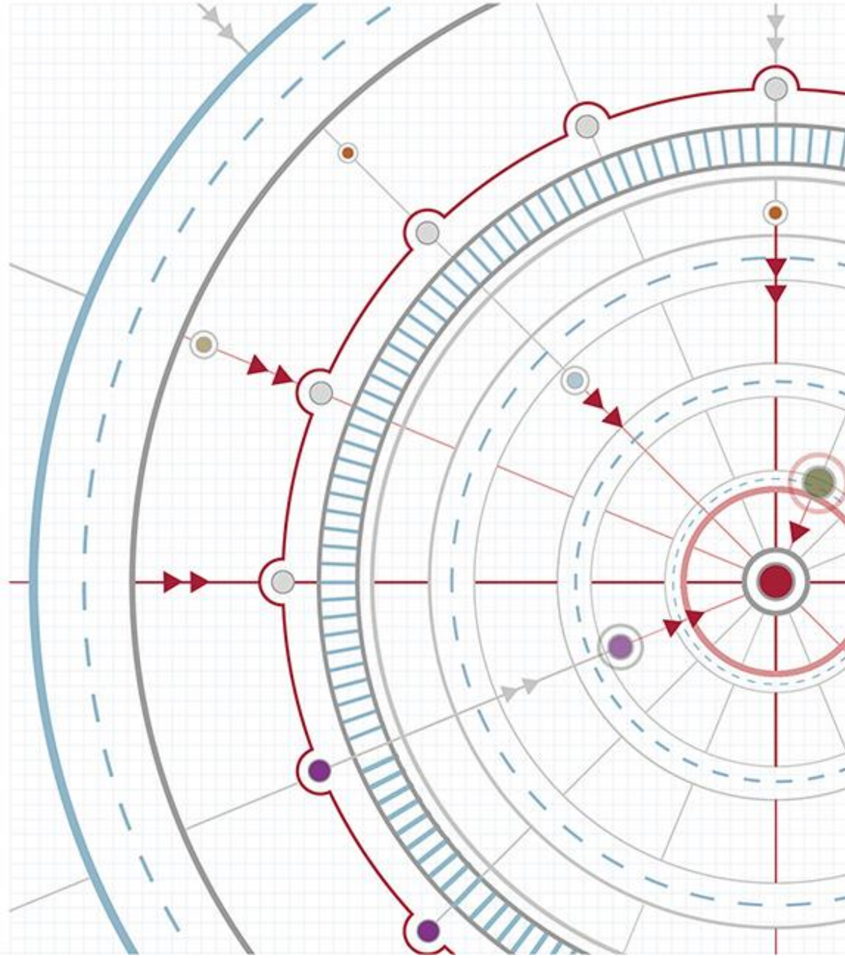

IFRS 17

Insurance Contracts

Accounting Standards Advisory Forum meeting
April 2019

ASAF Agenda Paper 3

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Objective of this session

We are asking ASAF members for their views on the Board's tentative decisions on possible amendments to IFRS 17

In December 2018 we asked ASAF members for their advice on six topics in IFRS 17 that the Board was considering for possible amendments to the Standard

The Board considered the advice from ASAF members when discussing these topics during its meetings from December 2018 to February 2019

The Board anticipates publishing an Exposure Draft of the proposed amendments end of June 2019

Amendments to IFRS 17

Effective date	Loans that transfer insurance risk [1]	Acquisition cash flows for renewals [2]	Profit allocation for some contracts [3]	Other topics
Reinsurance contracts held [4]	Balance sheet presentation [5]	Transition [6]	Level of aggregation	

- Amendments tentatively decided / Proposals in the forthcoming Exposure Draft
- To be discussed at future meetings
- The Board decided not to change

1 Loans that transfer insurance risk

Concerns and implementation challenges expressed	
	• A loan contract that transfers significant insurance risk is an insurance contract that contains both a loan and an insurance component • IFRS 17 does not permit an entity to separate the loan from the insurance contract; the entity needs to apply IFRS 17 to the loan contract in its entirety

ASAF advice

- The Board should consider allowing an entity to choose to apply either IFRS 17 or IFRS 9 to account for those contracts and requiring the entity to apply that choice consistently
- One member observed that it would be difficult to amend IFRS 17 to exclude some additional insurance contracts from the scope of the Standard. Therefore, stakeholders in her jurisdiction do not think that the Board could amend the scope of IFRS 17 without unduly disrupting implementation processes that are already under way

Board's tentative decision

- At the February 2019 meeting the Board tentatively decided to amend the scope of IFRS 17 and IFRS 9 so that an entity would be permitted to apply either IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract
- The choice would be made portfolio by portfolio, using the IFRS 17 definition of a portfolio

Acquisition cash flows for renewals

Concerns and implementation challenges expressed

- Commissions paid unconditionally on contracts that have been issued cannot be allocated to expected contract renewals
- In some cases, commissions may exceed the premium for the initially written contracts and the contracts could be onerous

ASAF advice

- Some ASAF members noted that it might be possible to amend IFRS 17 to require or allow an entity to allocate insurance acquisition cash flows to expected renewals
- One member noted that:
  - deferring acquisition cash flows for renewals is not common in her jurisdiction
  - it is difficult in practice to distinguish the acquisition costs that pertain to the original insurance contract from those that pertain to a renewed insurance contract

Board's tentative decision

- At the January 2019 meeting the Board tentatively decided to amend IFRS 17 so that an entity would
  - allocate part of the insurance acquisition cash flows to expected contract renewals
  - recognise those cash flows as an asset until the contract renewals are recognised
  - assess the recoverability of the asset each period

3 Profit allocation for some contracts

Concerns and implementation challenges expressed	
	• For contracts to which the general model applies, an entity recognises the contractual service margin in profit or loss considering only insurance coverage • For some contracts the insurance coverage period differs from the period in which the policyholder gets return on an investment component

ASAF advice

- Most ASAF members supported the staff exploring possible amendments to IFRS 17 for the determination of coverage units of insurance contracts to which the general model applies
- One member noted that amending the requirements about coverage units for contracts to which the general model applies might have a pervasive effect on IFRS 17 and agreed that the Board should consider only amendments that would not unduly disrupt implementation processes that are already under way

Board's tentative decision

- At the January 2019 meeting the Board tentatively decided to amend IFRS 17 to that, for insurance contracts to which the general model applies, an entity would recognise the contractual service margin in profit or loss considering both insurance coverage and any investment return service

4 Reinsurance contracts held—onerous contracts

Concerns and implementation challenges expressed

- When an entity initially recognises onerous insurance contracts the entity recognises losses immediately; when those losses are covered by a reinsurance contract held any corresponding gains are recognised over the coverage period
- Accounting mismatches may arise

ASAF advice

- Half of the ASAF members agreed that the Board should explore possible amendments to IFRS 17 about the initial recognition of reinsurance contracts held when the underlying groups of insurance contracts is onerous in a way that would meet the criteria set by the Board

Board's tentative decision

- At the January 2019 meeting the Board tentatively decided to amend IFRS 17 so that when an entity recognises losses on onerous insurance contracts at initial recognition it would also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts (i) cover the losses of the underlying contracts on a proportionate basis and (ii) are entered into before the onerous underlying contracts are issued

4 Reinsurance contracts held—risk mitigation

Concerns and implementation challenges expressed

- For contracts with direct participation features, the entity can choose to recognise changes in insurance contracts in profit or loss, rather than as adjustments to the contractual service margin, only when the entity uses derivatives to mitigate financial risks (risk mitigation exception)

ASAF advice

- One ASAF member suggested that the Board should consider an approach similar to the risk mitigation exception in paragraphs B115–B118 of IFRS 17 for reinsurance contracts held

Board's tentative decision

- At the January 2019 meeting the Board tentatively decided to amend IFRS 17 so that, for contracts with direct participation features, an entity would be permitted to use the risk mitigation exception also when the entity uses reinsurance contracts held to mitigate financial risks

5 Balance sheet presentation

Concerns and implementation challenges expressed	
	• An entity needs to allocate cash flows to each group of insurance contracts to identify and present groups of insurance contracts in an asset position separately from groups of insurance contracts in a liability position • Better IT systems integration needed resulting in significant implementation costs

ASAF advice

- Half of the ASAF members agreed with the staff recommendation for the December 2018 Board meeting that, for cost-benefit reasons, the Board should consider amending IFRS 17 for the presentation of insurance contracts on the balance sheet to require entities to present portfolios of assets separately from portfolios of liabilities (rather than groups of assets separately from groups of liabilities)

Board’s tentative decision

- At the December 2018 meeting the Board tentatively decided to amend IFRS 17 so that an entity would present insurance contract assets and insurance contract liabilities on the balance sheet determined using portfolios of insurance contracts rather than groups of insurance contracts

IFRS

6 Transition

Concerns and implementation challenges expressed	
	• Liabilities for claims settlement are treated as a 'liability for remaining coverage' if the contracts were acquired in a business combination and as a 'liability for incurred claims' if the contracts were issued by the entity • Some entities find difficult to measure those liabilities in two different ways

ASAF advice

- A few ASAF members agreed with the staff preliminary thoughts that it might be possible to amend IFRS 17 for the modified retrospective approach by introducing additional modifications in a way that would meet the criteria set by the Board

Board's tentative decision

- At the February 2019 meeting the Board tentatively decided to amend IFRS 17 by introducing an additional specified modification that an entity could use when applying the modified retrospective approach
- At transition an entity would account liabilities for claims settlement acquired in a business combination as a 'liability for incurred claims' if the entity does not have reasonable and supportable information to apply a retrospective approach

Questions for ASAF members

- What are your views on the Board's tentative decisions on possible amendments to IFRS 17?

Appendix

Criteria for evaluating possible changes

- Board's tentative decisions made in October 2018
  - demonstrate a need for the amendment
  - consider only possible amendments that meet the following criteria

1 Avoid significant loss of useful information for users

- Relevance and faithful representation
- Comparability
- Consistency
- Understandability

2 Not unduly disrupt implementation processes under way

Not risk undue delays in the effective date of IFRS 17

Get involved

Find out more: www.ifrs.org

Follow us:

@IFRSFoundation

IFRS Foundation
International Accounting Standards Board

IFRS Foundation

IFRS Foundation

Join our team: go.ifrs.org/careers