This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Limited update on Case Study IFRS 17 Implementation impacts

Introduction

1 EFRAG's extensive case study on IFRS 17 *Insurance Contracts* as issued in May 2017 was conducted between December 2017 and June 2018. EFRAG's simplified case study was conducted between February and May 2018, in order to understand the expected impact of IFRS 17 on a broader sample of entities.

2 In June 2019 the IASB issued the Exposure Draft ED/2019/4 *Amendments to IFRS 17* ('ED'). The IASB undertook further changes to the standard to address comments received to this ED and has completed its tentative decisions on March 2020.

3 This update to the EFRAG case study aims:

(a) to assess to which extent the result of the Amendments to IFRS 17 and further changes following the tentative decisions have reduced the concerns raised in relation to IFRS 17 as issued;

(b) obtain more updated information on the implementation costs; and

(c) obtain information on the intention to early adopt the standard in 2022.

Timeline

4 An initial version of this questionnaire has been issued on 27 January 2020, to make participants fully aware of the detailed data needed to respond to the final version. This final version has been now updated for the re-deliberations of the IASB and the EFRAG Secretariat is seeking input on this updated version by the following due dates:

(a) By 15 April 2020: submission date for all topics except costs and benefits;

(b) By 15 May 2020: submission date for costs and benefits.

EFRAG Secretariat availability

5 This case study has been developed by the EFRAG Secretariat as a supporting tool for developing the endorsement advice on IFRS 17 *Insurance Contracts as amended*. The EFRAG Secretariat remains available during the consultation period to respond to questions about applying the case study approach through email or conference call. The EFRAG Secretariat insurance team can be contacted through email (IFRS17Secretariat@efrag.org) or by phone as follows:

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The limited update on case study

Introduction

6 This limited updated case study is open to all interested participants and is not limited to only those who performed the extensive and simplified case studies.

7 This updated case study relies on the same product categories as the original case studies. These product categories are:

(a) Life and health contracts with direct participation features (includes with-profit contracts);

(b) Life and health contracts with direct participation features;

(c) Non-life contracts;

(d) Investment contracts with discretionary participation features;

(e) Unit-linked contracts (to be accounted for in IFRS 17);

(f) Reinsurance ceded; and

(g) Reinsurance assumed.

8 A description of these product categories is included in Appendix 1.

9 For those who participated in the extensive and simplified case studies, in contrast to those original case studies, there is no need to select particular portfolios to be tested. Instead, the purpose is to assess the impact of the Amendments to IFRS 17 in a holistic way on the entire business of the participant.

Scope of the updated case study

10 This limited updated case study takes into account all the IASB decisions, including March 2020.

Guidance

11 All responses denominated in currency should be in Euros.

12 Reference to 'IFRS 17 as amended' in this limited update to the case study means that IFRS 17 should be considered as a whole, including the Amendments to IFRS 17 and the supplementary changes agreed by the IASB in the deliberations until March 2020.

13 Extent of required guidance was already discussed and agreed with EFRAG IAWG members.

Question to EFRAG TEG

14 Do EFRAG TEG members have comments on the proposed limited update of the case study?

EFRAG Case Study on IFRS 17 updated for the Amendments

Introduction and general description

1 Please provide the following details:

(a) The name of the entity you are responding on behalf of:

(b) Country where head office is located:

(c) Contact details, including e-mail address:

2 Provide an overview of the main businesses and type of insurance activities which your company is involved with.

Business	Total liabilities of each product category (A) (EUR)	% of (A) compared to total insurance liabilities of the entity	Short description of the main types of insurance activities
Product category 1			
…			

3 How far advanced are you in implementing IFRS 17 as amended? For example:

- Analysis of impact in progress – started [state date] and expected to be completed by [state date]
- Implementation plan approved - [state date]
- Implementation in progress – started [state date] and expected to be completed by [state date].

Insurance acquisition cash flows

Purpose: This question aims to understand how important the acquisition cash flows relating to future business is, separately for each business.

4 Under IFRS 17 paragraphs 27 and 38, acquisition cash flows are initially capitalised (unless the entity elects to recognise them immediately in profit or loss under the PAA). They are included in the CSM of a group of contracts to which they relate when that group is recognised.

5 When EFRAG commissioned their case study in 2018 it was noted that attributing acquisition costs only to new contracts and not to renewals could result in more contracts becoming onerous. Case study participants also noted that the concept is inconsistent with the treatment of similar costs in IFRS 15 *Revenue from Contracts with Customers*.

6 The IASB Board tentatively decided to:

(a) finalise the proposed amendment to IFRS 17 that would require an entity to allocate insurance acquisition cash flows directly attributable to a group of insurance contracts applying a systematic and rational method:

 (i) to that group; and

 (ii) to any groups that include contracts that are expected to arise from renewals of the contracts in that group.

(b) clarify that:

 (i) the amounts allocated to a group of insurance contracts cannot be revised after the group has been recognised; and

 (ii) the amounts allocated to groups of insurance contracts yet to be recognised should be revised at each reporting date, to reflect any change in the assumptions that determine the inputs to the method of allocation.

(c) confirm that the unit of account for an asset for insurance acquisition cash flows is the group of insurance contracts to which those cash flows have been allocated.

(d) finalise the proposed requirements for an entity to assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

(e) finalise the proposed requirements for an entity to disclose:

 (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.

7 retain, unchanged, the requirement in IFRS 17 for an entity to present any assets for insurance acquisition cash flows in the carrying amount of the related insurance contracts.

8 In its comment letter to the IASB, EFRAG supported the IASB's proposals with regards to the treatment of acquisition cash flows as the resulting financial information will better reflect the economic substance of these transactions. EFRAG also agreed with the proposed recoverability assessment approach.

9 EFRAG is interested in this questionnaire solely to confirm that the changes done by the IASB including the tentative decisions until March 2020 will succeed in alleviating practical implementations and ultimately result in a higher quality reporting or lower costs. The technical discussion of the other proposals has been completed during the due process that lead to the issuance of EFRAG final comment letter and are out of scope of this questionnaire that is needed for the endorsement advice at this stage.

10 For your business per product category, what is the estimated duration of the renewals?

Contractual service margin attributable to investment-return service and investment related service

Purpose: These questions aim to understand to which extent the tentative decisions of the IASB have aligned profit recognition with the business model and the remaining issues as well as their prevalence.

11 Paragraph B119 of IFRS 17 prescribes how the recognition of the CSM in profit or loss is determined. During the EFRAG case study, some respondents identified concerns around the profit recognition patterns under IFRS 17 as it was focusing on insurance services would not reflect all the services provided such as investment services. Specific fact patterns such as deferred annuities caused the most significant concerns.

12 The IASB Board tentatively decided to:

(a) finalise the proposed amendment to IFRS 17 Insurance Contracts that would require an entity to identify coverage units for insurance contracts without direct participation features by considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage.

(b) confirm the specified criteria, proposed in paragraph B119B of the Exposure Draft, that determine whether an insurance contract may provide an investment-return service, but to replace the references in those criteria to 'positive investment return' with 'investment return'.

(c) require an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service.

(d) finalise the proposed amendments to IFRS 17 that would require an entity to disclose:

(i) 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; and

(ii) the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

(e) confirm the addition of the definition of 'insurance contract services' in Appendix A to IFRS 17, but not to change other terminology used in the Standard (ie not to replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage').

13 In answering to this questionnaire, EFRAG kindly asks respondents to consider the IASB deliberations on the issue mentioned in the previous paragraph.

14 EFRAG is interested in this questionnaire solely to confirm that the changes done by the IASB in the tentative decisions will succeed in alleviating practical implementations and ultimately result in a higher quality reporting or lower costs. The technical discussion of the other proposals has been completed during the due process that lead to the issuance of EFRAG final comment letter and are out of scope of this questionnaire that is needed for the endorsement advice at this stage.

15 For your business per product category:

(a) Indicate to which extent the tentative decisions allow to show a CSM run-off representative of your business model (expressed as a percentage of total liabilities per product category and also as a percentage of total insurance liabilities of the entity). In doing so, differentiate between insurance contracts that are accounted for under the general model and the variable fee approach.

(b) For those insurance contracts where the tentative decisions do not allow you to show a CSM run-off representative of your business model (e.g. where coverage units represent only insurance coverage and no investment return), provide the following information:

(i) Importance of the business (expressed as a percentage of total product category liabilities and also as a percentage of total insurance liabilities of the entity);

(ii) Identify the elements that prohibit you from recognising an investment-return service or investment related service in accordance with IFRS 17 as amended;

(iii) Describe the service that you provide to policyholders and describe how, in your view, that service should be allocated to profit or loss.

Business	CSM run-off representative of total liabilities per product category (%)		CSM run-off representative of total insurance liabilities of entity (%)	CSM run-off **not** representative of total liabilities per product category (%)		CSM run-off **not** representative of total insurance liabilities of entity (%)
	GM (%)	VFA (%)	Volume (%)	GM (%)	VFA (%)	Volume (%)
Product category 1						
…						

Business	CSM run-off **not** representative of total insurance liabilities of entity (%)	
	Elements prohibiting profit recognition	Comments
Product category 1		
…		

Reinsurance contracts held – recovery of losses on underlying insurance contracts

Purpose: This section aims to understand the remaining issues about reinsurance.

16 From the case studies EFRAG learned that mismatches were created between the accounting of onerous underlying insurance contracts and reinsurance contracts held that were profitable.

17 The IASB Board tentatively decided to:

(a) extend the scope of the proposed amendment to IFRS 17 to require an entity to adjust the contractual service margin of a group of reinsurance contracts held, 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.

(b) amend the proposed calculation of the income, as a consequence of the extension of the scope of the proposed amendment, to require an entity to determine the amount of a loss recovered from a reinsurance contract held by multiplying:

(i) the loss recognised on underlying insurance contracts; and

(ii) the percentage of claims on underlying insurance contracts the entity expects to recover from the reinsurance contract held.

(c) confirm that the amendment to IFRS 17 described in paragraph (a) would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

18 The IASB Board also tentatively decided to:

(a) omit the proposed footnote to paragraph BC304 of the Basis for Conclusions on IFRS 17 Insurance Contracts.

(b) clarify, in the final amendments to IFRS 17, that paragraph 66(c)(ii) of IFRS 17-for subsequent measurement of a group of reinsurance contracts held when a group of underlying insurance contracts become onerous-applies also when underlying insurance contracts are measured applying the premium allocation approach.

19 In its comment letter to the Amendments, EFRAG welcomed the proposals of the IASB and suggested the proposed text for the definition of proportionate in the ED should be revisited and reconsidered for inclusion of other types of reinsurance contracts based on the economic substance of those contracts.

20 In answering to this questionnaire, EFRAG kindly asks to consider the IASB tentative decisions on the issue mentioned above.

21 EFRAG knows that there were other proposals by the insurance industry such as reinsurance contracts allowing to qualify for the variable fee approach.

22 In this questionnaire, EFRAG is interested solely to confirm that the changes done by the IASB in the tentative decisions will succeed in alleviating the practical implementation issues and ultimately result in higher quality reporting or lower costs. The technical discussion of the other proposals have been done in EFRAG's due process that lead to the issuance of the EFRAG comment letter and are out of scope of this questionnaire that is needed for the endorsement advice at this stage.

23 Do you see any remaining issues relating to reinsurance? Please explain.

Applicability of the risk mitigation option

Purpose: This section of the case study aims to understand the impact of the tentative decisions of the IASB relating to the risk mitigation option.

24 IFRS 17, paragraph B115 allows for the risk mitigation option to be used for insurance contracts within the variable fee approach when derivatives are used to mitigate financial risk.

25 From the case studies EFRAG learned that insurers wanted to mitigate the accounting mismatch when using derivatives to mitigate financial risks embedded in insurance contracts, especially for insurance contracts accounted for in accordance with the variable fee approach.

26 The IASB Board tentatively decided to amend IFRS 17 to extend the risk mitigation option for insurance contracts with direct participation features, as set out in paragraph B115 of IFRS 17. The extension would permit an entity to apply the option

when the entity mitigates the effect of financial risk on the fulfilment cash flows set out in paragraph B113(b) of IFRS 17 using non-derivative financial instruments measured at fair value through profit or loss. To apply the option, an entity must meet the conditions set out in paragraph B116 of IFRS 17.

27 In its comment letter to the Amendments, EFRAG supported the proposals and noted that there was no conceptual reason to exclude financial instruments at fair value through profit or loss from this approach.

28 In answering to this questionnaire, EFRAG kindly asks to consider the IASB deliberations on the issue mentioned above.

29 EFRAG knows that there were other proposals by the insurance industry such as extending the risk mitigation option to the contracts accounted for under the general model or reinsurance contracts allowing to qualify for the variable fee approach.

30 In this questionnaire, EFRAG is interested solely to confirm that the changes done by the IASB in tentative decisions will succeed in alleviating the practical implementation issues and ultimately result in higher quality reporting or lower costs. The technical discussion of the other proposals have been done in EFRAG's due process that lead to the issuance of the EFRAG comment letter and are out of scope of this questionnaire that is needed for the endorsement advice at this stage.

31 Do you think that the IASB tentative decision with regard to the scope of the risk mitigation option will reduce the implementation issues with regard to this option? Please explain.

Transition modification and reliefs

Purpose: This section of the case study aims to understand the impact of the tentative decisions of the IASB relating to transition.

Transition relief for risk mitigation

Prospective application

32 Under IFRS 17 as issued, an entity would have to apply the risk mitigation option as from the date of initial application, i.e. 2022.

33 EFRAG was informed about the risk mitigation issue as noted in paragraph 25 during the 2018 case studies. Participants were concerned that by not applying the risk mitigation option retrospectively could impair comparability.

The transition relief for the risk mitigation option

34 The IASB Board tentatively decided to retain unchanged the prohibition in IFRS 17 from applying the risk mitigation option retrospectively.

35 In its comment letter to the IASB, EFRAG considered that retrospective application of the risk mitigation relief for contracts accounted for under the variable fee approach would provide more relevant information if entities are able to prove, using reasonable and supportable information, that a risk mitigation strategy was in place at the inception of the risk mitigation activity. EFRAG also considered that the wording in the ED is unclear as to whether retrospective application of the risk mitigation according to paragraph B115 is allowed when using reinsurance for risk mitigation purposes.

36 Considering your VFA business indicate to what extent there are remaining accounting mismatches that are due to the use of derivatives, reinsurance and financial instruments at fair value through profit or loss.

Use of fair value approach in particular circumstances

37 Applying paragraph C3(b) of IFRS 17, an entity is not permitted to apply the risk mitigation option for periods before the date of initial application. Also applying the existing requirements in IFRS 17, an entity is only permitted to apply the fair value approach if it is impracticable to apply IFRS 17 retrospectively.

38 EFRAG was informed about the risk mitigation issue as noted in paragraph 25 during the 2018 case studies. However, participants did not specifically ask for the application of the fair value as a risk mitigation option.

39 The IASB tentatively decided that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts is permitted to instead apply the fair value approach to that group, if specific criteria for risk mitigation are met (paragraph B116 of IFRS 17).

40 In its comment letter to the IASB, EFRAG considered that the possibility to apply the risk mitigation option of paragraph B115 from the transition date and the option to apply the fair value approach when the entity meets the conditions for risk mitigation in paragraph C5A of the ED are a step in the right direction. However, if the IASB accepts EFRAG's suggestion to allow retrospective application of the risk mitigation in paragraph B115, these two options are no longer necessary.

41 The IASB has anticipated that they will further discuss the topic of transition at a future meeting. Therefore, when answering to this question please consider the outcome of the ongoing IASB deliberation.

42 For your business, to which extent does application of the fair value approach to insurance liabilities where the risk mitigation option is applied resolves transition issues relating to risk mitigation?

Early application

Purpose: This section of the case study aims at finding out whether insurers intend to apply IFRS 17 early (i.e. before the date of first implementation).

43 The IASB Board has tentatively decided to defer the effective date of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023.

44 Do you intend to early apply IFRS 17 (as from 2022)?

Costs and benefits

Purpose: This section of the case study is designed to assist in understanding to which extent IFRS 17 as amended has changed the original implementation cost estimates.

Costs

45 For those that participated in EFRAG's extensive and simplified case studies, please:

(a) indicate the overall total of your costs for implementing IFRS 17 as estimated in your answer to the **original** case study and your internal changes to cost estimates.

(b) Second, considering the reductions/increases of implementation costs caused by the Amendments to IFRS 17, where possible, please provide below – for each of the Amendments - whether these proposals reduce or increase the implementation cost of IFRS 17 as amended.

Type of costs	One-off costs	Ongoing costs	(Cost Savings)	Total costs
Original cost estimate				
Internal changes to cost estimates (indicate the main drivers)				
Scope exclusions				
Acquisition cash flows				
CSM run-off				
Reinsurance contracts				
Balance sheet presentation				
Risk mitigation				
Effective date				
Transition				
Annual cohorts for VFA contracts under B67/71 and substantial risk sharing				
Annual cohorts for contracts other than VFA contracts under B67/72 and substantial risk sharing				
Other minor amendments and terminology				
Updated cost estimate				

46 For those that did **not** participate in EFRAG's extensive and simplified case studies, please indicate your costs for implementing IFRS 17 as amended, where possible.

Type of costs	One-off costs	Ongoing costs	(Cost Savings)[1]	Total costs
Costs for implementing IFRS 17:				
Classification of insurance contracts				
IT – Actuarial systems				
IT – Accounting and reporting systems				

[1] For example, synergies with Solvency II.

Type of costs	One-off costs	Ongoing costs	(Cost Savings)[1]	Total costs
Providing comparative information for the year preceding the application date of IFRS 17				
Non-IT systems				
Understanding IFRS 17				
Investor relations				
Other costs (please specify)				
Costs/cost savings relating to the IFRS 17 Amendments:				
Scope exclusions				
Acquisition cash flows				
CSM run-off				
Reinsurance contracts				
Balance sheet presentation				
Risk mitigation				
Effective date				
Transition				
Annual cohorts for VFA contracts under B67/71 and substantial risk sharing				
Annual cohorts for contracts other than VFA contracts under B67/72 and substantial risk sharing				
Other minor amendments and terminology				
Total cost estimate				

47 If you have noted any cost savings, explain the where the cost savings comes from.

48 Indicate how much of the total costs has been incurred to date when implementing IFRS 17.

49 In your view, is the complexity of IFRS 17 *as amended*, justified in terms of a reduction in the costs of application? Please explain.

Benefits

Purpose: This section of the case study is designed to highlight the expected benefits brought about for preparers of financial statements with the adoption of IFRS 17 as amended (i.e. as a whole rather than focussing only on the amendments). It also provides a rating in terms of agreement for each of the expected benefits.

50 For each of the benefits highlighted below please indicate, where applicable, your initial answer to the original case study on a scale from 1 (totally disagree) to 5 (fully agree) to what extent do you agree with the following statements made will be of benefit to you. Also, considering IFRS 17 *as amended*, please provide below your new assessment of each of the benefits highlighted. In addition, please explain the reasons why your initial assessment has changed, if that is the case.

51 EFRAG expects that the expected benefits highlighted in grey below are not expected to change from the responses of those that participated in EFRAG's extensive and simplified case studies. Therefore, these participants do not need to populate the expected benefits highlighted in grey unless they expect changes to their initial response.

52 The expected benefits highlighted in grey below are to be completed by those that did **not** participate in EFRAG's extensive and simplified case studies.

	IFRS 17 as issued					IFRS 17 as amended (including IASB decisions until March 2020)					Reason why there is a change
Expected benefits for preparers of financial statements	1	2	3	4	5	1	2	3	4	5	
More comparable financial reporting information IFRS 17 removes the practice of using non-uniform accounting policies for insurance contracts. Consequently, IFRS 17 is expected to eliminate much of the diversity in practice for insurance contracts with similar characteristics and economic features. When applying IFRS 17, a multinational entity will apply a consistent accounting model for similar insurance contracts, increasing the comparability of its results by product and by geographical area between group entities.											
Availability of options Both for contracts with and without direct participation features, IFRS 17 offers accounting policy choices for dealing with insurance finance income and expense. Entities may therefore choose the option which best reflects their economic substance and reduce costs.											
Reduced cost of capital Increased comparability of insurance entities with other industries and entities across various jurisdictions amongst users of financial statements could potentially reduce the cost of capital charged by capital providers.											
Uniform Chart of Accounts By requiring a consistent accounting policy, IFRS 17 provides entities with the opportunity to align their chart of accounts throughout the group and leverage from the chart of accounts used for statutory reporting purposes. This could lead to information being available in a more timely manner and could											

	IFRS 17 as issued					IFRS 17 as amended (including IASB decisions until March 2020)					Reason why there is a change
Expected benefits for preparers of financial statements	1	2	3	4	5	1	2	3	4	5	
potentially enhance the understanding of what is included in the chart of accounts.											
Resolving accounting mismatches IFRS 17 allows entities to present insurance finance income or expenses either in profit or loss or disaggregating it between other comprehensive income and profit or loss to reduce or fully eliminate accounting mismatches with the assets invested in.											
Reflecting the economics of the business IFRS 17 allows for entities to make their long-term business model more understandable which could reduce the dependence on certain non-GAAP measures currently used by entities to explain their business. Examples of the relevant requirements are the current value (fulfilment value), the liability and the profit allocation (CSM) and the separation of insurance result from financial result.											
Current accounting By using updated assumptions as required by IFRS 17, entities could have more current information at hand which could enable them to identify products that become onerous as they arise. This also includes accounting for all rights and obligations (such as options and guarantees) so that entities have information at hand of what their true financial position is at any reporting date.											
Reasonable approximation under the Premium Allocation Approach IFRS 17 allows an entity to simplify the measurement of some groups of insurance contracts by applying a premium allocation approach. This could lead to a reduction in complexity and costs of implementing the Standard.											
Specific measurement guidance IFRS 17 provides entities with more prescriptive requirements than IFRS 4 around measurement which could lead to a more uniform measurement basis when comparing liabilities between group entities.											
Enhanced integration between risk management and financial reporting IFRS 17 reflects how risk is managed by entities. This could provide an opportunity for risk management and financial reporting teams to integrate management and financial reporting, thus therefore reducing the amount of work to prepare financial and management reports.											

Purpose: These questions aim to highlight some additional benefits that are expected with the adoption of IFRS 17 as amended and provides insight into how entities will benefit from them compared to the current situation.

53 Do you consider that, compared to the current situation of applying IFRS 4:

(a) the application of IFRS 17 as amended could potentially improve the quality of financial information through its disclosure requirements? Please explain.

(b) the application of IFRS 17 as amended could lead to an increased understanding of the insurance sector by capital providers? Please explain.

(c) the application of IFRS 17 as amended could lead to possible increased attractiveness of the insurance sector to investors? Please explain.

(d) the application of IFRS 17 as amended could have a possible positive effect on the cost of capital of insurers? Please explain.

(e) the application of IFRS 17 as amended could lead to an increased understanding of the insurance sector by other stakeholders? Please explain.

Purpose: This question aims to identify any additional benefits over and above those listed above which are expected from the adoption of IFRS 17 as amended.

54 Are there any other benefits that you expect from the implementation of IFRS 17 as amended?

Overall impact of costs and benefits

Purpose: This question aims to understand the overall impact regarding costs and benefits.

55 Do you consider that the expected benefits outweigh the expected costs to implement IFRS 17 as amended? Please explain.

Appendix 1: Product categories used in this updated case study

1 Product categories used for the case study:

Life and health contracts with direct participation features (including with-profit contracts)

Life contracts:

This include term life, whole life, universal life, endowment, group business, deferred annuities, and immediate annuities.

Health contracts:

Health insurance is an insurance product which covers medical and surgical expenses of an insured individual. It reimburses the expenses incurred due to illness or injury or pays the care provider of the insured individual directly. The Health products offered include critical illness and permanent health insurance products.

Some entities may include health products under Life contracts and others as part of Non-life or General Insurance. Where you select health insurance portfolios for the case study, please be clear in your description where this has been included.

Insurance contracts with direct participation features:

As defined under IFRS 17: *It is an insurance contract for which, at inception:*

(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.

This may include “with-profits” or “participating” contracts depending on the contractual terms.

Life and health contracts without direct participation features

These include the same products as the previous category, but without direct participation features as described in IFRS 17.

Non-life contracts:

Also known as general insurance or property and casualty insurance. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.

Investment contracts with discretionary participation features:

As defined under IFRS 17: *It is a financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:*

(a) that are expected to be a significant portion of the total contractual benefits;

(b) the timing or amount of which are contractually at the discretion of the issuer; and

(c) that are contractually based on:

(i) the returns on a specified pool of contracts or a specified type of contract;

(ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or

(iii) the profit or loss of the entity or fund that issues the contract.

These are the contracts that may be included in the scope of IFRS 17 as the entity also issues insurance contracts per IFRS 17 paragraph 3(c). Investment contracts without DPFs fall under the scope of IFRS 9 and do not form part of the case study.

Unit-linked contracts (insurance):

Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges.

Similar to investment contracts without DPFs, investment unit-linked contracts do not form part of the case study.

Reinsurance ceded:

Contracts entered into by the entity with a reinsurer allowing the entity to hold reinsurance contracts in order to reduce its risk exposure to an insurance policy by passing that risk onto a reinsurer.

Reinsurance assumed:

Reinsurance contracts issued by the entity in which it assumes insurance risk by issuing reinsurance contracts to policyholders in its capacity of a reinsurer.

Appendix 2: Overview of Amendments to IFRS 17

Scope exclusions

1 The proposed amendments exclude loans that transfer significant insurance risk (optional) and credit cards from the scope of IFRS 17.

Expected recovery of insurance acquisition cash flows

2 The amendments to IFRS 17 propose to allocate insurance acquisition cash flows to the group of insurance contracts they relate to and to groups that include contracts that are expected to arise from renewals of the contracts in that group. These changes also introduced some new disclosure requirements.

Contractual service margin attributable to investment-return service and investment-related service

3 The amendments to IFRS 17 propose to identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service in addition to insurance coverage. Also, it is clarified 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. These changes also introduced some new disclosure requirements.

Reinsurance contracts held – recovery of losses on underlying insurance contracts

4 The amendments to IFRS 17 propose that an entity would be required to adjust the contractual service margin of a group of reinsurance contracts held that provide coverage and as a result recognise income when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts.

Presentation in the statement of financial position

5 The amendments to IFRS 17 propose that an entity present separately in the statement of financial position the carrying amounts of portfolios (instead of groups) of insurance contracts issued that are assets and those that are liabilities.

Applicability of the risk mitigation option

6 The amendments to IFRS 17 propose extending the risk mitigation option to be available when an entity mitigates financial risk on insurance contracts with direct participation features using reinsurance contracts held.

Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4

7 The amendments to IFRS 17 propose to defer the effective date of IFRS 17 by two years to 1 January 2023. In addition, it is proposed to extend the temporary exemption from IFRS 9 by two years so that it is applied as from 1 January 2023.

Transition modifications and reliefs

8 The amendments to IFRS 17 propose a change to the modified retrospective approach permitting an entity to classify liabilities for insurance contracts acquired before the transition date as a liability for incurred claims rather than a liability for remaining coverage. In addition, the amendments propose to apply the risk mitigation option as from the transition date, rather than the date of initial application. Finally, the amendment permits the application of the fair value approach for entities who use the full retrospective approach to a group of insurance contracts.

Minor amendments

9 *The IASB* proposes minor amendments to address a number of cases in which the drafting of IFRS 17 does not achieve the IASB's intended outcome. The IASB has not, and does not intend to, perform a comprehensive review of possible drafting improvements.

10 The following is a list of the minor amendments. Refer to the Basis for Conclusions of the ED paragraphs BC147 to BC163 for more details:

(a) Scope and investment contracts with discretionary participation features;

(b) Recognition of contracts within a group;

(c) Business combinations outside the scope of IFRS 3;

(d) Adjusting the loss component for changes in the risk adjustment for non-financial risk;

(e) Disclosure of investment components excluded from insurance revenue and insurance service expenses;

(f) Risk adjustment for non-financial risk in disclosure requirements;

(g) Disclosure of sensitivity analyses;

(h) Definition of an investment component;

(i) Excluding changes relating to the time value of money and assumptions that relate to financial risk from changes in the carrying amount of the contractual service margin

(j) Changes in the risk adjustment for non-financial risk;

(k) Use of the risk mitigation option;

(l) Excluding changes from cash flows relating to loans to policyholders from revenue;

(m) Treatment of changes in underlying items;

(n) Amendment to IFRS 3 Business Combinations; and

(o) Amendment to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 32 Financial Instruments: Presentation.

11 The IASB proposes to add to Appendix A of IFRS 17 the definition ‘insurance contract services’ to be consistent with other proposed amendments.

12 The IASB proposes consequential change 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’. If that change is made, those terms would become ‘service units’, ‘service period’ and ‘liability for remaining service’, respectively, throughout IFRS 17.