IASB ISSUES AMENDMENTS TO IFRS 17, INSURANCE CONTRACTS

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BACKGROUND

IFRS 17, *Insurance Contracts* was issued in May 2017 after over 20 years of consultation and development with stakeholders, including preparers, auditors, regulators, investors and other financial statement users. IFRS 17 was originally issued with a mandatory effective date of 1 January 2021.

Subsequent to the issuance of the standard, concerns were raised by preparers and other stakeholders about certain requirements of IFRS 17. In October 2018, the IASB decided to consider potential amendments to IFRS 17 as long as any potential amendments met strict criteria:

(a) the amendments would not result in significant loss of useful information relative to that which would otherwise be provided by IFRS 17 for users of financial statements—any amendments would avoid:

   (i) reducing the relevance and faithful representation of information in the financial statements of entities applying IFRS 17;

   (ii) causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17; or

   (iii) increasing complexity for users of financial statements, thus reducing understandability.

(b) the amendments would not unduly disrupt implementation already under way or risk undue delays in the effective date of the Standard, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.

STATUS
Final.

EFFECTIVE DATE
Annual reporting periods beginning on or after 1 January 2023.

ACCOUNTING IMPACT
Clarifications of and modification to the requirements of IFRS 17.

These potential amendments were considered from October 2018 – June 2019.

Once the IASB decided that it would deliberate potential amendments to IFRS 17, the Board tentatively decided to defer the effective date of IFRS 17 to at least 1 January 2022. This was to allow the Board appropriate time to deliberate issues, expose any potential amendments and release an amended standard, still leaving sufficient time for preparers to incorporate the amendments into their IFRS 17 conversion plans.

In June 2019, the IASB issued exposure draft ('ED') 2019/4 – Amendments to IFRS 17 with a 90-day comment period, which ended on 25 September 2019.

Subsequent to the comment period closing, the IASB redeliberated in light of the comments received from respondents to the ED and, during the period from October 2019 – March 2020, the IASB concluded its deliberations based on the feedback received from the ED process. These decisions formed the basis for the final amendments to IFRS 17, with additional minor sweep issues discussed at the May 2020 IASB meeting.

SUMMARY

The following table summarises the major changes to IFRS 17, however, it does not include every amendment made. Included in these amendments is the deferral of the effective date of IFRS 17 to 1 January 2023, two years later than the original effective date. To coincide with this timing, the mandatory effective date for entities that have elected to defer IFRS 9 has been extended to 1 January 2023 as well.

AMENDMENTS CONFIRMED AS PROPOSED IN 2019 EXPOSURE DRAFT

ITEM #	AREA OF IFRS 17	IMPLEMENTATION CONCERN	AMENDMENT
1	Scope	IFRS 17 includes in its scope contracts for which the only insurance in the contract is for the settlement of some or all of the obligation created by the contract. For example, certain loans issued may contain features that waive the obligation to repay the loan upon death of the borrower.	Allow entities to elect, at the portfolio level (as defined by IFRS 17) to account for such contracts as a whole either under IFRS 17 or IFRS 9.
2	Presentation of insurance contracts	IFRS 17's requirement to present separately groups of insurance contracts that are assets from groups that are liabilities has significant implications on some insurers' premium, cash and claims management systems. Cash flows related to insurance contracts would have to be allocated to the appropriate groups in order to determine whether groups are in an asset or liability position as at a reporting date.	Amend IFRS 17's presentation requirements such that the presentation of insurance contracts would be at a portfolio level, rather than based on groups of contracts. This higher level of aggregation mitigates a significant amount of the concerns from users, as it is operationally less complex to associate cash flows from contracts at a total portfolio level as opposed to the annual cohorts that would otherwise be required. This amendment relates only to the presentation requirements; the underlying measurement requirements of IFRS 17 remain unchanged and are tied to groups - and therefore annual cohorts – of insurance contracts.
3	Risk mitigation option - reinsurance contracts held	When an entity uses the variable fee approach and utilises certain derivatives to mitigate financial risk in the underlying contracts (e.g. the requirement to pay out minimum returns to policyholders), IFRS 17 allows an entity to recognise changes in the underlying financial risks in profit or loss. Otherwise, an entity would adjust the contractual service margin, which is the default approach under the variable fee approach. This exception to the general requirements is not currently permitted when reinsurance contracts are used to similarly mitigate financial risk in groups of contracts that are accounted for under the variable fee approach.	Amend IFRS 17 to include the use of reinsurance contracts in the scope of the risk mitigation exception for insurance contracts with direct participation features. Eligibility for the exception is still based on the existing conditions in IFRS 17.
4	Transition – classification of insurance contract liabilities	IFRS 17's requirement to classify liabilities arising from the entity's obligation to settle claims that occurred before an insurance contract was acquired (e.g. as part of a business combination or portfolio transfer) as a liability for remaining coverage may be very complex to apply in practice. In many situations, in financial reporting systems, entities classify such insurance contracts identically to insurance contracts originated themselves rather than being acquired.	Amend the transitional provisions of IFRS 17 as follows: (1) for entities applying the modified retrospective approach, require such liabilities be classified as liabilities for incurred claims, rather than liabilities for remaining coverage if the entity can demonstrate that it does not have reasonable and supportable information to be able to classify the liabilities as otherwise required on a retrospective basis; and (2) for entities applying the fair value approach, classify such liabilities as liabilities for incurred claims with no requirement to demonstrate that a retrospective classification is not possible.

ITEM #	AREA OF IFRS 17	IMPLEMENTATION CONCERN	AMENDMENT
5	Transition – risk mitigation option	IFRS 17 only permits an entity that uses the risk mitigation option in the variable fee approach to use the fair value transition approach if the full retrospective approach cannot be performed. This prohibition is consistent with the general 'hurdle' that must be demonstrated in order to use the fair value transition approach. Concerns have been raised that if an entity is unable to use the fair value transition approach when the risk mitigation option is utilised in the variable fee approach, that the contractual service margin would not be accurately represented on transition to IFRS 17. This is because the contractual service margin would not consider the risk mitigations applied as at the date of transition. If an entity cannot use the fair value transition approach, then there is no way to mitigate this issue.	Amend IFRS 17 to modify the transition requirements for groups of contracts where the risk mitigation option is used under the variable fee approach. An entity could either (1) apply risk mitigation option prospectively from the date of transition to IFRS 17, which would allow comparative information to be provided, as long as an entity designates those relationships no later than the date it applies the option; or (2) apply the fair value approach on transition (regardless of whether the entity can demonstrate whether the full retrospective approach cannot be performed), provided criteria are met.

AMENDMENTS IN 2019 EXPOSURE DRAFT CONFIRMED WITH SOME CHANGES

ITEM #	AREA OF IFRS 17	IMPLEMENTATION CONCERN	AMENDMENT
6	Effective date	Given that the IASB decided to explore amendments to IFRS 17 that do more than clarify the underlying intention of the standard (i.e. more than a change that would be considered in the IASB's annual improvement process), concerns have been expressed that the original effective date of 1 January 2021 will not allow enough time for preparers to implement IFRS 17 as amended.	Amend the effective date of IFRS 17 to 1 January 2023, deferring the original effective date by 2 years.
7	Effective date	Insurers that meet certain criteria in IFRS 4 (the predecessor standard to IFRS 17) are permitted to defer the adoption of IFRS 9 until 2021, the original effective date of IFRS 17. Consistent with the concerns expressed relating to the effective date of IFRS 17 in item #1 above, concerns have been expressed relating to the potential misalignment of the effective dates of IFRS 9 and 17 if IFRS 17's effective date is to be deferred, but IFRS 9's is to remain unchanged at 1 January 2021 for entities meeting the deferral requirements in IFRS 4.	Extend the deferral of the effective date IFRS 9 to 1 January 2023 to coincide with the effective date of IFRS 17.
8	Scope	Similar to the scoping issue above concerning loans, some entities expressed concern that IFRS 17 would scope in certain credit card products that offer an element of insurance coverage. Due to IFRS 17's high threshold for separating insurance and non-insurance components, it was thought that such products may be unintentionally scoped into IFRS 17 in their entirety.	Exclude from the scope of IFRS 17 credit card contracts, or similar contracts that provide credit or payment arrangements, 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.

ITEM #	AREA OF IFRS 17	IMPLEMENTATION CONCERN	AMENDMENT
9	Insurance acquisition cash flows	IFRS 17 did not permit an entity to allocate any portion of insurance acquisition cash flows to anticipated contract renewals; only to insurance contracts that met recognition criteria. The underlying economics of many large, up-front acquisition cash flows anticipate an element of contract renewal in order to recover the underlying cost (e.g. large up-front commissions). By not allowing any portion of this cost to be allocated to future insurance contracts, the insurance contracts that are recognised may be classified as onerous contracts, resulting in losses recognised in profit or loss, which is in contrast to the economic rationale for why the costs were incurred by the entity.	Amend IFRS 17 to require a portion of acquisition cash flows to be allocated to anticipated contract renewals. This allocation to insurance contracts not yet recognised would be recognised as a separate asset and subject to impairment tests until the anticipated contracts are recognised. This asset also includes the future cash flows for which a liability has been recognised applying another IFRS (e.g. applicable costs accrued as a liability, but not yet paid). The impairment requirements would use the expected fulfilment cash flows relating to the group of contracts not yet recognised. Amendments were also proposed to IFRS 3 and IFRS 17 to require that when insurance contracts are acquired in a business combination or an asset acquisition (e.g. a portfolio transfer that does not meet the definition of a business), entities are required to recognise an asset for such insurance acquisition cash flows measured at fair value as at the date of acquisition.
10	Insurance acquisition cash flows	As a result of the IASB deciding to amend IFRS 17 for item #5 above, the IASB decided that additional disclosure requirements should be included.	Amend IFRS 17 to require a reconciliation of any asset created relating to the allocation of acquisition cash flows to anticipated insurance contracts not yet issued, including any impairment or reversals of impairment. Disclosure is also required of the time bands over which the entity expects to include these acquisition cash flows in groups of insurance contracts' measurement (i.e. when the entity expects to recognise the underlying, yet to be recognised insurance contracts).
11	Contractual service margin	Under the general model, some contracts may contain 'investment return services', despite not being eligible for the variable fee approach. IFRS 17 would not allow coverage units to be allocated to these non-insurance services, resulting in profit emergence that is misaligned with the underlying economics of the contract.	Amend IFRS 17 such that for groups where the general model is applied, the contractual service margin should be allocated on the basis of coverage units, which are determined after considering insurance coverage provided and 'investment return services'. Under the amendments, there can be investment-return services without any investment component and the Board decided to implement non-determinative criteria for such a service. The criteria are that: (i) there is an investment component; or the policyholder has a right to withdraw an amount; (ii) the investment component or amount the policyholder has a right to withdraw is expected to include an investment return; and (iii) the entity expects to perform investment activity to generate that investment return. An investment return could be below zero, i.e. negative, for example, in a negative interest rate environment. As a result of these changes, it was also decided to amend IFRS 17 to require cash flows arising from costs incurred to deliver such investment activities within the boundary of the insurance contract. This requirement exists even when the contract does not give rise to an investment-return service, as defined by the amended standard.

ITEM #	AREA OF IFRS 17	IMPLEMENTATION CONCERN	AMENDMENT
12	Reinsurance contracts held	IFRS 17 only permits the recognition of a gain on reinsurance contracts held to the extent there are changes in fulfilment cash flows that adjust the contractual service margin subsequent to contract issuance. Based on this restriction, a gain would not be permitted to be recognised for reinsurance contracts that provide coverage on underlying insurance contracts that are onerous that offsets the loss on the onerous underlying contracts. This results in a mismatch between the timing of onerous underlying contract losses and the right to reimbursement from reinsurance contracts held.	Amend IFRS 17 to require the recognition of a gain on such reinsurance contracts when the underlying contracts are onerous. The gain is determined based on the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. The recognition of such a gain only applies when the reinsurance contract held is recognised before or at the same time as the loss arising un the underlying insurance contracts. The proposed amendment would also apply to contracts accounted for under the premium allocation approach (PAA). It is possible that an onerous group of insurance contracts issued may include insurance contracts that are and are not covered by a group of reinsurance contracts held. In such cases, an entity shall apply a systematic and rational method of allocation to determine the portion of losses recognised on the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.
13	Transition – insurance acquisition cash flows	As a result of the IASB deciding to amend IFRS 17 for item #5 above relating to insurance acquisition cash flows, the IASB decided that additional amendments should be made to the transitional requirements of IFRS 17.	Amend IFRS 17 to require, unless impracticable, the recognition of an asset for acquisition cash flows retrospectively as at the date of transition. This asset relates to acquisition expenses that have been allocated to future, unrecognised groups of insurance contracts (e.g. renewals), as per the amendment proposed in item #5. If such retrospective application is impracticable, which is assessed at the level of groups of insurance contracts, the modified retrospective or fair value approach would be applied. On transition to IFRS 17, entities are not required to determine whether facts and circumstances existed prior to the date of transition that could indicate impairment of the assets recognised.
14	Minor amendments	A number of editorial changes to IFRS 9 and 17 were proposed due to lack of clarity in the requirements and due to other amendments proposed, as discussed above, along with errors in drafting the proposed amendments in the exposure draft stage.	Amendments are being made to the following paragraphs of IFRS 17 (and in one case, IFRS 9) for editorial or minor changes: • IFRS 17.38: clarify that an entity should include in the initial measurement of the CSM of a group of insurance contracts the effect of the derecognition of any asset or liability previously recognised for cash flows related to that group. • IFRS 17.88 and 89: modify the requirements for presentation of finance income or expense when both the OCI and the risk mitigation option are utilised by an entity, which reduces an accounting mismatch that may have occurred otherwise. • IFRS 17.106(a) and B124: clarify that entities should present experience adjustments that relate to current or past service for premium receipts as insurance revenue.

ITEM #	AREA OF IFRS 17	IMPLEMENTATION CONCERN	AMENDMENT
14 (continued)	Minor amendments (continued)	A number of editorial changes to IFRS 9 and 17 were proposed due to lack of clarity in the requirements and due to other amendments proposed, as discussed above, along with errors in drafting the proposed amendments in the exposure draft stage.	• IFRS 17.B96(c): clarify that for insurance contracts without direct participation features, the CSM is adjusted for changes in fulfilment cash flows relating to future services arising from differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period. This difference is determined by comparing: (i) the actual investment component that becomes payable in the period; and (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable. • IFRS 17.B96(d): clarify that for insurance contracts without direct participation features, if an entity chooses to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses, the entity should adjust the CSM only for the changes related to non-financial risk, measured at the discount rates determined on initial recognition. • IFRS 17.B107: wording modified to clarify that eligibility for the variable fee approach is determined on a contract by contract basis, not at the group level. • IFRS 17.B121: clarify that included in insurance revenue are amounts related to income tax that are specifically chargeable to the policyholder (see item #15). • IFRS 17.B128: clarify that changes in the measurement of a group of insurance contracts caused by changes in the value of underlying items (excluding additions and withdrawals) are changes arising from the effect of the time value of money and financial risk. • IFRS 17.B134: delete the word 'two' from the last sentence of the paragraph. • IFRS 17, Appendix A: clarify that an investment component is the amount an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs. • IFRS 17, Appendix A: Amendments to the definition of insurance contract, liability for incurred claims and liability for remaining coverage. These amendments were made as a consequence of the introduction of the concept 'investment return services' (see item #11). • IFRS 9.2.1: correct a drafting error that would inadvertently have required entities to account for financial guarantee contracts held under IFRS 9.

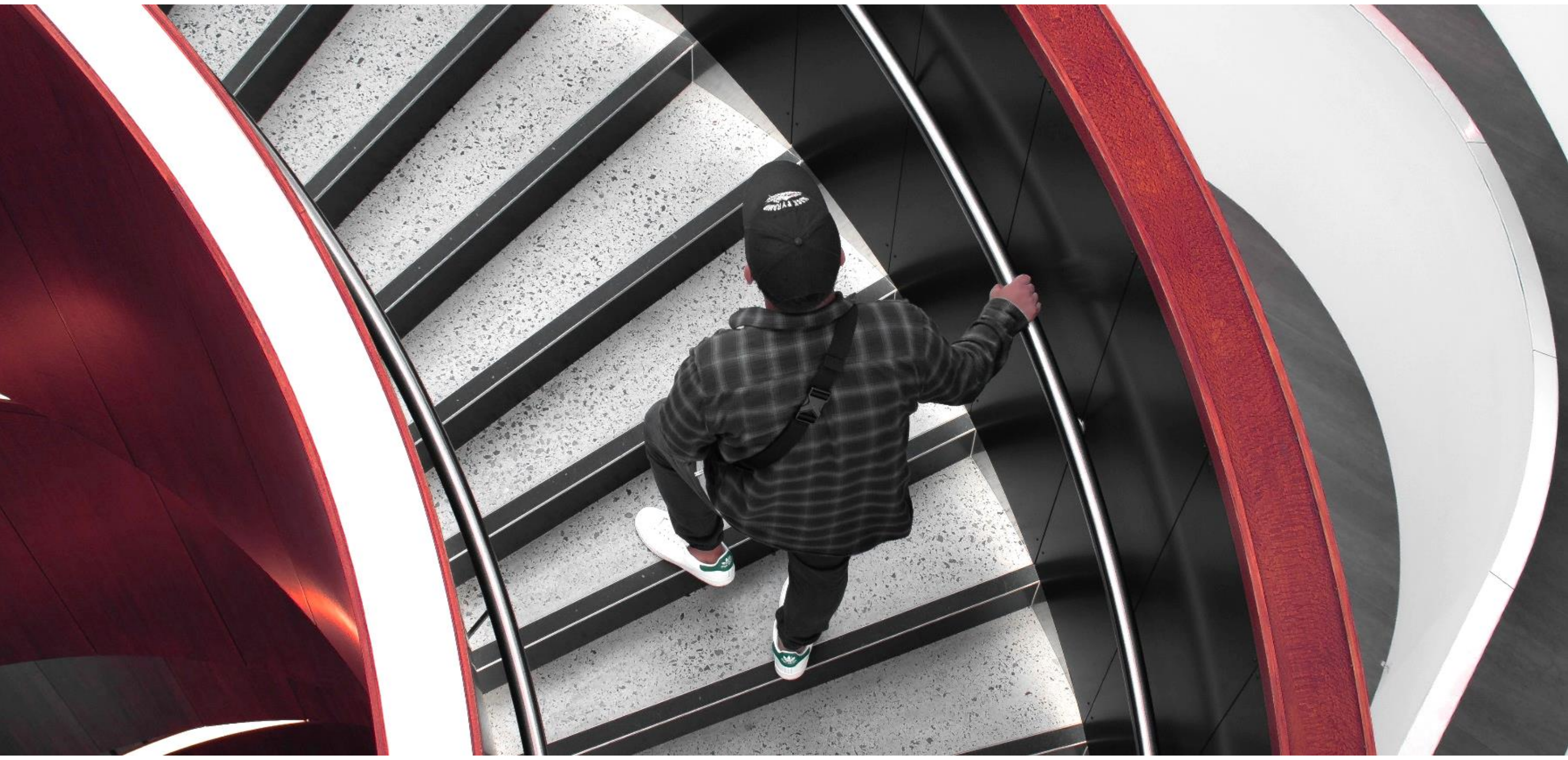
AMENDMENTS NOT PROPOSED IN THE 2019 EXPOSURE DRAFT

ITEM #	AREA OF IFRS 17	IMPLEMENTATION CONCERN	AMENDMENT
15	Fulfilment cash flows – income tax payments	B66(f) states that income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity are excluded from the fulfilment cash flows of an insurance contract. This appears to conflict with B65(m) of IFRS 17, which requires costs that are specifically chargeable to a policyholder to be included in the fulfilment cash flows. This inconsistency arises from certain types of insurance contracts in which an insurance company pays income taxes on behalf of a policyholder under the terms of a contract, but not in a fiduciary capacity. These taxes are sometimes referred to as 'policyholder taxes' in certain jurisdictions.	Amend IFRS 17, paragraph B66(f) to resolve this inconsistency. Income tax payments and receipts that are chargeable to the policyholder under the terms of the contract would be included in the fulfilment cash flows.
16	Risk mitigation option – non-derivative financial instruments at fair value through profit or loss	When an entity uses the variable fee approach and utilises certain non-derivatives to mitigate financial risk in the underlying contracts, IFRS 17 allows an entity to recognise changes in the underlying financial risks in profit or loss. Otherwise, an entity would adjust the contractual service margin, which is the default approach under the variable fee approach. This exception to the general requirements is not currently permitted when non-derivative financial instruments are used similarly to mitigate financial risk in groups of contracts that are accounted for under the variable fee approach.	Amend IFRS 17 to include the use of non-derivative financial instruments at fair value through profit or loss in the scope of the risk mitigation exception for insurance contracts with direct participation features. Eligibility for the exception is still based on the existing conditions in IFRS 17.
17	Transition – miscellaneous issues	A number of other amendments to IFRS 17 resulted in consequential amendments to the transitional provisions.	Amend IFRS 17's transitional requirements to: • Extend the modification in the modified retrospective approach and relief in the fair value approach to permit an entity to determine whether a contract meets the definition of an investment contract with discretionary participation features using information available at the date of transition to IFRS 17 rather than inception. • Amend the requirements of the modifications in the modified retrospective approach for reinsurance contracts held when underlying insurance contracts are onerous (see item #9). If an entity does not have reasonable and supportable information to identify whether the reinsurance contract held was acquired before or at the same time as the underlying insurance contracts, an entity must assume that the reinsurance contract held was acquired after the underlying contracts. Therefore, no loss-recovery component would exist as at the date of transition and the general requirements of IFRS 17 would apply to the reinsurance contract held.

ITEM #	AREA OF IFRS 17	IMPLEMENTATION CONCERN	AMENDMENT
17 (continued)	Transition – miscellaneous issues (continued)	A number of other amendments to IFRS 17 resulted in consequential amendments to the transitional provisions.	• Amend the requirements of the modifications in the modified retrospective approach when entities elect not to change the treatment of accounting estimates made in previous interim periods (see item #17). The modification is permitted if an entity does not have reasonable and supportable information to apply its accounting policy relating to interim financial reporting retrospectively. Under this modification, the entity determines the CSM, loss component and amounts related to insurance finance income or expenses as at the date of transition as if the entity had not prepared interim financial statements prior to the date of transition.
18	Interim reporting	Paragraph B137 of IFRS 17 required an entity not to change its treatment of accounting estimates made in interim financial statements when those results are subsequently included in other interim or annual financial statements. Since IFRS 17's requirements may affect the classification of changes in estimates as amounts that affect CSM or are recognised in profit or loss, the timing of financial statement preparation may affect the figures reported. Therefore, an entity that prepares interim financial statements in a year may have different annual results than an identical entity that does not prepare interim financial statements.	Amend IFRS 17 to permit entities an accounting policy choice as to whether an entity changes the treatment of changes in estimates arising from IFRS 17 in previous interim financial statements when IFRS 17 is applied in subsequent interim or annual financial statements. Therefore, an entity's annual financial statement may or may not be the sum of its previously issued interim financial statements, depending on its accounting policy choice. This policy choice applies to all groups of insurance contracts issued and groups of reinsurance contracts held.

CONCLUSION

The amendments to IFRS 17 do not address every concern raised by stakeholders, including some of IFRS 17's more controversial aspects, such as the concept of annual cohorts, the requirement to present comparative information on transition to the standard and certain other aspects. However, the amendments address many of the concerns raised by constituents, clarify and simplify the requirements of IFRS 17 in many respects, and provide clarity to preparers and financial statement users on the timing of transition to IFRS 17.



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