



IASB agrees further amendments to IFRS 17 and a 90-day ED comment period

What you need to know

At its meeting on 15 May 2019, the IASB:

- ▶ Agreed a comment period of 90 days for the Exposure Draft (ED) of proposed amendments to IFRS 17
- ▶ Revised a previous decision that an investment-return service exists only when an insurance contract accounted for under the General Model includes an investment component. The Board decided that an investment-return service exists in specified circumstances, sometimes without an investment component
- ▶ Agreed that refunds of premiums do not need to be disclosed separately from investment components in the reconciliation from opening to closing balances of the insurance contract liability
- ▶ Clarified that payment or receipt of amounts lent to policyholders should not give rise to insurance revenue. The Board also clarified that the waiver of such a loan should be treated as a claim
- ▶ Asked the IASB staff to add a footnote to the Basis for Conclusions on IFRS 17 with respect to mutual entities that issue insurance contracts

Overview

At the May Board meeting, the International Accounting Standards Board (IASB or the Board) concluded its planned deliberations on amendments to IFRS 17 *Insurance Contracts* (IFRS 17), tentatively deciding to make amendments related to four 'sweep issues'. The Board agreed to a comment period of 90 days for the ED of the proposed amendments to the standard. The papers prepared by the IASB staff for the meeting also included a summary of the April meeting of the IASB's transition resource group for IFRS 17 (TRG).

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-Appling-IFRS-17-Insurance-May-18/\\$FILE/ey-Appling-IFRS-17-Insurance-May-18.pdf](http://www.ey.com/Publication/vwLUAssets/ey-Appling-IFRS-17-Insurance-May-18/$FILE/ey-Appling-IFRS-17-Insurance-May-18.pdf)

The cover note and papers for the May 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/may/international-accounting-standards-board/>

Update to the IASB on the Transition Resource Group meeting on 4 April 2019

The IASB staff presented two papers: (i) a summary of the 4 April 2019 TRG meeting; and (ii) a copy of the TRG submissions log as at 22 March 2019. The staff noted that many insurers are at an advanced stage in their projects to implement IFRS 17, and that submissions to the TRG have tended to focus on narrow aspects of requirements with specific fact patterns which do not meet the TRG's submission criteria. No further meetings of the TRG are scheduled, although stakeholders are still able to submit questions. A TRG meeting may be scheduled in the future, depending on the nature of new submissions and whether

discussion of these would be helpful to stakeholders at this stage of implementation, without undue disruption. The IASB staff also noted that comments or questions relating to any of the proposed amendments should be included in comment letters on the ED, rather than submitted to the TRG. There were no further comments from Board members.

Additional technical concerns (sweep issues)

Investment-return service:

The Board tentatively decided, in January 2019, that the contractual service margin (CSM) in the general model can be recognised in profit or loss on the basis of coverage units that are determined by considering both insurance coverage and an investment-return service, if any. Also at the January meeting, the Board decided that an investment-return service can only exist when an insurance contract includes a (non-distinct) investment component.

For the May meeting, the IASB staff provided an example of a deferred annuity contract that does not include an investment component, but in which the policyholder has a right to withdraw an amount during the accumulation phase of the contract that contains an investment return. Based on this example, the staff developed new criteria for when an investment-return service exists. The IASB staff recommended that an investment-return service exists if, and only if:

- ▶ There is an investment component, or the policyholder has a right to withdraw an amount
 - ▶ The investment component or amount the policyholder has a right to withdraw is expected to include a positive investment return
- And
- ▶ The entity expects to perform investment activity to generate that positive investment return

Observations from the Board meeting

The IASB staff provided a high-level summary of the issue and their recommendation not to make the investment component a necessary requirement for the presence of investment-return service in all cases. They also reported on recent communications with TRG members on this topic. The analysis by the staff prepared for this meeting differed from that prepared in advance of the April 2019 TRG meeting. The staff has therefore requested feedback from TRG members on the May 2019 paper. The staff reported that TRG members mostly supported the proposed amendment, but one had expressed concern about disruption to implementation and possible unintended consequences. Other TRG members had proposed what they described as a more principles-based approach to the issue, based on an entity's own assessment of the services it considers it provides. Other TRG members had requested further guidance on the meaning of a 'positive investment return'.

The Board asked the staff to clarify the recommendations about when an investment-return service exists and the meaning of a positive investment return.

Some Board members were concerned that the expression 'if and only if' could imply that an investment return service always exists if the criteria are present. This contrasts with the January 2019 tentative decision that the presence of an investment component was necessary for an investment return service to exist, but was not sufficient to conclude there was such a service. The staff agreed to reconsider the wording to make clear that the presence of the criteria is required for an investment return service to exist, but would not be determinative.

Several Board members were concerned about whether the meaning of the term 'a positive investment return' was sufficiently clear. For example, could an expected investment return of less than zero be considered positive in an economic environment subject to negative interest rates? The consensus amongst Board members appeared to be that it could be considered a positive return. The Board asked the IASB staff to include an explanation of what is a positive investment return within the application guidance to the amended standard.

All 13 Board members present agreed with the staff recommendations, as revised during the meeting. One Board member was absent.

Amendment to clarify that an entity need not separately disclose refunds of premiums:

Paragraph 100 of IFRS 17 requires disclosure of a reconciliation from the opening to the closing balances of the net insurance contract liability or asset. Paragraph 103 of IFRS 17 requires an entity to separately disclose, in that reconciliation, investment components excluded from insurance revenue and insurance service expenses.

During the April TRG meeting, TRG members expressed concerns about any requirement to separate the amount payable when a payment is made to a policyholder into: a refund of premium; an investment component (amount repayable in all circumstances); and the remainder (the insurance service expense). Some felt that the cost and effort of separating a return of premium from an investment component could be significant, and without benefit because both items are excluded from IFRS 17 revenue and expenses. TRG members noted that the disclosure requirement in paragraph 103 refers only to investment components and does not include premium refunds. The IASB staff view is that useful information could be provided by a number of different presentation options for premium refunds in the reconciliation required by paragraph 103, including:

- ▶ Separate presentation
 - ▶ Combination with investment components
- Or
- ▶ Netting against premium receipts

All 13 Board members present agreed with the staff recommendation to amend paragraph 103 of IFRS 17 to clarify that entities are not required to separately disclose refunds of premiums from investment components in the reconciliation from opening to closing balances of the insurance contract liability. There were no further comments from Board members.

Clarification that changes resulting from cash flows of amounts lent to policyholders and waivers of such loans are excluded from insurance revenue

All 13 Board members present agreed with the staff recommendation to correct an omission in paragraph B123 of IFRS 17 by explicitly clarifying that changes in the liability for remaining coverage that relate to loans to policyholders should be excluded from insurance revenue. The Board also decided to clarify that the waiver of such a loan should be treated as a claim. There were no further comments from Board members.

Mutual entities issuing insurance contracts

Paragraphs BC264-BC269 of the Basis for Conclusions on IFRS 17 refer to insurers that are mutual entities. For example, paragraph BC265 explains that a defining feature of an insurer that is a mutual entity is that the most residual interest is due to a policyholder and not to a shareholder. Consequently, the fulfilment cash flows of an insurer that is a mutual entity generally include the rights of policyholders to the whole of any surplus of assets over liabilities. This means that for an insurer that is a mutual entity, there should, in principle, be no equity remaining and no net comprehensive income reported in any accounting period.

Some stakeholders are concerned that the explanations included in those paragraphs do not adequately reflect the nature of some mutual entities. In their view, the fact patterns in the Basis for Conclusions do not apply to all mutual entities and the terminology used may have different interpretations in practice. Those stakeholders suggested the Board clarify that the considerations in the Basis for Conclusions apply only to some mutual entities and develop further considerations for the treatment of other types of mutual entities.

Observations from the Board meeting

The staff had recommended the Board not to make any further changes to IFRS 17 to clarify that the considerations in the Basis for Conclusions apply only to some mutual entities. Board

members agreed there should be no change to the standard and its principle that the accounting for insurance contracts should be the same, regardless of the nature of the entity issuing an insurance contract. However, some Board members thought the paragraphs in the Basis for Conclusions could be misinterpreted. The staff agreed to add a footnote to the relevant paragraphs in the Basis for Conclusions. The staff indicated that such a footnote would explain that there could be entities described as mutual entities, whose most residual interest does not go to policyholders. The footnote would make clear that the relevant paragraphs in the Basis for Conclusions discuss entities where the most residual interest in the entity does go to policyholders.

All 13 Board members present agreed with the staff recommendation, as revised during the meeting.

90-day comment period for the Exposure Draft of proposed amendments to IFRS 17

The ED will propose 12 targeted amendments to IFRS 17 in eight areas, together with minor amendments related to annual improvements or sweep issues, including those agreed in the May meeting. Refer to the table in the Appendix for a summary of the proposed changes.

The IASB staff regard the targeted amendments as both urgent and narrow in scope. In setting the comment period, the Board agreed with the staff that a 90-day comment period strikes an appropriate balance between the need to allow stakeholders time to consider the proposals and provide any further input to the Board on one hand and the need to finalise the amendments to the standard on a timely basis and give clarity on the other hand.

The staff mentioned that the Due Process Oversight Committee (DPOC) had already given its approval for the 90-day comment period at its meeting on 23 April 2019. DPOC approval is required when a comment period of less than 120 days is proposed.

All 13 Board members present agreed with the staff recommendation for a 90-day comment period for the forthcoming Exposure Draft.

How we see it

- ▶ With the reduced comment period of 90 days, the IASB balances the need for appropriate review and comment with the need to finalise amendments to the standard as soon as possible to give entities enough time to prepare. Comments on the proposed amendments will be due by the end of September.
- ▶ The introduction of new criteria for identifying when an insurance contract provides an investment return service may be welcomed by some insurers, although there is a risk of unforeseen consequences of introducing new concepts at this stage of the Board's re-deliberations. These new concepts will need careful consideration when stakeholders prepare their comments on the forthcoming ED.
- ▶ Investment components also warrant further consideration when preparing comments on the ED. It will be important for insurers to analyse carefully how this application of investment components interacts with other aspects of IFRS 17's measurement and presentation requirements.

Next steps

At this meeting, the IASB staff concluded its planned deliberations on amendments to IFRS 17. They confirmed their intention to publish the ED at the end of June 2019,

with a target to issue the amendments to IFRS 17 in Q2 2020. Stakeholders should submit any comment letters on the ED to the IASB within 90 days of its publication.

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 	<p>February 2019 March 2019</p>
<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>	<p>March 2019</p>
<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 	<p>January 2019 March 2019</p>
<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 <p>* This amendment is combined with an annual improvement relating to insurance contracts with direct participation features that the Board tentatively agreed in June 2018.</p> <p>** This amendment is combined with an annual improvement (sweep issue) to develop criteria for when an "Investment-return service" exists, tentatively agreed in May 2019.</p>	<p>June 2018* January 2019 March 2019 May 2019</p>

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 recognises losses on onerous insurance contracts at initial recognition to also recognise 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 2018
<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 May 2019

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