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Insurance
Accounting Alert

December 2018

IASB makes change to balance sheet presentation for IFRS 17

What you need to know

- At its meeting on 13 December 2018, the IASB discussed potential changes to IFRS 17 *Insurance Contracts* on thirteen topics that had been suggested by stakeholders.
- The Board tentatively agreed to amend the requirement in IFRS 17 for separate presentation of groups of contracts in an asset or liability position. The change moves the requirement to separate presentation from group to a portfolio level.
- In line with the staff recommendation, the Board rejected twelve other potential changes.

Overview

At its Board meeting on Thursday 13 December, the International Accounting Standards Board (IASB or the Board) considered potential changes to IFRS 17 *Insurance Contracts* (IFRS 17) on thirteen topics. It tentatively decided to amend the existing provision in IFRS 17 that requires an entity to present separately on the face of the balance sheet groups of contracts that are assets from groups of contracts that are liabilities. The change will allow the separate presentation to be done at a higher level of aggregation – namely portfolio level. The Board divided one topic into two parts, and decided to defer a decision on one part to a future meeting. The Board rejected twelve potential changes to the standard.

The story so far

The IASB issued IFRS 17 in May 2017. Our publication, *Applying IFRS 17: A closer look at the new insurance contracts standard*, provides further details on the requirements: http://www.ey.com/Publication/vwLUAssets/ey-Applying-IFRS-17-Insurance-May-18/$FILE/ey-Applying-IFRS-17-Insurance-May-18.pdf

The cover note and papers for the December 2018 meeting, including an analysis of the concerns raised by stakeholders are available on the IASB's website: https://www.ifrs.org/news-and-events/calendar/2018/december/international-accounting-standards-board.

Potential changes to IFRS 17

The IASB agreed, during its October 2018 meeting, to consider changes to IFRS 17 at future meetings. The IASB staff presented at that meeting twenty five concerns and implementation challenges raised by stakeholders for future consideration. At the November 2018 meeting, the Board considered two of these issues and decided to propose deferring the effective date of IFRS 17 and IFRS 9 (for insurers that elected the temporary exemption from applying IFRS 9) by one year to 2022.

In our October *Insurance Accounting Alert*, we provided the full list of the twenty five concerns and implementation challenges, as reported to the IASB. The current status of the items and their review by the IASB, are summarised in the table in the Appendix. The numbers for each of the topics discussed below refer to the numbers listed in this table.

The criteria for assessing potential changes to IFRS 17

The Board applied the criteria agreed upon at the October 2018 Board meeting to assess whether any of the potential changes suggested by stakeholders were warranted.

Those criteria are that, in addition to demonstrating a need for amendment, the IASB staff must show that:

- The amendments would not result in significant loss of useful information for users of financial statements – i.e., any amendments would avoid:
  - Reducing the relevance and faithful representation of information in the financial statements
  - Causing reduced comparability or introducing internal inconsistency in IFRS standards

  Or

  - Increasing complexity for users
- The amendments would not unduly disrupt implementation processes that are already under way or risk undue delays in the effective date of a standard that is needed to address many inadequacies in the existing wide range of insurance accounting practices

Proposed amendment to presentation of insurance contracts under IFRS 17 (#15 in the Appendix)

The Board considered and agreed with the staff recommendation to amend the existing provision in IFRS 17 that requires an entity to present, separately on the face of the balance sheet, groups of contracts that are assets from groups of contracts that are liabilities. The change will allow the separate presentation to be done at a higher level of aggregation, namely portfolio level. Thus, it will require that an entity presents, separately in the balance sheet, the carrying amounts of portfolios of:

- Insurance contracts issued that are assets
- Insurance contracts issued that are liabilities
- Reinsurance contracts held that are assets
- Reinsurance contracts held that are liabilities

A portfolio of insurance contracts is defined in IFRS 17 as insurance contracts subject to similar risks and managed together.

Rationale in the staff papers for the change

IFRS 17 currently requires separate presentation of groups of contracts in an asset or liability position at the reporting date. These groups are to be established by grouping contracts within a portfolio based on their date of issue and expected level of profitability.

The asset or liability position is determined by the cash flows received and paid, and revenue and expenses recognised by group of contracts. Providing this information therefore requires the identification of premium receipts, claims and expense payments, and revenue earned by IFRS 17 group.

Many insurers manage and record the receipt of premiums and payment of claims and expenses on systems that are separate from their policy administration systems. Policy administration systems maintain records by insurance contract, and are likely to generate the information necessary to determine the liability for remaining coverage by groups of contracts, as required by IFRS 17. Cash management systems operate at a higher level of aggregation. Insurers have commented that developing cash management systems to enable linkage to groups of contracts would be very expensive and the cost far outweighs any benefit to users of financial statements. There are similar arguments relating to actuarial projection systems that are separate from policy administration systems. The IASB has acknowledged the cost/benefit trade-off by proposing to amend IFRS 17 to require entities to offset groups of contracts at the portfolio level for presentation purposes. The IASB considers that it will be easier for insurers to associate premium debtors and outstanding claims to portfolios of contracts than to groups, and that any potential loss of information arising from netting of groups in an asset and liability position is acceptable when balanced against the significant cost relief.

Aggregation at a higher level than portfolio, such as entity level, would, according to the IASB,lead to a loss of a great deal of useful information, whereas the loss of information from grouping contracts at portfolio level is regarded as acceptable when balanced against the significant cost relief to be gained, and would not unduly disrupt implementations already underway.

Observations from the Board meeting

Several Board members expressed concern that this decision is inconsistent with the principles of the Conceptual Framework. One Board member felt there was little information about the extent of the impact of the staff's recommendation. Other Board members responded that limited outreach to users of financial statements indicated that the loss of information was acceptable. One Board member suggested that the Board review the feedback from the exposure period of any proposed change to the standard on this topic for indications that the loss of information might be significant.

The Board voted 13 to 1 in favour of the staff recommendation to amend the standard.

Rejection of twelve potential changes to IFRS 17, with deferral of a decision on retrospective application of risk mitigation for VFA contracts at transition

The Board agreed with the staff recommendations not to make changes to IFRS 17 in respect of twelve topics considered at the meeting, which we discuss below. The Board decided not to vote on whether to change the standard to allow a retrospective approach to applying risk mitigation for VFA contracts at transition. The question was raised in the agenda papers for this meeting, but the Board members decided to consider this issue in conjunction with related topics on transition at a future meeting.

Presentation of insurance contracts on the balance sheet

Present contracts subject to the premium allocation approach (PAA) at a higher level of aggregation than groups and thus avoid recognition of premium receipts by group. (#9)

Some stakeholders suggest that the challenge of identifying premiums received and incurred claims is more relevant to contracts measured applying the PAA than for other insurance contracts. They suggested for the PAA to present insurance contracts at a higher level than a group of contracts.

Rationale in the staff papers for not changing the requirement

The Board considers the PAA as a simplification of the general model requirements. Therefore, both the level of aggregation and presentation requirements apply equally to the PAA as to the general model. To change the measurement requirements for the PAA would result in it being a different measurement model. The proposal to change the level of aggregation for balance sheet presentation from groups to portfolios will provide some practical relief for the presentation of contracts subject to the PAA.

Separate presentation and measurement of premiums receivable (and claims payable} from other components of the carrying amounts of insurance contracts. (#16)

Some stakeholders noted that the requirement to present insurance contract liabilities net of premiums receivable is a significant change from existing accounting practice and will involve significant implementation costs. Many entities currently account for premiums receivable separately as financial assets, and information stored in systems about premiums receivable is not generally linked to policy administration or actuarial valuation systems. These currently record and store premium receivable information at a high level of aggregation as no subdivision of these amounts is required in the financial statements of an entity.

Rationale in the staff papers for not changing the requirement

Amending IFRS 17 to measure and present premiums receivable separately from insurance contract liabilities would result in internal inconsistencies in IFRS 17 (as the model recognises a single bundle of rights and obligations in a group of contracts). An amendment would reduce comparability between entities that have different system capabilities, cause significant loss of useful information and unduly disrupt implementations already underway. However, some of the implementation challenges raised may be resolved by the proposed change in the level of aggregation for presentation in the balance sheet that is noted above.

Observations from the Board meeting

The Board considered these two presentation points together and unanimously voted in favour of the staff recommendation not to change the standard.

Discount rates, risk adjustment and OCI option

Change the requirement to use a locked-in discount rate to adjust the Contractual Service Margin (CSM) in the general model (#4)

Under IFRS 17, the CSM is adjusted for changes in estimates of future cash flows and risk adjustment related to future services. When measuring fulfilment cash flows, these changes in estimates are measured using a current discount rate. However, under the general model, the adjustment to the CSM is made using the discount rate on initial recognition (commonly referred to as the locked-in rate. This leads to differences between the change in fulfilment cash flows and the adjustment to the CSM, which gives rise to a gain or loss in profit or loss or in Other Comprehensive Income (OCI, which some stakeholders feel is difficult to explain and could significantly distort performance results or give anomalous results.

Rationale in the staff papers for not changing the requirement

The IASB staff paper prepared for the meeting noted that the Board had already considered this issue a number of times and each time the Board had confirmed that the CSM for groups of contracts subject to the general model should be accreted and adjusted at discount rates locked-in at initial recognition. The staff noted that effects of changes in discount rate on the changes in the present value of estimated cash flows are not included in the CSM and therefore do not affect the insurance service result. This is in line with the principle in IFRS 17 to present the insurance service result separately from insurance finance income and expenses.

The IASB also considered that there are sufficient disclosure requirements in the standard to enable users of financial statements to understand the implications of the existing approach, and that a change would also disrupt implementation processes already underway by changing system requirements for determining the CSM.

Observations from the meeting

Several Board members noted that users of financial statements find the separation of the insurance service result from insurance finance income or expenses valuable. The Board unanimously voted in favour of the staff recommendation not to change the standard.

Reduce the level of subjectivity in setting the risk adjustment and discount rates (#5)

IFRS 17 permits an entity to determine discount rates and the risk adjustment for non-financial risk using different approaches and techniques, as long as they achieve the objectives set out in the standard. IFRS 17 also contains disclosure requirements for the approach used. Some regulators, investors and analysts expressed concern that the different approaches used could limit comparability.

Rationale in the staff papers for not changing the requirement

Prescribing discount rates or limiting risk adjustment techniques would conflict with the aim of a principles-based standard. Doing so might reduce relevance given there are many different forms, terms and conditions in insurance contracts. The requirements in IFRS 17 provide a form of comparability without imposing uniformity. A principles-based approach allows entities to develop the best approaches for their specific circumstances, and is consistent with the approach used in other IFRSs (such as determination of a similar risk adjustment in IFRS 13 *Fair Value Measurement*).

The staff paper noted that disclosure is required to allow users of financial statements to understand differences between entities. The Board also noted that discounting and risk adjustment are fundamental components of IFRS 17 and a change to the requirements could unduly disrupt implementations already underway.

Observations from the meeting

Several Board members spoke in favour of keeping to the objectives for setting discount rates and the risk adjustment for non-financial risk. One Board member noted the difficulties that would come with specifying discount rates. The Board unanimously voted in favour of the staff recommendation not to change the standard.

Measurement of the risk adjustment in a group of entities — amend IFRS 17 to specify whether the risk adjustment should be the same amount in standalone and group financial statements (#6)

The IASB staff noted there are two different interpretations among stakeholders, including among TRG members who discussed the issue in May 2018, regarding measurement of the risk adjustment in a group of entities. The first reading, which the staff consider the most appropriate one, is that the risk adjustment for non-financial risk for a group of contracts should be determined

from the perspective of the entity issuing the contract and should not change according to whether the issuing entity or its consolidated group is the reporting entity. A subsidiary issuer might require compensation from the group in return for the diversification benefits that are available at the group level. The alternative interpretation is that IFRS 17 requires or allows different measurement of the risk adjustment for the same group of contracts at different reporting levels if the issuing entity and its consolidated group would require different compensation for bearing non-financial risk.

Rationale in the staff papers for not changing the requirement

The staff recognise that requiring a consistent risk adjustment measure could cause some practical complexities to entities where systems produce different risk adjustments at subsidiary level and consolidated group level, but the staff expect any drawbacks would be limited to entities adopting the PAA that are required to include a risk adjustment in the liability for incurred claims only. Entities adopting the general model would face greater complexity when having to maintain two measurements of the CSM for the same group of contracts if they were to have different measurements for the risk adjustments at group and subsidiary level.

While an amendment to IFRS 17 would clarify this issue, it would not address all possible differences in the risk adjustment approach between entities. The staff therefore suggested that the Board should not make changes to the standard, but, instead, evaluate consistency post-implementation as industry practice emerges.

Observations from the meeting

One Board member disagreed with the staff's recommendation. She felt that the Board should specify an approach in order to achieve consistency between insurers, and would have preferred to specify that the risk adjustments in the group financial statements would be the same as in the financial statements of the subsidiary that issued the contracts. Other Board members noted that measurement of the risk adjustment should depend on the specific circumstances of the entity and the standard requires disclosures to help users to compare risk adjustments of different entities.

The Board voted 13 to 1 in favour of the staff recommendation not to change the standard.

Reduce the amount of choice in the use of OCI for the presentation of insurance finance income or expenses (#17)

The option in IFRS 17 to present insurance finance income or expenses either in profit or loss or disaggregated between profit or loss and OCI, on a portfolio-by-portfolio basis, was developed by the Board after considering feedback from stakeholders. The Board concluded that users may find a disaggregated presentation more useful for some contracts. However, most of the investors and analysts that have spoken to the IASB staff expressed concern that the choice reduces comparability and increases complexity for users of financial statements.

Rationale in the staff papers for not changing the requirement

The staff contend that the reasons noted above for introducing an OCI option are still valid, even if requiring (rather than permitting) entities to present insurance finance income or expense entirely in profit or loss or partly in OCI might increase comparability and reduce complexity.

An amendment to this area could cause complex systems changes and could also mean entities might have to reconsider the classification of financial assets held in order to reduce accounting mismatches between portfolios of insurance contracts and those assets backing the portfolios. Changing IFRS 17 in respect of the use of OCI would cause undue disruption to implementations already underway.

Observations from the meeting

One board member noted that the Board established disclosure requirements for the OCI option with the objective of allowing users of financial statements to make their own adjustments to information to include the information in profit or loss instead of OCI. She emphasised that it was important to check that the wording in the standard for the disclosure requirement is as clear on this as the wording in the staff paper. Two Board members mentioned they had difficulty with the conceptual reason for offering the OCI option and with the way that it undermines comparability. However, they also noted it would be disruptive to remove the option at this point.

The Board voted 13 to 1 in favour of the staff recommendation not to change the standard.

Variable fee approach

Widen the scope of the variable fee approach (VFA) (#18)

The modification to the general model for insurance contracts with direct participation features (the variable fee approach, VFA) is only applicable:

- Where the contractual terms specify that policyholders participate in a share of a clearly identified pool of underlying items
- Where the entity expects to pay the policyholder an amount equal to a substantial share of the fair value returns from the underlying items
- Where the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder vary with the fair value of the underlying items

Some stakeholders are concerned that the VFA scope is too narrow and could result in economically similar contracts being accounted for differently, depending on whether they are in or out of the scope of the VFA. They also expressed concern that this results in unjustified differences in accounting.

Rationale in the staff papers for not changing the requirement

The scope of the variable fee approach remains appropriate and was developed after careful consideration and in response to feedback from stakeholders on contracts with participation features, whereby the policyholders share in the returns on underlying items. The VFA was designed to give a faithful representation of contracts meeting the definition of contracts that provide asset management services in exchange for a fee that depends on returns from underlying items.

Amending the VFA scope would require reconsidering the modifications to the general model that apply under the VFA as these modifications are designed for the defined scope. Any additional modifications would add complexity. The staff noted that amending the scope of the VFA would not address all the concerns over differences in accounting, since regardless of the scope that is set, there would still be differences between those within and those outside the boundary of that scope.

The staff paper noted that some of the concerns raised over the VFA scope arise from the recognition of CSM in profit or loss solely in relation to provision of insurance coverage for contracts subject to the general model.

Observations from the meeting

Board members agreed with the staff recommendations. The staff noted they had seen many examples of contracts on either side of the scope requirements and had not seen any cases where the definition leads to an inappropriate classification. Board members noted that they developed the VFA approach in response to convincing arguments that contracts with specific features were equivalent to contracts that contain asset management services, and the modifications under the VFA remain appropriate for this specific scope only. One Board member noted that contracts on either side of the VFA criteria boundary may well be managed similarly by an insurer, but the rights of policyholders are significantly different. Another observed that the outcomes for policyholders may be similar in normal economic conditions, but added that contractual rights in VFA contracts might result in divergent outcomes in times of economic stress.

The Board voted in favour of the staff recommendation not to change the standard by 14 votes to nil.

The staff mentioned it will bring a paper to a future board meeting to discuss the period in which CSM is recognised in profit or loss under the general model for contracts that contain both insurance and investment components.

Extend the applicability of the risk mitigation approach in the VFA (#8A)

The VFA approach contains an option to recognise the effect of some or all changes in financial risk on the fulfilment cash flows of VFA contracts in profit or loss instead of adjusting the CSM when an entity mitigates financial risks by holding derivatives. The option allows entities to avoid an accounting mismatch that is created by IFRS 17. The mismatch could arise as the change in the fair value of a derivative would be recognised in profit or loss under IFRS 9 *Financial Instruments* (IFRS 9) whereas the change in the carrying value of the insurance contract arising from the risk that is mitigated by the derivative would adjust the CSM. Some stakeholders asked to extend the risk mitigation exception. The extension would allow it to be applied under the general model, to apply it to non-derivative hedging instruments, and to allow risk mitigation to be applied retrospectively at transition date instead of only prospectively.

Rationale in the staff papers for not changing the requirement

Changes in the effect of financial risk on the measurement of insurance contracts subject to the general model are recognised immediately in profit or loss or OCI. The IASB staff paper notes that the risk mitigation exception for the VFA requires application of the general model principle to some effects of financial risk. Consequently, the risk mitigation exception for the VFA cannot, by definition, be applied to general model contracts.

The IASB staff noted that the IASB is working on a comprehensive review of the provision of information about risk mitigation activities for insurance contracts. Any amendment to IFRS 17 to extend a deliberately narrow exception should be considered as part of this wider review, otherwise it would increase complexity and reduce comparability.

The papers prepared by the staff proposed not to allow retrospective application of this option on transition to IFRS 17 because of the risk of hindsight, which, since it is optional, could lead to "cherry picking" when application would be known to have favourable outcomes.

Observations from the meeting

The Board unanimously voted in favour of the staff recommendation not to change the standard to extend the option to the general model, or to apply it to non-derivative hedging instruments.

The Board decided not to vote at this meeting on whether to change the standard to allow a retrospective approach to applying risk mitigation for VFA contracts at transition **(#8B)**. Board members decided to consider this issue in conjunction with related topics on transition at a future meeting.

Business combinations

Classification of contracts acquired in a business combination as insurance contracts at inception date instead of acquisition date. (#10)

IFRS 17 amended IFRS 3 *Business Combinations* (IFRS 3) so that classification as insurance of contracts acquired in a business combination is made at the acquisition date rather than contract inception date. This removes an exception for insurance contracts to the general classification requirements of IFRS 3. Some stakeholders are concerned that classification at acquisition date, instead of inception date, adds complexity and cost and could result in different accounting for the same contract in different reporting levels in a group of entities. For example, a five-year contract with an investment component that provides insurance coverage for the first two years, could meet the definition of an insurance contract at inception date, (being accounted as an insurance contract throughout its life by an acquiree), but may not meet the definition of an insurance contract if the acquisition date is after year two, and it would therefore not be accounted for as insurance by an acquirer.

Rationale in the staff papers for not changing the requirement

Classifying contracts at acquisition date creates consistent accounting for insurance contracts and other contracts acquired in a business combination. This is in line with the requirement in IFRS 3 that an acquirer should classify and designate all items acquired in a business combination at the acquisition date in the context of contractual terms, economic conditions and other factors at that date. Amending this requirement would not unduly disrupt implementation, because the amendment to IFRS 3 only applies to business combinations that occur after IFRS 17 is effective (following the Board's tentative decision on this matter in June 2018). However, the Board considered that it would increase complexity for users by reducing comparability with the requirements for other transactions.

The Board had already considered that an entity will need to calculate a different CSM for consolidated financial statements of the acquirer compared with those of the subsidiary that issued the contracts, because it will use fair value at the date of the business combination to determine the CSM for contracts in consolidated financial statements. Such differences are a normal consequence of acquisition accounting under IFRS, and not unique to insurance. For example, financial assets may also need to be reclassified at acquisition date.

Observations from the meeting

One Board member recognised the concerns raised in terms of operational issues, but also noted that other industries have similar requirements on acquisition and the requirement was introduced to bring insurance in line with other industries and to provide consistency of treatment under IFRS 3. The Board unanimously voted in favour of the staff recommendation not to change the standard.

Continue to apply the accounting treatment of the transferring entity to contracts acquired in their settlement period in a business combination (#11)

IFRS 17 currently requires contracts acquired in their settlement period to be treated as new contracts providing coverage for the adverse development of claims, recognising a liability for remaining coverage and recognising revenue for insurance service provided and expense for the claims incurred. The insured event is the determination of the ultimate cost of those claims. The insured event is not the event that gave rise to the claims in the first place. Some stakeholders are concerned that this is a significant change from existing practice and introduces significant implementation challenges and costs. Under the PAA, in particular, this could lead to acquired contracts that had a one year insurance coverage period being accounted for in accordance with the general model in consolidated financial statements (when the settlement period is many years, but under the PAA in the financial statements of the acquired entity. This would require developing capacity for CSM calculations for potential future acquisitions and the different treatment between acquired and issued business could be confusing. Some stakeholders argued that they should be able to use judgement as to whether the obligation to pay amounts subject to insurance risk after an incurred claim is part of the liability for remaining coverage or liability for incurred claims (a topic discussed in a different context during the September 2018 TRG meeting). Some also argue that the most appropriate treatment may depend on the entity's business model.

Rationale in the staff papers for not changing the requirement

An acquirer receives the fair value of the contract in return for providing coverage for adverse development of the claim, whatever the reason for the acquisition, and coverage for adverse development is the only insurance coverage provided for contracts acquired in their settlement period. The staff paper also noted that additional implementation costs to develop mechanisms to determine the CSM would only arise for entities that expect all contracts to be eligible for PAA, other than those acquired in a business combination. Further, there would be a loss of useful information and reduction in comparability if it introduced an exception for determining insured events for insurance contracts acquired in a business combination.

Observations from the meeting

Two Board members that agreed with the staff recommendations wanted to consider a practical expedient to avoid PAA preparers, particularly smaller entities, having to develop CSM calculations only for this issue, Other Board members did not think they should introduce new expedients at this point. While they had sympathy for such preparers, they felt other industries have to apply IFRS 3 principles, so insurers should as well.

The Board voted in favour of the staff recommendation not to change the standard by 13 votes to 1.

Future cash flows in the measurement of reinsurance contracts held

Exclude expected cash flows arising from underlying insurance contracts not yet issued in the measurement of reinsurance contracts held (#14)

Under IFRS 17, cash flows within the boundary of a reinsurance contract held include an estimate of all future cash flows within the contract boundary. This could include cash flows from underlying contracts for which a cedant has a substantive right to reinsurance coverage that have not yet been issued to policyholders.

Some stakeholders are concerned that this change from existing practice will result in operational complexity. This would lead to inconsistent cash flows being included within the contract boundary of reinsurance assets compared to those of the underlying insurance contracts. This inconsistency could cause an accounting mismatch between the insurance contract liability and reinsurance contract asset due to a "gross up" of reinsurance contracts with cash flows arising from future underlying contracts, and inconsistent recognition of the CSM. Some stakeholders have proposed amendments to either the requirements for the recognition for reinsurance contracts held or to change contract boundary requirements for reinsurance contracts held.

Rationale in the staff papers for not changing the requirement

The staff believe that amending the standard would result in internal inconsistencies in IFRS 17 as it would require an entity to ignore rights and obligations arising from reinsurance contracts an entity holds, and introduce inconsistencies between rights and obligations recognised by both the reinsurer and the cedant. It would also add complexity to the contract boundary requirements.

Observations from the meeting

Board members agreed with the staff's analysis. One noted that a reinsurer would need to estimate cash flows arising from contracts the cedant expects to issue in the future that it is obliged to cover, and a cedant should be in a better position to make similar estimates for reinsurance contracts it holds. Another Board member noted that interest effects can arise for a cedant because the CSM of a reinsurance contract accretes at locked discount rates, but fulfilment cash flows are remeasured applying current rates. He observed that this depicts a real economic effect. The Board unanimously voted in favour of the staff recommendation not to change the standard.

Treatment of accounting estimates in interim financial statements

Extend the treatment of accounting estimates in interim financial statements to other types of interim reports, e.g., monthly management reports or make it optional. (#19)

IFRS 17 requires that entities do not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in annual financial statements. Applying the requirements of IAS 34 *Interim Financial Reporting* (IAS 34) would otherwise necessitate the recalculation of previously reported amounts at each subsequent interim reporting period and in the annual financial statements, because adjusting the CSM for changes in estimates of fulfilment cash flows but not for experience adjustments (difference between actual and expected amounts) means that accounting depends on the reporting date.

These requirements are applicable only to interim financial reports as defined in IAS 34. Some stakeholders believe they should be extended to other types of interim reports, such as monthly management reports or internal reports from subsidiaries to parent entities. Otherwise, entities may need to maintain separate CSMs for the purposes of group reporting, which includes interim reporting in accordance with IAS 34, and subsidiaries that do not prepare IAS 34 interim reports. Other stakeholders have asked that the exception to IAS 34 in IFRS 17 be permitted but not required.

Rationale in the staff papers for not changing the requirement

Extending the requirements to reporting that is not defined in IFRS standards would result in different entities developing different definitions of interim reports. Amending the requirement so that application is permitted but not required would result in different entities treating accounting estimates made in previous interim financial statements differently. Either of these changes would add complexity of financial statements for preparers and users, and would result in the loss of useful information.

Observations from the meeting

Board members acknowledged the complexity that could arise in a group. One Board member noted that the impact would depend on the frequency with which assumptions are updated in interim reports. The Board unanimously voted in favour of the staff recommendation not to change the standard.

How we see it

- Some insurers would have preferred the IASB to remove altogether the requirement to separately present insurance assets and insurance liabilities on the balance sheet. Some would also prefer to present premium debtors and outstanding claims separately from the rest of the items making up insurance contract liabilities. However, most are expected to welcome the practical relief the IASB has agreed upon during the December meeting.
- The staff recommendations and IASB decisions in this meeting are consistent with the preliminary views presented to the Board in October. This may indicate that the Board will not go beyond the potential changes identified by the staff as meeting the change criteria in the October meeting.

Next steps

The next Board meeting will be held in January 2019, when the IASB staff are expected to present more detailed analyses of at least some of the remaining ten topics discussed in the October Board meeting to help the Board consider whether any of the topics warrant a potential change to the standard. Refer to our October *Insurance Accounting Alert* for further details of the concerns and implementation challenges that were discussed at the October meeting.

After the Board has considered all of the individual topics, it plans to consider the package of amendments as a whole. Then it wille conclude as to whether the benefits of making the amendments outweighs the costs, with the objective of issuing an Exposure Draft with proposed changes to the standard.

The next meeting of the Transition Resource Group (TRG) is on 4 April 2019. This was deferred from 4 December 2018, due to the small number of submissions received.

Appendix: Status of suggested changes to IFRS 17 raised by stakeholders

Suggested changes to the Standard raised by stakeholders	Decision Timing	Initial Tentative Decision
1. Scope | Exclude from the scope of IFRS 17 some or part of insurance contracts that have as their primary purpose the provision of loans or other forms of credit	Future meeting	
2. Level of aggregation | Simplify the level of aggregation requirements to make them less prescriptive and/or less granular	Future meeting	
3. Acquisition cost deferral | require or allow an entity to allocate insurance acquisition cash flows directly attributable to a contract not just to that contract, but also to expected future renewals of that contract.	Future meeting	
4. CSM discount rate | Use of current discount rates when adjusting the contractual service margin for changes in estimates related to future service under the general model	December 2018 Paper 2B	No Change
5. Subjectivity regarding risk adjustment and discount rate | Prescribe specific methods for selecting of discount rates and techniques for measuring the risk adjustment	December 2018 Paper 2B	No Change
6. Risk adjustment in a consolidated group | Clarify that the risk adjustment of insurance liabilities within a consolidated group is determined only by the issuing entity that is party to the contract with the policyholder	December 2018 Paper 2B	No Change
7. CSM coverage period in general model | IASB staff will perform further analysis of ways to change the definition of the coverage period for contracts to which the general model applies that provide both insurance and investment services to policyholders.	Future meeting	
8. Variable fee approach CSM | (A) Extend the applicability of the risk mitigation exception in the variable fee approach and (B) allow the application of the exception retrospectively on transition.	(A) December 2018 Paper 2C (B) Future meeting	(A) No Change (B) Defer decision
9. Premium Allocation Approach (PAA) Premiums Receivable | Possibility to identify premiums received and receivable at a higher level of aggregation than a group of contracts, e.g., at portfolio level	December 2018 Paper 2A	No Change
10. Business combinations | Classification of insurance contract to be performed on the date that the contracts were originally written, rather than the date that the contracts are acquired in a business combination.	December 2018 Paper 2D	No Change
11. Business Combinations: contracts acquired during the settlement period | Continue to apply the accounting treatment of the transferring entity to contracts in their settlement period acquired in a business combination. IFRS 17 currently requires them to be treated as contracts providing coverage for the adverse development of claims	December 2018 Paper 2D	No Change
12. Reinsurance contracts held | Modify the requirements on initial recognition of reinsurance contracts held when they protect underlying contracts issued that are onerous at initial recognition. Modification would allow recognition of profit on reinsurance to the extent that it offsets a loss recognised on the underlying contracts reinsured.	Future meeting	
13. Reinsurance contracts and Variable fee approach | Allow reinsurance contracts to be eligible for accounting under the variable fee approach.	Future meeting	
14. Contract boundary of reinsurance contracts held | Exclude expected cash flows arising from underlying insurance contracts not yet issued in the measurement of reinsurance contracts held	December 2018 Paper 2E	No Change

Suggested changes to the Standard raised by stakeholders	Decision Timing	Initial Tentative Decision
15. Presentation in the statement of financial position | Permit aggregation of groups of contracts in an asset position with groups of contract in a liability position in the statement of financial position where they form part of the same portfolio	December 2018 Paper 2A	Amend Aggregate at portfolio level
16. Presentation in the statement of financial position | Measure and present premiums receivable separately from insurance contract assets and liabilities	December 2018 Paper 2A	No Change
17. Presentation in the statement of financial performance — use of OCI | IFRS 17 permits but doesn't require an entity to present the impact of changes in market interest rates directly in OCI rather than the P&L. There are concerns that this choice could impair comparability between entities and therefore the IASB should mandate either P&L or OCI treatment for all entities.	December 2018 Paper 2B	No Change
18. Scope of the variable fee approach | Widen the scope of the variable fee approach to prevent contracts with similar features being accounted for very differently if on either side of the dividing line.	December 2018 Paper 2C	No Change
19. Interim financial statements | Extend the treatment of accounting estimates in interim financial statements to other types of interim reports, e.g., monthly management reports	December 2018 Paper 2F	No Change
20. Effective date | Delay date of initial application of IFRS 17, suggested by stakeholders to be between one and three years	November 2018	Defer to 2022
21. Comparative information on initial application | Remove the requirement for comparative information on initial application of IFRS 17, consistent with IFRS 9	Future meeting	
22. Effective date of IFRS 9 | Extend the temporary exemption from applying IFRS 9 for insurers to be in line with any deferral of the mandatory effective date of IFRS 17	November 2018	Extend to 2022
23. Transition | Reducing optionality: mandate a single alternative to the full retrospective transition approach (rather than allowing a choice between fair value and modified retrospective approaches)	Future meeting	
24. Modified retrospective approach | Include additional modifications to the modified retrospective approach at transition to IFRS 17 for groups of contract to which the full retrospective approach is impracticable.	Future meeting	
25. Transition: Fair value transition approach with use of OCI option | Where an entity elects for the fair value approach on transition and elects to disclose the impact of market movements in discount rates in OCI, IFRS 17 allows the accumulated OCI on insurance contracts to be set to nil at transition date. Stakeholders have called for the accumulated OCI on financial assets related to insurance contracts accounted for at fair value through OCI on transition to also be set to nil on transition to IFRS 17	Future meeting	

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Notes

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