contracts issued are not eligible for the variable fee approach.

Interim financial statements

Background

63. Paragraph B137 of IFRS 17 requires that an entity does not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 subsequently.

64. When the Board considered proposing amendments to IFRS 17, it considered stakeholders' concerns and challenges relating to the requirement for interim financial statements in paragraph B137 of IFRS 17. That requirement was developed in response to stakeholder feedback that recalculating the carrying amount of the contractual service margin for the year when the entity has prepared interim financial statements applying IAS 34 *Interim Financial Reporting* would be a significant practical burden because of the different treatments of changes in estimates and experience adjustments.

65. The Board considered the suggestions from stakeholders to address the concerns and challenges raised and decided to retain the requirement for interim financial statements in IFRS 17 unchanged. As explained in paragraphs BC215–BC216 of the Basis for Conclusions on the Exposure Draft:

    (a) some stakeholders suggested the Board amend IFRS 17 to expand paragraph B137 of IFRS 17 so that it applies to accounting estimates made in all interim reports whether or not IAS 34 is applied, to avoid the need to keep two sets of accounting estimates. For example, a parent entity may require a subsidiary to provide internal interim reports because the parent entity produces interim financial statements applying IAS 34. The internal interim reports are not interim financial statements applying IAS 34 from the perspective of the subsidiary, so the subsidiary would need to maintain accounting estimates for these reports separately from the accounting estimates needed for its financial statements prepared using IFRS Standards.

    (b) other stakeholders suggested the Board not expand paragraph B137 of IFRS 17 but permit, rather than require, its application.

66. The Board disagreed with the stakeholders' suggestions because those suggestions would add complexity for both preparers and users of financial statements and would reduce comparability among entities. This is because:

    (a) entities might develop different definitions of an interim report if they were permitted to use interim reports other than those addressed by IAS 34. The Board noted that entities may prepare interim reports other than those addressed by IAS 34, for example, an internal management report, for a variety of purposes.

    (b) entities might treat accounting estimates made in previous interim financial statements in different ways to each other if they were permitted rather than required to apply paragraph B137 of IFRS 17.

Comments from respondents

67. Some respondents from each region, including about half of the preparers and preparer representative bodies, commented on the requirement for interim financial statements in IFRS 17.

68. Most of those respondents expressed concerns about the application of the requirement as follows:

    (a) some respondents think that the requirement in paragraph B137 of IFRS 17 results in a more significant practical burden than the burden it is supposed to alleviate, particularly for entities in a consolidated group as discussed in paragraph 65(a) of this paper. However, a small number of respondents agreed with the Board's decision not to expand paragraph B137 of IFRS 17 so that it applies to accounting estimates made in all interim reports whether or not IAS 34 is applied.

    (b) some respondents noted that the requirement in paragraph B137 of IFRS 17 results in a fundamental change to existing insurance accounting practices for entities that currently use a year-to-date basis in interim financial statements—ie for entities that currently reverse in a subsequent interim period or annual reporting period estimates made in a prior interim period. Those respondents regard the retention of paragraph B137 in IFRS 17 as a

major challenge in implementation processes causing unnecessary complexity and costs.

(c) other respondents said that the requirement in paragraph B137 of IFRS 17 does not result in useful information given that, applying existing insurance accounting practices, many entities do not fully update actuarial assumptions at interim periods for the purpose of applying IAS 34. Those stakeholders expressed the view that an entity should be permitted to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in the annual reporting period to more accurately reflect changes in estimates and experience adjustments referring to the annual reporting period.

69. To address the concerns discussed in paragraph 68 of this paper, some respondents suggested the Board amend IFRS 17 as follows:

(a) some respondents continued to suggest amending IFRS 17 to permit, rather than require, the application of the requirement in paragraph B137 of IFRS 17, consistent with the suggestion made during the development of the Exposure Draft that the Board considered and rejected.

(b) some respondents suggested to delete paragraph B137 of IFRS 17. However, one respondent expressing concerns would not support the deletion of paragraph B137 of IFRS 17.

70. Some respondents would support either deleting paragraph B137 of IFRS 17 or permitting its application to be optional. Other respondents did not express a preference on how to address concerns but expressed a view that, if the Board were to amend paragraph B137 of IFRS 17, the Board's objective should be to avoid the need for entities in a consolidated group to keep two sets of accounting estimates. A small number of respondents expressed concerns without suggesting a solution.

71. Two national-standard setters, who would support deleting paragraph B137 of IFRS 17, noted that an exception to the principles in IAS 34 similar to the exception in IFRS 17 is included in IFRIC 10 *Interim Financial Reporting and Impairment.* IFRIC 10 addresses an apparent conflict between the following requirements in IAS 34:

(a) an entity should apply the same accounting policies in its interim financial statements as it applies in its annual financial statements.

(b) the frequency of an entity's reporting (annual, half-yearly or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis. This might suggest than an entity should reverse in a subsequent interim period an impairment loss it recognised in a prior interim period, whereas IAS 36 *Impairment of Assets* states that an impairment loss recognised for goodwill should not be reversed in a subsequent period. IFRIC 10 states that an entity should not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

72. One of those national-standard setters suggested that if the Board retains, unchanged, the requirement in paragraph B137 of IFRS 17, the Board should:

(a) provide a more comprehensive rationale for its decision in the Basis for Conclusions on IFRS 17; and

(b) initiate a Post-implementation Review of IAS 34 so that the Board could use feedback to make an informed decision about the future course of interim reporting.

73. A small number of respondents questioned the interaction between the requirement in paragraph B137 of IFRS 17 and the annual cohort requirement (see paragraphs 13 of this paper). Those respondents questioned whether an entity that reports half-yearly would be prohibited from including in the same group contracts issued more than six months apart (rather than a year), considering that paragraph B137 of IFRS 17 requires that an entity does not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 subsequently.

Staff thoughts

74. The staff have identified from the feedback from outreach and comment letters additional information about the balance between the cost and benefits of the requirement in paragraph B137 of IFRS 17. Therefore, the staff think that the Board

should consider, as part of the redeliberations, whether this additional information is relevant to the decision the Board took previously for the requirement for interim financial statements in IFRS 17.

Mutual entities issuing insurance contracts

Background

75. The requirements in IFRS 17 apply to all insurance contracts as defined in IFRS 17, regardless of the type of entity issuing the contract, with some specific scope exclusions. Paragraph BC265 of the Basis for Conclusions on IFRS 17 explains that a defining feature of a mutual entity that issues insurance contracts is that the most residual interest of the entity is due to a policyholder and not a shareholder. Paragraphs BC264−BC269 of the Basis for Conclusions on IFRS 17 explain the consequences of IFRS 17 for such mutual entities, and why the Board did not include any specific requirements or exceptions to requirements in IFRS 17 for such entities.

76. When the Board considered proposing amendments to IFRS 17, it considered concerns from stakeholders about:

    (a) the usefulness of the information provided by IFRS 17 about entities with the feature that the most residual interest of the entity is due to a policyholder and not a shareholder; and

    (b) the description of mutual entities as entities that issue insurance contracts under which the most residual interest of the entity is due to a policyholder and not a shareholder.

77. As explained in paragraphs BC129–BC220 of the Basis for Conclusions on the Exposure Draft, the Board:

    (a) reaffirmed its decision that IFRS 17 should not include any specific requirements or exceptions to requirements in IFRS 17 for entities that issue insurance contracts under which the most residual interest of the entity is due to a policyholder and not a shareholder because:

        (i) the requirements in IFRS 17 to include in the fulfilment cash flows all the expected future cash flows that arise within the

boundary of insurance contracts in a group of contracts, including discretionary cash flows and those due to future policyholders, are a core principle of the Standard applicable to all entities;

(ii) if different entities account for the same insurance contract in different ways, comparability across entities would be reduced; and

(iii) a robust definition of entities to which different requirements would apply would be difficult to create.

(b) decided to add a footnote to paragraph BC265 of the Basis for Conclusions on IFRS 17 to explain that not all entities that may be described as mutual entities have the feature that the most residual interest of the entity is due to a policyholder in response to the concerns discussed in paragraph 76(b) of this paper.

Comments from respondents

78. A small number of respondents commented on the Board's decision to propose to add a footnote to paragraph BC265 of the Basis for Conclusions on IFRS 17. Comments were mixed. About half of the respondents expressed support for the Board's decision. The remainder disagreed with the Board's decision and, consistent with feedback during the development of the Exposure Draft, continued to express concerns that the explanations included in BC264−BC269 of the Basis for Conclusions on IFRS 17 and the educational materials developed by the staff do not adequately reflect the nature of some mutual entities. Those respondents suggested that the Board should:

(a) amend IFRS 17 to consider the specific characteristics of some mutual entities; and/or

(b) substantially revise, or withdraw, the educational materials for mutual entities developed by the staff and published on the IFRS Foundation website.

Staff thoughts

79. The staff think that the Board:

    (a) does not need to re-discuss this topic as part of redeliberations. When developing the Exposure Draft, the Board considered the concerns and suggestions from respondents as discussed in paragraphs 76–77 of this paper and the staff have not identified points the Board has not considered previously.

    (b) should confirm the proposed footnote to paragraph BC265 of the Basis for Conclusions on IFRS 17 discussed in paragraph 77(b) of this paper.

Other comments

Additional transition modifications and reliefs

80. A small number of respondents commented on the transition requirements in IFRS 17, in addition to the feedback on Question 8 in the Exposure Draft that is summarised in Agenda Paper 2B. Those respondents:

    (a) expressed appreciation for the Board's explanation in the Basis for Conclusions on the Exposure Draft that the Board expects entities to use estimates when applying IFRS 17 retrospectively. Some of those respondents suggested the Board include this explanation in the requirements of the Standard, in addition to an explanation in the Basis for Conclusions on IFRS 17.

    (b) continued to express concerns that the modified retrospective approach is too restrictive and continued to suggest the Board permit an entity more optionality and flexibility generally when applying the modified retrospective approach, rather than providing specified modifications.

    (c) suggested the Board provide additional specific transition modifications and reliefs for entities applying the modified retrospective approach (for example, reliefs from the retrospective application of the annual cohort requirement and the requirement for interim financial statements), as well

as transition reliefs within the full retrospective approach. A small number of respondents continued to suggest that on transition there should be an amount accumulated in other comprehensive income for financial assets to correspond to the amount accumulated in other comprehensive income for insurance contracts. When the Board considered proposing amendments to IFRS 17, the Board considered and disagreed with suggestions to change accumulated other comprehensive income on transition for the reasons explained in paragraphs BC137–BC138 of the Basis for Conclusions on the Exposure Draft.

81. The staff think that the Board:

(a) does not need to consider further general suggestions to permit an entity more optionality and flexibility in the modified retrospective approach. As explained in paragraphs BC139–BC143 of the Basis for Conclusions on the Exposure Draft, when developing the Exposure Draft, the Board considered and rejected suggestions to amend the modified retrospective approach by removing the requirements to use reasonable and supportable information or permitting an entity to develop its own additional modifications. The Board noted that more optionality and flexibility would contradict the objective of the modified retrospective approach and would reduce the usefulness of information for users of financial statements.

(b) does not need to consider permitting any reliefs within the full retrospective approach, as doing so would contradict the objective of the full retrospective approach and would reduce the usefulness of information for users of financial statements.

(c) should consider, in the redeliberations, additional specific transition modifications and reliefs suggested by respondents. The staff think that such additional transition modifications and reliefs may ease implementation without reducing the usefulness of information for users of financial statements.

New concerns and implementation questions

82. Some respondents also commented on areas of IFRS 17 that the Board did not consider when developing the Exposure Draft.

83. Some of those respondents mentioned that additional concerns and implementation questions have come to light as entities at a more advanced stage of IFRS 17 implementation have started testing the output of their IFRS 17 systems. The staff note that these additional concerns and implementation questions are more detailed and relate to specific transactions and contracts in a small number of jurisdictions and, therefore, they might not be relevant for a wide group of stakeholders.

84. Recurrent topics mentioned by respondents include:

    (a) the accounting treatment of policyholder taxes applying IFRS 17—requests for clarifications were raised by some respondents from Australia, South Africa and the UK;

    (b) application of the requirements in paragraph B113(b) of IFRS 17 to insurance contracts with cash flows that do not vary based on the returns on underlying items to which the variable fee approach applies—concerns were expressed by some respondents from Asia, Canada and Europe, as well from one accounting firm and a global preparer representative body; and

    (c) contracts that change in nature over time (for example, an insurance contract with direct participation features may become an annuity after the policyholder exercises an option)—concerns were expressed by some respondents from Europe.

85. The staff will analyse the new concerns and implementation questions and report to the Board at a future meeting so that the Board can decide what, if any, action is needed to address them. The staff think that, at this stage, further changes to IFRS 17 are more likely to disrupt rather than help the implementation process. However, other action such as educational material might be appropriate to continue to support implementation of IFRS 17.