

IASB asks staff to proceed with an Exposure Draft of amendments to IFRS 17

What you need to know

At its meeting on 09 April 2019, the IASB (or Board):

- ▶ Agreed that, as a whole, the proposed amendments to IFRS 17 meet the criteria for evaluating such changes set at the IASB meeting of October 2018
- ▶ After having considered the complete package of amendments, confirmed its tentative decisions to defer the effective date of IFRS 17 and to extend the temporary exemption from applying IFRS 9, by qualifying entities, by one year
- ▶ Asked the IASB staff to proceed with preparation of an Exposure Draft to amend IFRS 17 and to commence the formal balloting process
- ▶ Considered five additional topics raised by stakeholders (sweep issues). The Board agreed that the effective date for the proposed amendments should align with the effective date of IFRS 17, but decided not to amend the standard in respect of the other issues that were raised
- ▶ Agreed to include 15 minor changes to IFRS 17 in the forthcoming Exposure Draft, rather than address these through the annual improvements cycle

Overview

At the April meeting, the International Accounting Standards Board (IASB or the Board) considered, as a whole, the amendments to IFRS 17 that it had tentatively proposed at its meetings held between November 2018 and March 2019. The Board agreed that the proposed amendments meet the criteria for evaluating such changes set at its meeting of October 2018, and asked the staff to proceed with preparation of an Exposure Draft with proposed amendments to IFRS 17.

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](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 April 2019 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/2019/april/international-accounting-standards-board/>

Consideration of proposed amendments as a whole

The Board agreed with the evaluation in the IASB staff paper of the twelve proposed amendments to IFRS 17 as whole, also taking into consideration the likely impact of the proposed changes in terms of financial statement effects and a cost-benefit analysis.

The Board agreed with the staff that the proposed changes met the criteria set in October 2018 – that they would avoid significant loss of useful information for users of financial statements and would not unduly disrupt implementation processes underway or risk undue delays in the effective date of IFRS 17.

The Board revisited the tentative decisions from the November 2018 Board meeting related to deferring the mandatory effective date of IFRS 17 and the expiry date of the temporary exemption from IFRS 9 *Financial Instruments* in IFRS 4 *Insurance Contracts* for qualifying entities to annual reporting periods beginning on

or after 1 January 2022. It confirmed its tentative decision for a one-year deferral, given the limited nature of the proposed amendments to IFRS 17.

A summary of the proposed amendments is outlined in the appendix below.

Permission to proceed with an Exposure Draft of amendments to IFRS 17

Having considered the analysis of the proposed changes, the Board gave the staff permission to begin the ballot process for an Exposure Draft to amend IFRS 17. None of the Board members indicated an intention to dissent from the publication of the Exposure Draft.

The staff plan to request a shortened comment period of less than 120 days for the Exposure Draft and the Board expects to decide the comment period at its meeting in May 2019.

Additional stakeholder concerns (sweep issues)

The Board also discussed five sweep issues relating to IFRS 17 that stakeholders have raised. The Board did not propose any amendments related to these topics, other than to agree the effective date of the proposed amendments.

Effective date of the proposed amendments to IFRS 17

The Board agreed that the effective date of the proposed amendments to IFRS 17 should align with the effective date of IFRS 17, so that entities are required to apply IFRS 17, and any proposed amendments, for annual periods beginning on or after 1 January 2022, and are permitted to apply IFRS 17 together with any proposed amendments for earlier periods.

In response to a question from a Board member, the IASB staff said they were not aware of preparers intending to apply IFRS 17 before its mandatory effective date.

Applying the option to disaggregate insurance finance income or expenses between profit or loss and OCI in the general model and using derivatives to mitigate financial risk

Some stakeholders are concerned that an accounting mismatch could arise between the presentation of the effect of financial risks on the measurement of insurance contracts, if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (OCI), and presentation of the movement in fair value of derivatives an entity uses to mitigate those risks, which are measured at fair value through profit or loss (FVPL).

The IASB agreed with the staff recommendation not to develop a risk mitigation option for insurance contracts applying the general model for which an entity chooses to apply the OCI option.

The staff paper noted that the Board had developed the risk mitigation option in the variable fee approach (VFA) to address potential mismatches created by the VFA itself. The issue identified by stakeholders only arises when, under the general measurement model, an entity has chosen to disaggregate insurance finance income or expenses between profit or loss and OCI. An entity can mitigate accounting mismatches by choosing to include all effects of change in financial risks in profit or loss when it hedges those risks by way of derivatives, as changes in the fair value of derivatives are also reflected in profit and loss.

The staff observed that IFRS 9 includes general hedge accounting requirements and IAS 39 includes a macro hedge model that may enable entities to address some accounting mismatches.

Applying the option to disaggregate insurance finance income or expenses between profit or loss and OCI together with the risk mitigation option in the VFA

Some stakeholders have raised concerns that if an entity chooses to apply the risk mitigation and OCI options under the VFA, it will lead to a mismatch between recognition of changes in the fair value of derivatives in profit or loss and changes in the effect of financial risks on the measurement of insurance contracts recognized in OCI.

The Board agreed with the staff recommendation not to propose any further amendments in this regard, since entities have options available to avoid accounting mismatches depending on what information they regard as most important.

Reconciliations related to the liability for remaining coverage (LFRC) and the liability for incurred claims (LFIC) when cash flows are net settled

Some stakeholders have noted that some settlement agreements between reinsurers and insurers, or between brokers and insurers, often include netting arrangements, where incoming and outgoing payments are settled net, and specific payments and claims cannot be assigned to contracts or groups of contracts because cash systems are not linked to accounting systems at the contract level. They are concerned that extensive allocation of cash flows will be needed to meet the disclosure requirements of IFRS 17 that distinguish between the LFIC and LFRC. They recommended that the Board should amend IFRS 17 to exclude amounts payable and receivable from the scope of IFRS 17 and include them in the scope of IFRS 9.

The Board agreed with the staff recommendation not to undertake any further change in this regard, as required disclosures such as claims development and changes in LFIC provide useful information to users of financial statements regardless of whether the claims are settled directly or net. They also noted that the Board had previously rejected an amendment to measure premiums receivable and claims payable separately from insurance contracts. The Board considered it would result in internal inconsistencies in IFRS 17 by deviating from the principle that a group of contracts creates a single bundle of rights and obligations.

Restatement of comparative information when an entity initially applies IFRS 17 and IFRS 9 at the same time

IFRS 9 prohibits the restatement of comparative information in respect of items that have already been derecognised at the initial date of application of IFRS 9. One stakeholder thinks that entities will be deterred from restating prior periods for the effect of IFRS 9 because of this prohibition and suggested that the Board amends IFRS 9 to permit entities to apply IFRS 9 to items that have already been derecognised at the date of initial application of IFRS 9.

The Board agreed with the staff not to amend IFRS 9 to permit entities to apply IFRS 9 to items that have already been derecognised at the date of its initial application. In the Board's view, no new information has been provided by stakeholders. The transition requirements of both IFRS 9 and IFRS 17 have been subject to extensive deliberation and consultation, and any changes to IFRS 9 may risk unintended consequences.

Annual improvements

The IASB tentatively decided to incorporate into the Exposure Draft that it intends to issue in June:

- Eight minor changes raised in June 2018 and proposed at that time to form part of the Annual Improvements process
- Seven other minor changes to the standard that have been identified since June 2018

The seven new proposed improvements would:

- Amend paragraph B96(c) to exclude changes relating to the time value of money and financial risk from the adjustment of the CSM

- Clarify that there is an effect on the CSM if an entity chooses to disaggregate changes in the risk adjustment for non-financial risk between changes related to non-financial risk and changes related to the time value of money and other financial assumptions
- Clarify that an entity can discontinue the use of risk mitigation option for a group of insurance contracts only if the eligibility criteria for the group cease to apply
- Amend the definition of an investment component to explain that an investment component is an amount that is paid to a policyholder in all circumstances
- Clarify that a distinct investment component separated from a contract, which is itself an investment contract with discretionary participation features, would be within the scope of IFRS 17
- Correct an oversight by changing the guidance on the loss component to specify that an entity includes the effect of the risk adjustment for non-financial risk when determining the loss-component of the liability for remaining coverage
- Clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items are changes arising from the time value of money or assumptions that relate to financial risk

For further details of the eight narrow-scope amendments proposed in June 2018 refer to our June 2018 *Insurance Accounting Alert*: [https://www.ey.com/Publication/vwLUAssets/ey-ifrs-insurance-accounting-alert-june-2018/\\$FILE/ey-ifrs-insurance-accounting-alert-june-2018.pdf](https://www.ey.com/Publication/vwLUAssets/ey-ifrs-insurance-accounting-alert-june-2018/$FILE/ey-ifrs-insurance-accounting-alert-june-2018.pdf)

The Board unanimously agreed with all of the staff recommendations made for this meeting.

How we see it

- ▶ The IASB has conducted a significant amount of outreach with stakeholders since it issued IFRS 17 in 2017, in order to identify issues and challenges that might require amendment to the standard
- ▶ The Board's aim is to maintain a balance between making changes that address stakeholder concerns and not being too disruptive in terms of the impact on the ongoing implementation process. Comment letters on the Exposure Draft are expected to provide a clear view from stakeholders on whether the Board succeeded in achieving this balance
- ▶ The Board decided not to develop a risk mitigation option for insurance contracts applying the general model for

which an entity chooses to apply the other comprehensive income (OCI) option. The Board believes entities can address accounting mismatches by choosing to include all effects of change to financial risk in profit or loss or by considering the application of hedge accounting. The impact of changes to financial risks on the measurement of insurance liabilities can be quite sizeable, particularly for certain types of long-duration contracts. The Board's decision not to introduce a risk mitigation option for general model products leaves companies with the important task to analyse the impact of the potential accounting mismatches and determine how these may best be addressed within the overall context of their asset and liability management and hedging strategies

Next steps

An Exposure Draft of the proposed amendments to IFRS 17 is expected by June 2019. As noted above, the staff plan to seek permission from the IFRS Foundation's Due Process Oversight Committee for a comment period less than 120 days, and

the IASB expects to decide the comment period at its May meeting. The IASB staff indicated they might present some additional sweep issues during the May 2019 Board meeting.

Appendix: Summary of proposed amendments to IFRS 17

Amendments tentatively decided by the IASB	Decision Timing
<p>1. Additional optional scope exclusion for loan contracts that transfer significant insurance risk and related transition requirements</p> <p>Amendment of the scope of IFRS 17 and IFRS 9 for insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract to enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9.</p> <p>Amendment of the transition requirements in IFRS 9 for such contracts, if an entity:</p> <ul style="list-style-type: none"> ▸ Elects to apply the requirements in IFRS 9 to a portfolio of such contracts ▸ Has applied IFRS 9 before it initially applies IFRS 17 	February 2019
<p>2. Additional scope exclusion for credit card contracts that provide insurance coverage</p> <p>Amendment of the scope of IFRS 17 to exclude from the scope of the Standard credit card contracts that provide insurance coverage for which 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.</p>	March 2019
<p>3. Insurance acquisition cash flows relating to expected contract renewals and related disclosure requirements</p> <p>Amendment to require an entity to:</p> <ul style="list-style-type: none"> ▸ Allocate insurance acquisition cash flows to related contract renewals ▸ Recognize those cash flows as an asset until the entity recognizes contract renewals ▸ Assess the recoverability of the asset each reporting period until the entity recognizes the renewed contracts <p>Amendment of the disclosure requirements to require an entity to provide:</p> <ul style="list-style-type: none"> ▸ A reconciliation of the asset at the beginning and the end of the reporting period and its changes, specifically recognition of any impairment loss or reversals ▸ Quantitative disclosure, in appropriate time bands, of the expected timing of the inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts 	January 2019
<p>4. Contractual Service Margin allocation relating to investment components and related disclosure requirements</p> <p>Amendment to:</p> <ul style="list-style-type: none"> ▸ Clarify that the definition of the coverage period for insurance contracts with direct participation features includes periods in which an entity provides investment-related services* ▸ Require an entity to allocate the contractual service margin for insurance contracts without direct participation features based on coverage units determined considering both insurance coverage and any investment-return service <p>Amendment of the disclosure requirements to require an entity to provide:</p> <ul style="list-style-type: none"> ▸ Quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period ▸ Specific disclosure of the approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment-return services 	June 2018*

* This amendment is combined with an annual improvement relating to insurance contracts with direct participation features that the Board tentatively agreed in June 2018.

Amendments tentatively decided by the IASB	Decision Timing
<p>5. Extension of risk mitigation option</p> <p>Amendment to permit an entity to apply the risk mitigation option for insurance contracts with direct participation features when the entity uses reinsurance contracts held to mitigate financial risks.</p>	January 2019
<p>6. Reinsurance contracts held when underlying contracts are onerous</p> <p>Amendment to require an entity that recognizes losses on onerous insurance contracts at initial recognition to also recognize a gain on reinsurance contracts held, to the extent that the reinsurance contracts held:</p> <ul style="list-style-type: none"> ▶ Cover the losses of the underlying contracts on a proportionate basis ▶ Are entered into before or at the same time that the onerous underlying contracts are issued 	January 2019
<p>7. Simplified presentation of insurance contracts in the statement of financial position</p> <p>Amendment to require an entity to present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.</p>	December 2019
<p>8. Deferral of the date of initial application of IFRS 17 by one year</p> <p>Amendment of the mandatory effective date of IFRS 17, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.</p>	November 2018
<p>9. Deferral of the expiry date for the temporary exemption from applying IFRS 9 by one year</p> <p>Amendment of the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9, so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.</p>	November 2018
<p>10. Additional transition relief for business combinations</p> <p>Amendment of the transition requirements to add a specified modification to the modified retrospective approach and a relief to the fair value transition approach for the classification of a liability that relates to the settlement of claims incurred before an insurance contract was acquired.</p>	February 2019
<p>11. Additional transition relief for the date of application of the risk mitigation option</p> <p>Amendment of the transition requirements in IFRS 17 to permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date, provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date.</p>	March 2019
<p>12. Additional transition relief for the application of the risk mitigation option and the use of the fair value transition approach</p> <p>Amendment of the transition requirements in IFRS 17 to permit an entity to use the fair value transition approach for a group of insurance contracts with direct participating features if, and only if, the entity:</p> <ul style="list-style-type: none"> ▶ Can apply IFRS 17 retrospectively to the group ▶ Chooses to apply the risk mitigation option to the group prospectively from the transition date <p>Has used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date.</p>	March 2019
<p>13. Annual improvements</p> <p>Minor amendments introduced either to clarify the wording in the Standard or to correct relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards.</p>	June 2018 April 2019

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EYG No 001925-19Gbl

EY-000093214.indd (UK) 04/19.

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