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Insurance Accounting Alert

October 2018

IASB considers concerns and implementation challenges raised by stakeholders on IFRS 17

What you need to know

- The IASB discussed whether it might be appropriate to consider amendments to IFRS 17 Insurance Contracts (IFRS 17 or the standard) as a result of 25 concerns and implementation challenges raised by various stakeholders.
- The 25 topics identified cover many aspects of IFRS 17, including scope, measurement, presentation, the effective date and transition.
- The IASB agreed with staff proposals for the criteria the Board should apply when assessing whether an issue could potentially give rise to a change in the standard.
- The IASB briefly discussed the 25 areas of concern in order to identify aspects of the staff's preliminary analyses that require more detail.
- The Board members emphasised that even if individual changes met the criteria, they would still want to look at the package of changes as a whole before concluding whether the benefits of making the changes outweighed the costs.
- While no decisions were made, the IASB appears to be open to considering limited changes in the coming months, including a deferral of the current implementation date of 1 January 2021.
- The IASB staff will present a more detailed analysis of the 25 topics and whether they meet the agreed upon criteria at a future meeting. The Board will then identify which of the topics, if any, should be considered further as a basis for changing the standard.

Overview

At an educational meeting on Wednesday 24 October, the International Accounting Standards Board (IASB or the Board) discussed how they might evaluate at future meetings, whether to make limited changes to IFRS 17 *Insurance Contracts* (IFRS 17 or the standard) for 25 areas of concern and implementation challenges raised by stakeholders. No decisions were made at this meeting and the staff will present a more detailed analysis of the 25 topics at a future meeting. The Board will then identify which of the topics, if any, should be considered further as a basis for changing 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 October 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/october/international-accounting-standards-board/

IASB discussion on criteria for assessing whether to amend the standard

The IASB was not asked whether the standard should be amended, but the IASB staff will bring papers to future meetings with further analysis of the 25 topics to consider whether any amendments to IFRS 17 are justified. Any amendment to IFRS 17 would be subject to due process, including the development of an Exposure Draft.

Criteria for assessing whether to amend the standard

The staff recommend that the Board's assessment of changes to IFRS 17 should be based on the following criteria:

1. Amendments would not result in significant loss of useful information for users of financial statements, i.e., any amendments would avoid:
    1. Reducing the relevance and faithful representation of information in the financial statements
    2. Causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17

       Or
    3. Increasing complexity for users of financial statements, thus reducing understandability
2. 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.

The Board members emphasised that, even if individual changes met the criteria above, they would still want to look at the package of changes as a whole before concluding whether the benefits of making the changes outweighed the costs. Board members emphasised that they would not want to make any changes that violated the principles or decisions that they had made in developing the standard. Only when new information had come to the attention of the Board or staff should changes be considered. One Board member noted that investors that he had spoken to had expressed strong concerns about the possibility of further change and delay to the standard. He and other Board members therefore expressed support for limiting any changes considered to "fine tuning" and to those which could be made quickly without imposing significant disruption. There was unanimous support from the Board for the criteria to be applied.

Topics discussed

The 25 topics included in the staff papers for the meeting cover many aspects of IFRS 17 including: scope; measurement; presentation; the effective date and transition; and potential changes to fundamental aspects of the standard.

The IASB staff considered whether these potential changes met the criteria listed above. We present in the table below a summary of the concerns and implementation challenges raised by stakeholders and a view on the preliminary IASB staff reaction noted in the staff papers:

Suggested changes to the Standard raised by stakeholders	View on preliminary IASB staff reaction
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.	Potential to meet criteria
2. **Level of aggregation** Simplify the level of aggregation requirements to make them less prescriptive and/or less granular.	Does not meet criteria
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.	Potential to meet criteria
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.	Does not meet criteria
5. **Subjectivity regarding risk adjustment and discount rate** Prescribe specific methods for selecting discount rates and techniques for measuring the risk adjustment.	Does not meet criteria
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.	Does not meet criteria
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.	Potential to meet criteria
8. **Variable fee approach CSM** Extend the applicability of the risk mitigation exception in the variable fee approach to non-derivative instruments (e.g., reinsurance contracts) and allow the application of the exception retrospectively on transition.	Does not meet the criteria
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.	Does not meet criteria
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.	Does not meet criteria
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.	Does not meet criteria
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 recognized on the underlying contracts reinsured.	Potential to meet the criteria

Suggested changes to the Standard raised by stakeholders	View on preliminary IASB staff reaction
13. **Reinsurance contracts held and variable fee approach** Allow reinsurance contracts held to be eligible for accounting under the variable fee approach.	Does not meet criteria
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.	Does not meet criteria
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.	Potential to meet criteria
16. **Presentation in the statement of financial position** Measure and present premiums receivable separately from insurance contract assets and liabilities.	Does not meet criteria (could be mitigated through addressing issue 15)
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.	Does not meet criteria
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.	Does not meet criteria
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.	Does not meet criteria
20. **Effective date** Delay date of initial application of IFRS 17, suggested by stakeholders to be between one and three years.	Potential to meet the criteria
21. **Comparative information on initial application** Remove the requirement for comparative information on initial application of IFRS 17, consistent with IFRS 9.	Does not meet criteria
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.	Unclear
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).	Does not meet criteria
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.	Potential to meet the criteria
25. **Transition: fair value transition approach with use of OCI option** Where an entity elects the fair value approach on transition and elects to present 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.	Does not meet criteria

In seven of the 25 areas, the IASB staff appear to see potential for considering changes to the standard. The IASB discussion was not limited to these 7 issues only, but broadly considered all topics. Board members were asked what additional information they would require in a future meeting to fully analyse the topics against the criteria agreed. In response, Board members asked for more detail on which pieces of information may be lost by some of the changes, for some targeted outreach to users of financial statements about some of the changes, and to be provided with a reminder of some of the arguments made to support the existing requirements within the standard.

The topics are discussed in more detail below, first focusing on the seven areas that the staff considered might meet the criteria for a potential change to IFRS 17 and then analysing the areas the staff appear not to consider meet the criteria for a potential change to IFRS 17.

Aspects that the staff considered might meet the criteria for a potential change to IFRS 17:

1. Deferring the effective date of the standard [number 20 in table above]

Stakeholders have expressed views that the current effective date of 2021 gives insufficient time to implement IFRS 17 and are proposing a deferral of between one and three years. Reasons given for a delay include: the need to accommodate potential delays to the EU endorsement process, providing sufficient time to prepare and inform investors and analysts; the availability of experts such as actuaries and IT system providers; and allowing for changes to other elements outside the control of entities, such as regulatory capital and supervision and taxation.

The staff paper notes objections to delaying the standard, for example, that deferral could increase costs without a corresponding benefit, and the urgent need for a consistent recognition and measurement model under IFRS, but it also notes that many stakeholders think that a one-year deferral would be helpful.

One Board member asked for more analysis of who wants a delay and for what reasons, e.g., to provide time to make amendments to the standard or to implement the standard as it is written. Another noted that the nature of changes the Board considered would affect the length of a delay, considering complex topics could take a long time to resolve. Others asked for information on the views of investors.

The discussion regarding the effective date of IFRS 17 also raised the issue whether the temporary exemption from applying IFRS 9 *Financial Instruments* for insurers should be brought in line with any deferral of the effective date of IFRS 17 (see issue 22 in the table above).[1] Some stakeholders suggested that if the Board were to defer the effective date of IFRS 17, it should also revise the expiry date of the temporary exemption from IFRS 9 in order to avoid having two sets of major accounting changes and related costs in a short period of time.

The staff noted that entities that apply the temporary exemption will already be applying IFRS 9 up to three years after other entities and any further delay might result in a loss of useful information because it, among others, would increase complexity and confusion for users of financial statements by continuing to account differently for the same underlying instruments and would provide poorer quality information about expected credit losses. One Board member commented during the meeting that, in her view, the issues that resulted in the Board providing the temporary exemption from IFRS 9 would still be there if the IFRS 17 effective date were to be delayed.

2. Redefining the coverage period for insurance contracts with investment components that are subject to the general model (7)

In June 2018, the Board tentatively decided to clarify the definition of the coverage period for contracts to which the variable fee approach (VFA) applies to include periods where an entity provides investment-related services. Some stakeholders believe that this narrow-scope amendment should also apply to insurance contracts with investment components to which the general model applies. The staff paper cites examples, such as the accumulation phase of deferred annuity contracts where revenue recognition patterns would fail to recognise service in periods when the only service being provided is investment-related.

The IASB staff are exploring further analysis of ways to change the definition of coverage period of contracts to which the general model applies (without losing information or disrupting implementation processes). A change of this nature could have a potentially high financial and system impact for the specific contracts impacted.

Some Board members suggested that the narrow-scope amendment to the standard made for VFA contracts should be withdrawn until this topic is resolved, but others disagreed. The staff informed the meeting that they have identified different potential ways of addressing the concerns that some stakeholders have raised and propose to bring a paper to this matter to a future Board meeting.

[1] To address the temporary accounting consequences of having different effective dates for IFRS 9 and IFRS 17, IFRS 4 Insurance Contracts allows entities with predominantly insurance activities to defer the application of IFRS 9 until 2021. It also provides an optional overlay approach to recognize in OCI, rather than profit or loss, the volatility that could arise when applying IFRS 9 before IFRS 17.

3. Permit aggregation of groups of contracts in an asset position with those in a liability position for presentation in the statement of financial position where they form part of the same portfolio (15)

IFRS 17 requires an entity to present the combination of rights and obligations arising from a group of insurance contracts as a single asset or liability and prohibits offsetting groups in an asset position with those in a liability position. Stakeholders raised a significant implementation challenge from needing to allocate certain cash flows to each group of contracts to determine whether they are in an asset or liability position. This would require new systems to identify premiums received and receivable, claims incurred and paid, and other separately managed balances for each group of contracts.

While the IASB staff observe that offsetting does not generally meet the objective of the Conceptual Framework, it may be possible to offset groups of insurance contracts in a way that limits the loss of useful of information. The staff paper suggests permitting offsetting at a portfolio level, rather than at an entity level, to avoid loss of information. (IFRS 17 would still require entities to identify, track and present onerous groups of contracts separately).

The staff think such a change should not be disruptive, and might significantly reduce implementation costs and system changes for many entities.

Two Board members noted that the net presentation the staff are proposing in this topic appears inconsistent with the principles on offsetting in the Conceptual Framework and requirements of other IFRS standards. One of them requested more details on the potential effect of such offsetting and the other suggested that the staff perform targeted user outreach on the utility of the information that might be lost.

4. Permit acquisition cash flows relating to contract renewals that are outside the contract boundary to be recognised as an asset (prepayment) and included in fulfilment cash flows when the contracts are renewed (3)

Some insurance products are priced to recover acquisition costs over both the life of the initial contract and subsequent renewals. IFRS 17 requires an entity to recognise insurance acquisition cash flows as an expense over the life of the existing contract — which excludes contract renewals outside the original contract boundary. Stakeholders raised concerns that this could cause contracts to appear to be onerous when they believe that, economically, the relationship with the policyholder is not onerous. These stakeholders proposed either including future renewals within the contract boundary, avoiding identifying the initial contracts as onerous, or considering an approach similar to that in IFRS 15 *Revenue from contracts with customers* (IFRS 15) for deferral of incremental costs until contracts are renewed.

The IASB staff believe that requiring or allowing an entity to allocate insurance acquisition cash flows to expected renewals, as well as to the initial contract, would add complexity to the contract boundary requirements and could result in internal inconsistencies in IFRS 17. However, they believe this could still provide useful information to users and might not unduly disrupt implementation processes. The staff appear to favour a change to IFRS 17, although the details, and any qualifying conditions the Board might require, are unclear.

The Board made no specific comments on the staff analysis for this topic.

5. Modify initial recognition of reinsurance contracts an entity holds when they protect underlying contracts issued that are onerous at initial recognition (12)

IFRS 17 generally requires reinsurance contracts held to be accounted for separately from underlying insurance contracts issued. For example, if an entity issues a group of onerous underlying contracts that it then reinsures, the entity is required to recognise a loss in profit or loss (PL) immediately for the group of underlying contracts, but recognise a corresponding gain from reinsurance over the period of reinsurance coverage. However, subsequent to initial recognition, changes in fulfilment cash flows of reinsurance contracts held which arise from changes in fulfilment cash flows of underlying contracts that are onerous do not adjust the contractual service margin (CSM) of the group of reinsurance contracts, but are, instead, recognised immediately in PL to match the treatment of underlying contracts. Stakeholders think that recognising a loss on initial recognition of reinsured contracts that are onerous does not reflect the economics of the arrangement and view the requirements at initial recognition as inconsistent with those at subsequent reporting dates.

The staff believe it may be possible to amend IFRS 17 to extend to initial recognition a modification for onerous underlying groups of insurance contracts to avoid accounting mismatches. They think this should not be unduly disruptive to existing implementation projects.

One Board member welcomed the staff's suggestion. Another commented that this effect was well known when the standard was issued and consequently his initial reaction would be not to make any changes.

6. Additional modifications to the modified retrospective approach at transition for groups of contracts where the full retrospective approach is impracticable (24)

If a full retrospective application of IFRS 17 is impracticable, an entity can apply the modified retrospective approach as an alternative transition method. IFRS 17 specifies the modifications available. Some stakeholders are concerned that there are not sufficient modifications to allow the approach to be practicable

and would like a more principles-based approach, or further modifications to be applied. Some noted that, without further modifications, they would have to apply the fair value approach to transition — which could have a significant impact on profit recognition patterns and reflect a performance that is inconsistent with other contracts issued.

The staff believe it may be possible to introduce additional modifications in a way that would avoid significant loss of information (and would be mitigated by a requirement to separately disclose the "transition CSM" in subsequent periods). The staff do not provide further details at this stage on which additional modifications may be considered.

The Board had no specific comments on the staff analysis for this topic.

7. Remove from the scope of the standard, loans and other forms of credit that transfer insurance risk, but where the primary purpose is the provision of credit (1)

The definition of an insurance contract in IFRS 17 is the same as in IFRS 4, but the requirements for the separation of elements within the insurance contract differ. Some stakeholders are concerned that they might be required to account for contracts such as loans entirely as insurance contracts, if they transfer significant insurance risk, albeit with a relatively small insurance component. Under IFRS 4 Insurance Contracts, the loan component meets the definition of a deposit component and may be accounted for separately under IFRS 9 *Financial Instruments*.

The staff paper considers that it may be possible to exclude all or part of such contracts from the scope of IFRS 17 while still providing useful information, since IFRS 9 provides an adequate alternative. Any disruption should be limited as non-insurance entities such as banks are likely to be at a less advanced stage of IFRS 17 implementation.

While this change would mainly apply to insurance contracts written by entities other than insurers, it may also be relevant to credit instruments issued by insurers. An example of this is Equity Release Mortgage instruments, which a number of insurance entities either invest in or issue.

The Board had no specific comments on the staff analysis for this topic.

Aspects that the staff do not consider meet the criteria for a potential change to IFRS 17:

The paper indicated that, in the view of the IASB staff, another 18 proposed changes did not meet the criteria for potential changes to the standard. Based on the observations from the staff and comments made by Board members during the meeting, some of the issues that may cause significant challenges to some stakeholders are discussed in more detail below. Refer to the table above for the complete list.

► Make the required level of aggregation of insurance contracts less prescriptive or less granular (2)

Some stakeholders are concerned that the requirements around the level of aggregation (including onerous contract identification and the requirement for annual cohorts) are too prescriptive, do not reflect the way risks are managed and could result in excessive granularity.

The staff paper notes that IFRS 17 provides useful information about the profitability of different contracts and how profitability develops over time, and that IFRS 17 will make onerous contracts visible in a timely way and increase comparability. Amending the requirements or adding optionality would, in their view, cause significant loss of useful information.

This issue caused some discussion amongst Board members. One Board member asked for details on why some companies believe annual cohorts are so costly and what information would be lost if they were not required. Another Board member commented that, in his opinion, reporting the profitability of contracts that results from annual cohorts is fundamental to IFRS 17 and, consequently, changing it would not meet the first criterion for assessing potential changes. He also thought it could take a long time to determine an alternative, which could cause significant delay in the implementation date of the standard and thereby contravene the second criterion. A third Board member doubted whether there was significant new information about the challenges arising from annual cohorts, because some in the insurance industry had already pointed out these challenges when the Board deliberated the level of aggregation before issuing the standard.

► Use of current discount rates to adjust the contractual service margin for groups of contracts subject to 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 (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 PL or in Other Comprehensive Income (OCI), which some stakeholders feel could significantly distort performance results or give anomalous results.

The staff note that the use of the locked-in discount rate means the CSM is internally consistent. The effects of changes in discount rate on the changes in estimated cash flows are not included in the CSM and do not affect the insurance service result. This is in line with the principle in IFRS 17 to show insurance service result separately from insurance finance income and expenses. It ensures consistency between unearned profit determined

on initial recognition and the effect of changes in estimates on that profit. The staff conclude that the use of current discount rates would lead to inconsistencies and include arbitrary amounts from changes in interest rates in the amount recognised as revenue.

The staff also consider that there are sufficient disclosure requirements 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.

► Insurance contract with direct participation features: widen the scope of the variable fee approach (18)

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

- Where the contractual terms specify participation in a share of clearly identified pools 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 vary with the fair value of the underlying items

Stakeholders are concerned that the scope of the VFA is too narrow, resulting in economically similar contracts being accounted for differently. They also expressed concern that this results in differences in accounting, because coverage units in the general model do not reflect investment-related services (refer to item seven in the table above).

The staff believe that amending the scope of the VFA would not address 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. They note that the VFA was developed for insurance contracts that are substantially investment-related service contracts.

► Discount rates and risk adjustment are subjective: some analysts would prefer more prescription (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 investors and analysts expressed concern that this could limit comparability.

The staff consider that 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.

One Board member informed the rest of the Board that this topic is an issue that has been consistently raised by investors.

► Presentation of premiums receivable: measure and present these separately from insurance contract liabilities (16)

Some stakeholders noted that the requirement to present groups of insurance contract liabilities net of premiums receivable is a significant change from existing accounting practice and will involve significant implementation costs, particularly for short-term contracts. 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 entities have a relatively high level of aggregation of premiums receivable in line items in the financial statements, for example at entity level.

The staff believe that 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). They believe an amendment would reduce comparability between entities which have different system capabilities and cause significant loss of useful information. However, they note that some of the implementation challenges may be resolved if a potential change is made, as outlined in item 3 above.

► Make reinsurance contracts (issued and held) eligible for the variable fee approach (in some circumstances?) (13)

IFRS 17 prohibits an entity from applying the VFA to reinsurance contracts it holds. Some stakeholders are concerned that this may give rise to accounting mismatches. The resulting accounting therefore fails to reflect that the economics of the arrangement are a net risk position.

The staff consider that such an amendment would result in the VFA being applied to contracts for which it was not developed and is not suited (as they are not substantially investment-related contracts, and the reinsurance does not share in the returns on underlying items). They therefore believe this would reduce the usefulness of information provided.

► 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 covered by the reinsurance contract that are not yet issued but expected to be issued in the future.

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, compared to those of the underlying insurance contracts, that would be hard to apply in practice.

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

► Exemption from restating comparative information on the first time application of IFRS 17 (21)

On application of IFRS 17, an entity is required to restate comparative information about insurance contracts for one year, and is permitted, but not required, to restate comparative information about financial instruments when applying IFRS 9, if it is possible to do so without hindsight.

Some stakeholders suggested that it would be helpful to permit entities not to present adjusted comparative information when applying IFRS 17. Stakeholders raised concerns that financial statements that restate comparative information about insurance contracts, but not about financial assets, could distort users' understanding due to accounting mismatches and lack of comparability between the comparative and current periods. Stakeholders also noted the different approach to the transition requirements of IFRS 9.

The staff think that amending IFRS 17 to permit entities not to present adjusted comparative information when first applying IFRS 17 would further increase complexity for users on transition and therefore cause significant loss of useful information.

► Extend the treatment of accounting estimates in interim financial statements to other types of interim reports, e.g., monthly management reports (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. (Adjusting the CSM for changes in estimates of fulfilment cash flows, but not for experience adjustments means that accounting depends on the reporting date. 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).

These requirements are applicable only to interim financial reports as defined in IAS 34. Some stakeholders think they should be extended to other interim reports, such as monthly management reports or internal reports from subsidiaries to parent entities. Otherwise, they may need to maintain two sets of reports.

The staff believe that extending the requirements to reporting that is not defined in IFRS standards would add to the complexity of financial statements for preparers and users, and would result in the loss of useful information.

How we see it

- The IASB is aware of stakeholder concerns and appears open to changing the standard to resolve some of the issues raised by constituents.
- The preliminary staff view does not necessarily mean that all seven areas of concern will change – just that any of these areas are topics that the Board may wish to consider re-opening the standard for on the basis of the criteria agreed at the meeting. The IASB staff emphasised that meeting the criteria was a necessary, but not sufficient, condition to justify a change.
- The Board appears to be open to also consider the possibility of changes to some of the issues outside of the seven identified by the staff.
- If the Board were to decide to delay the IFRS 17 effective date, but not IFRS 9, insurers are likely to be concerned by the need to apply IFRS 9 in 2021, i.e., making major changes to the asset and liability sides of the balance sheet at different points in time. This could become one of the more contentious areas of debate.
- The uncertainty arising from any changes to IFRS 17 and its effective date could impact IFRS 17 implementation programmes already underway and may affect project timelines. It is important that entities assess the impact on their ongoing IFRS 17 projects to prioritise work packages and develop decision points in the next few months at which they will evaluate the timing of implementation efforts.

Next Steps

The IASB staff will present more detailed analyses of the 25 topics against the agreed upon criteria at a future meeting (or meetings) of the IASB to help the Board consider whether any of the topics warrant further analysis of a potential change to the standard.

The next meeting of the TRG is scheduled for 4 December 2018. The IASB staff will decide at a later date whether the meeting will be deferred to the first quarter of 2019 based on the submissions received.

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EYG No. 011907-18Gbl

EY-000078605.indd (UK) 10/18.
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