IFRS

STAFF PAPER

March 2020

IASB® meeting

Project	Amendments to IFRS 17		
Paper topic	Overview of the amendments to IFRS 17		

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Purpose of the paper

1. This paper:

   (a) provides an overview of the amendments to IFRS 17 *Insurance Contracts* that the International Accounting Standards Board (Board) has tentatively decided to finalise, highlighting the changes from the proposals in the Exposure Draft *Amendments to IFRS 17* (paragraph 3 of this paper);

   (b) evaluates the amendments against the criteria the Board set for assessing any amendment to IFRS 17[1] (paragraph 4–6 of this paper); and

   (c) considers the likely effects of the amendments to IFRS 17 (paragraphs 7–9 of this paper).

2. This paper is provided to assist the Board in considering Agenda Paper 2B *Due Process steps and permission for balloting*, which asks the Board for permission to start the balloting process for the amendments to IFRS 17. Consequently, this paper does not provide any staff recommendations and does not include any questions for Board members.

[1] Refer to paragraph BC8 of the Basis for Conclusions on the Exposure Draft *Amendments to IFRS 17*.

Overview of the amendments to IFRS 17

3. The following table summarises:

   (a) the proposals in the Exposure Draft; and

   (a) the Board's tentative decisions to date, highlighting the changes from the proposals in the Exposure Draft.

Topic	**Proposal in the Exposure Draft**	**Board's tentative decisions during redeliberations**
1A—Scope exclusion for credit card contracts and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract	The Exposure Draft proposed that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The entity would instead apply IFRS 9 *Financial Instruments* to such credit card contracts.	Confirm the amendment proposed in the Exposure Draft with the following changes: (a) if the entity provides the insurance coverage to the customer as part of the contractual terms of a credit card contract, the entity is required to: (i) separate that insurance coverage component and apply IFRS 17 to it; and (ii) apply other applicable IFRS Standards, such as IFRS 9, to the other components of the credit card contract. (b) extend the amendment to other contracts that provide credit or payment arrangements that are similar to such credit card contracts.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
1B—Scope exclusion for loan contracts that meet the definition of an insurance contract	The Exposure Draft proposed that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract. The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.	Confirm the amendment as proposed in the Exposure Draft.
2—Expected recovery of insurance acquisition cash flows	The Exposure Draft proposed that an entity: (a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group; (b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; (c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired; and (d) provide disclosures about such assets.	Confirm the amendment proposed in the Exposure Draft with the following changes: (a) 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 are revised at each reporting date, to reflect any change in the assumptions that determine the inputs to the method of allocation. (b) add requirements for the identification, recognition and measurement of an asset for insurance acquisition cash flows at transition and for insurance contracts acquired.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
3—Contractual service margin attributable to investment-return service and investment-related service	The Exposure Draft proposed that an entity: (a) identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage; (b) apply specified criteria to determine when an insurance contract may provide an investment-return service; (c) 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; and (d) disclose 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 disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.	Confirm the amendment proposed in the Exposure Draft with the following changes: (a) refer, in the specified criteria for when an insurance contract may provide an investment-return service, to 'investment return' (rather than to 'positive investment return' as proposed in the Exposure Draft); and (b) 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.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
4—Reinsurance contracts held—recovery of losses on underlying insurance contracts	The Exposure Draft proposed that an entity adjust the contractual service margin of a group of reinsurance contracts held *that provides proportionate coverage*, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying: (a) the loss recognised on the group of underlying insurance contracts; and (b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held. The proposed amendment would apply only when a reinsurance contract held is entered into before or at the same time as the loss is recognised on the underlying insurance contracts.	Confirm the amendment proposed in the Exposure Draft with the following changes: (a) extend the scope of the proposed amendment to *all* reinsurance contracts held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts. (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) clarify that the requirement for the 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.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
5—Presentation in the statement of financial position	The Exposure Draft proposed that an entity present separately in the statement of financial position the carrying amount of portfolios (rather than groups) of insurance contracts issued that are assets and those that are liabilities. The proposed amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.	Confirm the amendment as proposed in the Exposure Draft.
6A—Applicability of the risk mitigation option—reinsurance contracts held	The Exposure Draft proposed to extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.	Confirm the amendment as proposed in the Exposure Draft.
6B—Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss	None.	Extend the risk mitigation option to circumstances in which an entity mitigates the effect of financial risk on the fulfilment cash flows for the change in the effect of the time value of money and financial risks not arising from the underlying item (for example, the effect of financial guarantees) using non-derivative financial instruments measured at fair value through profit or loss.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
7—Accounting policy choice relating to interim financial statements	None.	Require an entity to: (a) make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period; and (b) apply its choice of accounting policy to all insurance contracts issued and reinsurance contracts held (ie an accounting policy choice at entity level).
8A—Effective date of IFRS 17	The Exposure Draft proposed a one-year deferral of the effective date of IFRS 17 so that an entity would be required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2022.	Decision to be made at this meeting.
8B—IFRS 9 temporary exemption in IFRS 4	The Exposure Draft proposed extending the temporary exemption from applying IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.	Decision to be made at this meeting.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
9A—Transition relief for contracts acquired	The Exposure Draft proposed that an entity: (a) applying the modified retrospective approach, to the extent permitted by paragraph C8 of IFRS 17, classify as a liability for incurred claims a liability for the settlement of claims incurred before an insurance contract was acquired; and (b) applying the fair value approach, be permitted to classify such a liability as a liability for incurred claims.	Confirm the amendment as proposed in the Exposure Draft.
9B—Transition relief for risk mitigation option—the application from the transition date	The Exposure Draft proposed that an entity apply the risk mitigation option for insurance contracts with direct participation features from the transition date, rather than from the date of initial application. An entity would be required to designate risk mitigation relationships at or before the date it applies the option.	Confirm the amendment as proposed in the Exposure Draft.
9C—Transition relief for risk mitigation option—the option to apply the fair value approach	The Exposure Draft proposed that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participation features be permitted to instead apply the fair value approach to that group, if it meets specified criteria relating to risk mitigation.	Confirm the amendment as proposed in the Exposure Draft.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
9D—Transition relief for investment contracts with discretionary participation features	None.	Permit an entity applying the modified retrospective approach or the fair value approach to determine whether an investment contract meets the definition of an investment contract with discretionary participation features using information available at the transition date (rather than at inception or initial recognition). An entity applying the modified retrospective approach would use information available at the transition date only to the extent that the entity does not have reasonable and supportable information to apply a retrospective approach.
9E—Transition relief for identifying the date a reinsurance contract held was acquired	None.	Require an entity that does not have reasonable and supportable information to identify whether a reinsurance contract held was acquired before or at the same time as the onerous underlying insurance contracts were issued to assume that the reinsurance contract held does not have a loss-recovery component at the transition date.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
9F—Transition relief relating to interim financial statements	None.	Require an entity applying the modified retrospective approach to determine the contractual service margin, loss component and amounts related to insurance finance income or expenses at the transition date as if the entity had not prepared any interim financial statements before the transition date if the entity: (a) makes an accounting policy choice not to change the treatment of accounting estimates made in previous interim financial statements; and (b) does not have reasonable and supportable information to apply retrospectively its accounting policy choice.

Topic	Proposal in the Exposure Draft	Board's tentative decisions during redeliberations
10—Minor amendments	The Exposure Draft proposed minor amendments to the requirements in IFRS 17 to address a number of cases in which the drafting of IFRS 17 does not achieve the Board's intended outcome. The Exposure Draft also included a number of editorial corrections to IFRS 17 that the Board had identified after IFRS 17 was issued.	Confirm the proposed minor amendments in the Exposure Draft with some changes to: (a) improve the wording that was used in the Exposure Draft; (b) extend the proposed minor amendment for investment components to loans to policyholders, so that, for insurance contracts without direct participation features, the contractual service margin would not be adjusted for changes in fulfilment cash flows arising from differences that relate to the time value of money and assumptions that relate to financial risk; and (c) resolve an inconsistency in the requirements in IFRS 17 relating to income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract.

Evaluating the amendments to IFRS 17 against criteria for change

4. In developing the Exposure Draft, the Board decided that, to maintain the benefits of IFRS 17, any amendments to IFRS 17 must not:

   (a) change the fundamental principles of the Standard because that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17;

   (b) unduly disrupt implementation processes already under way; or

   (c) risk undue delays in the effective date of IFRS 17.

5. The Board continued to apply the criteria in paragraph 4 of this paper when considering feedback from outreach and comment letters on the Exposure Draft.

6. The following table summarises the Board's evaluation of each of the amendments to IFRS 17 against those criteria. The table does not include the individual minor amendments because those amendments are intended only to clarify the wording in the Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements in IFRS 17.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
1A—Scope exclusion for credit card contracts and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract	No—The amendment is not expected to result in a significant loss of useful information for users of financial statements because entities would either: (a) apply other applicable IFRS Standards to such contracts—those other Standards would provide useful information about the components of those contracts to users of financial statements; or (b) separate the insurance component from such contracts, apply IFRS 17 to it and apply other applicable IFRS Standards, such as IFRS 9, to the other components of such contracts.	No—The amendment is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17. This is because entities that issue such contracts typically do not issue other contracts within the scope of IFRS 17 and may not otherwise be applying IFRS 17. The amendment will limit the application of IFRS 17 to entities that choose to provide insurance coverage as part of the contractual terms of such contracts and only require IFRS 17 to be applied to the insurance coverage component of the contract rather than the contract as a whole.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
1B—Scope exclusion for loan contracts that meet the definition of an insurance contract	No—The amendment is not expected to result in a significant loss of useful information for users of financial statements because an entity would be permitted to measure those contracts applying IFRS 9 (for example, at fair value through profit or loss) or IFRS 17. This is expected to provide useful information to users of financial statements in both cases, without unduly reducing comparability.	No—The amendment is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because it is optional, and many loan contracts that transfer significant insurance risk are issued by non-insurance entities that may be at a less advanced stage of IFRS 17 implementation or may not otherwise be applying IFRS 17.
2—Expected recovery of insurance acquisition cash flows	No—The amendment is expected to reduce the number of insurance contracts that are determined to be onerous at initial recognition. However, overall respondents to the Exposure Draft agreed with the Board's view that the amendment could provide additional useful information for users of financial statements about expected contract renewals. The additional disclosure requirements are intended to ensure that the amendment does not result in a significant loss of useful information for users of financial statements.	No—The amendment is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because it builds on the requirements of IFRS 17 as originally issued.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
3—Contractual service margin attributable to investment-return service and investment-related service	No—Including investment-related service (for variable fee approach contracts) or investment-return service (for general model contracts) in addition to insurance coverage in determining the amount of the contractual service margin to recognise in profit or loss makes the determination more subjective and complex. However, overall respondents to the Exposure Draft agreed with the Board's view that the amendment is expected to provide useful information about the services an entity provides to the policyholder. The accompanying amendment to the disclosure requirements is intended to enhance the usefulness of information for users of financial statements.	No—The amendment might disrupt implementation processes already under way. However, on balance, the potential disruption is expected to be justified given the feedback from respondents to the Exposure Draft about the usefulness of information provided by the requirements in IFRS 17 as originally issued.

Topic	**(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?**	**(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?**
4—Reinsurance contracts held—recovery of losses on underlying insurance contracts	No—Although the amendment would change the accounting for reinsurance contracts held, the amendment is not expected to result in a significant loss of useful information for users of financial statements because IFRS 17 already provides an exception to the general requirements for reinsurance contracts held to avoid some accounting mismatches. The amendment does not affect the accounting for underlying insurance contracts. An entity will continue to be required to provide useful information about underlying insurance contracts that are onerous.	No—The amendment might disrupt implementation for entities that have already begun to develop their systems. However, the disruption is expected to be justified given feedback from respondents to the Exposure Draft about the likely significant impact of the accounting mismatch which many of those respondents think reduce the usefulness of the information provided by IFRS 17 as originally issued.
5—Presentation in the statement of financial position	No—Although offsetting groups in the statement of financial position would result in a loss of useful information for users of financial statements, the presentation of insurance contracts at portfolio level is still expected to provide useful information to users of financial statements.	No—The amendment is expected to provide significant cost relief for entities applying IFRS 17, as noted by some respondents to the Exposure Draft. It is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because the amendment does not affect the measurement of insurance contracts.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
6A—Applicability of the risk mitigation option—reinsurance contracts held 6B—Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss	No—Although the amendments to extend the risk mitigation option to cover the use of reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss would change the accounting for the insurance contracts for which financial risk is mitigated, the amendment is an expansion of the option that already exists in IFRS 17. Some respondents to the Exposure Draft agreed with the Board's view that the amendment would permit an entity to better reflect its risk management activities.	No—The expanded option is not expected to unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17 because it is optional and would apply only when the conditions for the risk mitigation option in IFRS 17 are met. If an entity prefers, it could still choose to apply the requirements in IFRS 17 as originally issued.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
7—Accounting policy choice relating to interim financial statements	No—Although introducing an accounting policy choice results in different entities applying different accounting policies, it is not expected to result in a significant loss of useful information for users of financial statements. This is because: (a) an entity would be required to apply consistently the same approach to all insurance contracts issued and reinsurance contracts held; and (b) different frequency of reporting already gives rise to differences in outcomes even when all entities are required to apply the requirements in IFRS 17 as originally issued.	No—The amendment is not expected to unduly disrupt implementation processes already under way. If an entity prefers, it could still choose to apply the requirements of IFRS 17 as originally issued.
8A—Effective date of IFRS 17	For the Board to consider at this meeting.	For the Board to consider at this meeting.
8B—IFRS 9 temporary exemption in IFRS 4	For the Board to consider at this meeting.	For the Board to consider at this meeting.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
9A—Transition relief for contracts acquired	No—The amendment treats liabilities acquired inconsistently with the principles of business combination accounting by not reflecting the terms and conditions that exist at the acquisition date. Although this transition relief impairs comparability between contracts acquired in business combinations that occur before and after the transition date, the Board concluded that such a relief is necessary because it is likely that entities often would not have the information required to apply IFRS 17 retrospectively to such contracts.	No—The amendment is expected to support, rather than disrupt, implementation processes already under way. Some respondents to the Exposure Draft agreed with the Board's view that the amendment would provide practical relief when an entity does not have information to apply the requirements of IFRS 17 retrospectively.
9B—Transition relief for risk mitigation option—the application from the transition date	No—A prospective application of the risk mitigation option from the transition date is expected to reduce accounting mismatches in the comparative periods presented and to achieve comparability over time. This is regarded as improving the usefulness of information for users of financial statements.	No—The amendment is not expected to unduly disrupt implementation processes already under way. An entity can choose if, and when, to start applying the risk mitigation option when the specified criteria are met.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
9C—Transition relief for risk mitigation option—the option to apply the fair value approach	No—While the fair value approach for transition provides useful information to users of financial statements by reducing accounting mismatches, introducing additional optionality may decrease comparability between entities on transition. However, the required disclosure, in subsequent periods, of the contractual service margin of groups of insurance contracts accounted for applying the fair value approach at transition could be a mitigating factor.	No—The amendment is not expected to unduly disrupt implementation processes already under way. It introduces an option, rather than a requirement, for entities to apply the fair value transition approach to a group of insurance contracts with direct participation features. The fair value approach to transition provides an entity with a practical approach to determine the contractual service margin at the transition date, and that approach is simpler to apply than a retrospective approach.
9D—Transition relief for investment contracts with discretionary participation features	No—The transition relief may affect whether an investment contract is accounted for applying IFRS 9 or IFRS 17. Either Standard is expected to provide useful information to users of financial statements about such contracts.[2]	No—The amendment is not expected to unduly disrupt implementation processes already under way. The amendment aligns the transition reliefs for the classification of investment contracts with discretionary participation features to those already available for other contracts (for example, insurance contracts with direct participation features).

[2] IFRS 17 applies to investment contracts that meet the definition of an investment contract with discretionary participation features only if the issuer also issues insurance contracts. Entities that do not issue insurance contracts apply the requirements in IFRS 9 to account for their investment contracts with discretionary participation features.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
9E—Transition relief for identifying the date a reinsurance contract held was acquired	No—Without the transition relief, an entity may be prohibited from applying the modified retrospective approach only because it does not know whether a reinsurance contract held was acquired before or at the same time as the underlying insurance contracts were issued. The transition relief would therefore allow more entities to use the modified retrospective approach, instead of the fair value approach, which is regarded as improving the usefulness of information for users of financial statements.	No—The amendment is not expected to unduly disrupt implementation processes already under way. Applying the amendment an entity would not need to identify a loss-recovery component of a reinsurance contract held at transition, which is expected to ease implementation for entities that have reinsurance contracts held at the transition date.

Topic	(a) Would the amendment change the fundamental principles of IFRS 17 resulting in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17?	(b) Would the amendment unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17?
9F—Transition relief relating to interim financial statements	No—The transition relief: (a) would apply only when an entity, applying the modified retrospective approach, does not have reasonable and supportable information to apply retrospectively its accounting policy choice relating to interim financial statements; and (b) would still result in a retrospective determination of the contractual service margin at the transition date considering annual financial statements before the transition date (rather than both interim and annual financial statements before the transition date).	No—The amendment is not expected to unduly disrupt implementation processes already under way. The amendment is expected to reduce the burden at transition for entities applying the modified retrospective approach that would make an accounting choice not to change the treatment of accounting estimates made in previous interim financial statements. Applying the transition relief, an entity would determine the contractual service margin at the transition date as if the entity had not prepared any interim financial statements before the transition date.

Effects of the proposed amendments

7. In developing the amendments, the Board considered papers that allowed it to assess the likely effects of the amendments. The assessment of the likely effects of the amendments proposed in the Exposure Draft was included in the Basis for Conclusions on the Exposure Draft.[3] This section of the paper provides an updated assessment of the likely effects of the amendments, in the light of the Board's tentative decisions during redeliberations (refer to the table in paragraph 3 of this paper).

[3] Paragraph BC221 of the Basis for Conclusions on the Exposure Draft.

8. Paragraph 3.75 of the *Due Process Handbook* provides examples of the issues the Board considers in forming its judgement on the evaluation of the likely effects of new requirements, as follows:

   (a) how the proposed changes are likely to affect how activities are reported in the financial statements of those applying IFRS Standards;

   (b) how those changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period;

   (c) how the changes will improve users' ability to assess the future cash flows of an entity;

   (d) how the improvements to financial reporting will result in better economic decision-making;

   (e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and

   (f) how the likely costs of analysis for users are affected, taking into account the costs incurred by users of financial statements when information is not available and the comparative advantage that preparers have in developing information, when compared with the costs that users would incur to develop surrogate information.

9. The following table considers the likely effects of the amendments compared to the requirements in IFRS 17 as originally issued. The staff observe that the amendments to IFRS 17 are, by design, narrow in scope and intended to ease implementation for entities issuing insurance contracts.

Topic	Financial statements effects	Cost-benefit analysis
1A—Scope exclusion for credit card contracts and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract	Entities issuing credit card contracts and other similar contracts that meet the definition of an insurance contract that would be excluded from the scope of IFRS 17 would: (a) apply other applicable IFRS Standards to such contracts (if an entity does not provide the insurance coverage as part of the contractual terms of the contracts); or (b) separate the insurance component from such contracts, apply IFRS 17 to it and apply other applicable IFRS Standards to the other components of such contracts (if an entity provides the insurance coverage as part of the contractual terms of the contracts). Often the outcome of applying other applicable IFRS Standards to such contracts is expected to be similar to how those entities applied IFRS 4. In those cases, no significant effect on the financial statements is expected.	The amendment is expected to reduce IFRS 17 implementation costs for entities that: (a) do not typically issue other contracts within the scope of IFRS 17; and (b) do not provide the insurance coverage as part of the contractual terms of the credit card contracts and other similar contracts that would be captured by the scope exclusion. Those entities would not need to implement IFRS 17 because they would apply other applicable IFRS Standards to account for such credit card contracts and other similar contracts. Entities that provide insurance coverage as part of the contractual terms of such contracts will need to apply IFRS 17 only to the insurance component of the contract. Accounting for such contracts in the same way as credit card contracts and other similar contracts that do not meet the definition of an insurance contract is expected to provide comparable information for the users of financial statements for the entities that issue credit card contracts and other similar contracts.

Topic	Financial statements effects	Cost-benefit analysis
1B—Scope exclusion for loan contracts that meet the definition of an insurance contract	Entities are expected to use the option that introduces the least change to their accounting and/or the accounting that aligns most closely with the accounting they apply to other contracts they issue. No change is expected for entities that would elect to apply IFRS 17 to such loan contracts because applying IFRS 17 to such loan contracts is the requirement in IFRS 17 as originally issued. Entities that elect to apply IFRS 9, rather than IFRS 17, to such loan contracts are expected to account for those contracts consistently with similar financial instruments they issue, for example, measuring them at fair value through profit or loss.	The amendment is expected to enable an entity to apply either: (a) IFRS 17 to such loan contracts, permitting comparability with the other insurance contracts issued by the same entity; or (b) IFRS 9 to such loan contracts, permitting comparability with financial instruments issued by the same entity. The amendment is expected to reduce IFRS 17 implementation costs for entities that do not typically issue other contracts within the scope of IFRS 17. Those entities would not need to implement IFRS 17 because they could apply IFRS 9 to such loan contracts. Measuring those loan contracts applying IFRS 9 or IFRS 17 is expected to provide useful information to users of financial statements in either case, without unduly reducing comparability or unduly increasing the costs of analysis for users of financial statements.

Topic	Financial statements effects	Cost-benefit analysis
2—Expected recovery of insurance acquisition cash flows	The requirement to allocate insurance acquisition cash flows to expected contract renewals and recognise them as an asset, rather than as part of the measurement of the initial contracts, is expected to: (a) reduce the number of insurance contracts determined to be onerous at initial recognition; and (b) increase the amount and duration of the asset recognised for those cash flows.	Users of financial statements are expected to benefit from additional information about expected contract renewals and related disclosures—that is, the reconciliation of the asset at the beginning and end of the reporting period showing changes for any impairment loss or reversals and the quantitative disclosure of the expected timing of the inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts. The requirement to assess the recoverability of the asset is expected to increase the ongoing costs of applying IFRS 17 for entities. However, that assessment would be required only if facts and circumstances indicate the asset may be impaired. On balance, the potential additional costs are expected to be justified given the feedback from respondents to the Exposure Draft that the amendment is expected to make it easier for entities to explain the results of applying IFRS 17 to users of financial statements.

Topic	Financial statements effects	Cost-benefit analysis
3—Contractual service margin attributable to investment-return service and investment-related service	The amendment is expected to change the pattern of recognition of profit to better align it with the provision of different services when an entity provides investment-return service.	The disclosures about the contractual service margin are expected to mitigate the costs of analysis for users of financial statements that might be created by any increase in subjectivity and reduction in comparability between entities. The amendment is expected to provide useful information about the investment-return service provided under a contract. However, the amendment might disrupt implementation processes already under way and, therefore, increase costs, particularly for entities that are at an advanced stage of IFRS 17 implementation. On balance, the potential disruption is expected to be justified given the feedback from respondents to the Exposure Draft about the increased usefulness of information.

Topic	Financial statements effects	Cost-benefit analysis
4—Reinsurance contracts held—recovery of losses on underlying insurance contracts	The amendment changes the accounting for reinsurance contracts held when they relate to underlying contracts that are onerous at initial recognition. It does not affect the accounting for the underlying insurance contracts issued. Therefore, an entity will continue to be required to provide information about onerous underlying insurance contracts. Applying the amendment an entity will recognise in profit or loss the recovery of a loss immediately and the adjusted net cost or net gain of purchasing reinsurance as reinsurance services are received.	The amendment: (a) is expected to improve consistency between the accounting treatment for reinsurance contracts held relating to the initial recognition of underlying onerous contracts and subsequent adverse changes in onerous groups of underlying contracts; (b) is expected to reduce the complexity for users of financial statements in understanding the accounting for reinsurance contracts held, by reducing accounting mismatches; (c) might disrupt implementation processes for entities that have already started those processes and might, therefore, increase costs for those entities; and (d) is not expected to unduly increase the ongoing costs of IFRS 17 for entities or the costs of analysis for users of financial statements because it expands an exception to the general requirements for reinsurance contracts held in IFRS 17.

Topic	Financial statements effects	Cost-benefit analysis
5—Presentation in the statement of financial position	The amendment—which would require entities to separately present insurance contracts at portfolio level rather than at group level—is expected to reduce the amount of insurance contract assets presented in the statement of financial position. It is expected that many groups of insurance contracts will typically move between asset and liability positions, whereas most portfolios of insurance contracts are expected to remain in a liability position.	Although offsetting groups in the statement of financial position would result in a loss of useful information for users of financial statements, the loss of information is regarded as acceptable when balanced against the significant cost relief for entities. Investor outreach indicates that the loss of useful information caused by this amendment would be acceptable. The impact on the costs of analysis for users of financial statements is not expected to be significant.
6A—Applicability of the risk mitigation option—reinsurance contracts held 6B—Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss	Entities with reinsurance contracts held or non-derivative financial instruments at fair value through profit or loss that use the risk mitigation option to recognise changes in insurance contracts with direct participation features caused by changes in financial assumptions in profit or loss, rather than as adjustments to the contractual service margin, will reduce accounting mismatches with the related changes in the reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss.	The extension of the risk mitigation option to reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss: (a) is expected to reduce accounting mismatches and, therefore, reduce complexity for preparers and users of financial statements in understanding the accounting for insurance contracts; and (b) is not expected to unduly increase implementation costs for entities because an entity can decide not to use the option.

Topic	Financial statements effects	Cost-benefit analysis
7—Accounting policy choice relating to interim financial statements	Introducing an accounting policy choice is expected to result in different entities applying different accounting policies. An entity would either change or not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period. The choice is an accounting policy choice and is made at an entity level. It would therefore be subject to the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—the choice should be applied consistently by an entity over time.	Introducing an accounting policy choice is expected to ease IFRS 17 implementation by reducing implementation costs. An entity is expected to assess what is less burdensome from a practical perspective between: (a) maintaining two sets of accounting estimates for entities within a consolidated group with different frequency of reporting; and (b) recalculating the carrying amount of the contractual service margin and the amounts recognised in profit or loss for a subsequent reporting period. The additional complexity of introducing an accounting policy choice could be regarded as acceptable when balanced against the cost relief for entities.
8A—Effective date of IFRS 17	For the Board to consider at this meeting.	For the Board to consider at this meeting.
8B—IFRS 9 temporary exemption in IFRS 4	For the Board to consider at this meeting.	For the Board to consider at this meeting.

Topic	Financial statements effects	Cost-benefit analysis
9A—Transition relief for contracts acquired	The amendment is expected to reduce revenue and expenses recognised by entities. The amendment would permit an entity to account for some liabilities for claims settlement acquired as a liability for incurred claims, rather than as a liability for remaining coverage. Liabilities for incurred claims do not give rise to revenue and expenses for expected claims. The amendment is expected to: (a) allow more entities to use the modified retrospective approach, instead of the fair value approach; and (b) provide additional relief within the fair value approach.	The amendment treats liabilities acquired in a manner that is inconsistent with the principles of acquisitions by not reflecting the terms and conditions that exist at the acquisition date. This adds complexity for users of financial statements. Permitting an entity to account for liabilities for claims settlement acquired as a liability for incurred claims on transition to IFRS 17 is expected to ease implementation for entities that have acquired contracts before the transition date.
9B—Transition relief for risk mitigation option—the application from the transition date	Applying the amendment, entities that choose to use the risk mitigation option from the transition date—that is, the beginning of the annual reporting period immediately before the date of initial application—would reflect the effects of risk mitigation on comparative information when first applying IFRS 17.	A prospective application of the risk mitigation option from the transition date is expected to reduce accounting mismatches in the comparative period presented and to achieve comparability over time. Application of the risk mitigation option is optional. Therefore, the amendment is not expected to unduly increase implementation costs for entities. The disclosures required by IFRS 17 at transition are expected to mitigate the costs of analysis for users of financial statements introduced by the additional optionality.

Topic	Financial statements effects	Cost-benefit analysis
9C—Transition relief for risk mitigation option—the option to apply the fair value approach	At the transition date, the equity of an entity that applies the amendment is expected to reflect previous changes in the fulfilment cash flows due to changes in financial assumptions and changes in the fair value of the derivatives or non-derivative financial instruments at fair value through profit or loss if the entity has used those financial instruments or reinsurance contracts held to mitigate financial risk before the transition date.	The information provided applying the fair value transition approach is expected to be useful to users of financial statements because it reduces accounting mismatches. The amendment introduces an option, rather than a requirement, for entities to apply the fair value transition approach to a group of insurance contracts with direct participation features. Therefore, the amendment is not expected to unduly increase implementation costs for entities. The disclosures required by IFRS 17 at transition are expected to mitigate the costs of analysis for users of financial statements introduced by the additional optionality.
9D—Transition relief for investment contracts with discretionary participation features	An entity using the transition relief will determine whether an investment contract meets the definition of an investment contract with discretionary participation features using information available at the transition date (rather than at inception or initial recognition). Therefore, the number of investment contracts that would fall within the scope of IFRS 17 when entities apply the transition relief is expected to vary depending on the changes of the characteristics of a contract between its issuance date and the transition date.	The transition relief is expected to ease implementation for entities that have investment contracts to which IFRS 17 applies. Investment contracts with discretionary participation features have similar economic characteristics as insurance contracts and they are commonly linked to the same pool of assets as, or share in the performance of, insurance contracts. Applying either IFRS 17 or IFRS 9 requirements to those contracts is expected to provide useful information to users of financial statements.

Topic	Financial statements effects	Cost-benefit analysis
9E—Transition relief for identifying the date a reinsurance contract was acquired	At the transition date, an entity using the transition relief will not recognise a loss-recovery component for a reinsurance contact held that covers underlying insurance contracts that were onerous when issued.	Requiring an entity to assume, in some circumstances, that a reinsurance contract held does not have a loss-recovery component at the transition date is expected to ease implementation for entities that have reinsurance contracts held at the transition date. The transition relief is regarded as improving the usefulness of information for users of financial statements because it is expected to allow more entities to use the modified retrospective approach, instead of the fair value approach. The inconsistency between the treatment before and after the transition date of reinsurance contracts held with underlying onerous insurance contracts could be regarded acceptable balanced against the cost relief for entities.
9F—Transition relief relating to interim financial statements	Entities using the transition relief are expected to determine the contractual service margin of insurance contracts accounted for applying the modified retrospective approach at transition in a way that is similar to the approach used by entities that would choose to change the treatment of accounting estimates made in previous interim financial statements (ie considering only annual financial statements before the transition date).	The transition relief is expected to ease implementation for entities that: (a) have prepared interim financial statements before the transition date; (b) choose not to change the treatment of accounting estimates made in previous interim financial statements; and (c) apply the modified retrospective approach to groups of contracts at transition.

Topic	Financial statements effects	Cost-benefit analysis
10A—Minor amendments: editorial correction to paragraph B107 of IFRS 17 to ensure consistency within IFRS 17	The correction to paragraph B107 of IFRS 17 specifies that, when assessing whether a contract meets the definition of an insurance contract with direct participation features, an entity assesses the variability of the amounts to be paid to the policyholder over the duration of the insurance contract (rather than over the duration of the group of insurance contracts as incorrectly specified by paragraph B107 of IFRS 17 as originally issued). Some entities indicated the correction changed the way they had interpreted the requirements of the Standard—they had been assessing the eligibility for the variable fee approach at a group level and now have to make that assessment at a contract level. For these entities, the consequence may be that fewer contracts meet the criteria to be considered insurance contracts with direct participation features, and consequently will be accounted for applying the general model. This in turn effects the ongoing accounting for these contracts. The correction will result in more comparability by eliminating a possible misinterpretation of the Standard. The correction affects only one of the criteria for the assessment of contracts to which the variable fee approach applies (ie the requirement in paragraph B101(c) of IFRS 17). Further, it only makes a difference to the assessment when there are cash flows the variability of which changes when assessed for an individual contract rather than for a group of contracts. Nonetheless, the correction may have an effect on implementation processes already under way, and consequently there may be a cost for those entities of redoing some of their implementation activities. However, it should be noted that this misinterpretation may have in any case been detected later in the implementation processes.	
10B—Other minor amendments	Minor amendments either clarify the wording in IFRS 17 or correct relatively minor unintended consequences, oversights or conflicts between the requirements of IFRS 17 and other Standards. Likely effects might vary depending on specific facts and circumstances.	