Insurance Accounting Alert

November 2018

IASB agrees to defer IFRS 17 to 2022

What you need to know

- The IASB has tentatively decided to defer the effective date of IFRS 17 by one year to reporting periods beginning on or after 1 January 2022.
- The IASB also tentatively decided to allow insurers qualifying for deferral of IFRS 9 an additional year of deferral, meaning they could apply both standards for the first time in reporting periods beginning on or after 1 January 2022.
- Several Board members said they would agree to delaying the effective date of IFRS 17 by a year to provide certainty to preparers and users of financial statements about the IFRS 17 timelines, and signalled their opposition to any further delays as well as their intention to keep any changes to the standard to those that would fit within the revised timelines.

Overview

At its Board meeting on Wednesday 14 November, the International Accounting Standards Board (IASB or the Board) tentatively decided to amend the effective date of IFRS 17 *Insurance Contracts* (IFRS 17 or the standard) to reporting periods beginning on or after 1 January 2022. This is a deferral of one year. The Board also decided to propose an amendment to IFRS 4 *Insurance Contracts* (IFRS 4) to allow insurers qualifying for deferral of IFRS 9 *Financial Instruments* (IFRS 9) one additional year of deferral. This would mean that qualifying insurers could apply both standards for the first time in reporting periods beginning on or after 1 January 2022.

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 November 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/november/international-accounting-standards-board/.

One year delay in the implementation of IFRS 17

The decision of the Board to delay implementation of IFRS 17, and the length of the delay, follows the IASB noting in its October Board meeting, that it would consider whether concerns and implementation challenges raised by stakeholders indicated a need to amend IFRS 17. At that meeting, the Board tentatively decided that any proposed amendments must meet certain criteria, including that they must not unduly disrupt implementation already underway or risk undue delays in the effective date of IFRS 17.

The IASB staff paper prepared for the November board meeting considered the implications that any potential amendments have for the effective date of IFRS 17 and, subsequently, for the temporary exemption to IFRS 9 in IFRS 4.

The Board considered some of the arguments from stakeholders for and against a delay to the effective date:

Arguments in favour of a delay:

- Some insurers say they need more time to prepare for IFRS 17 than they originally expected.
- They are also dependent on internal or external resources, particularly actuaries and IT system providers. The limited availability of such resources can impede progress, reduce the quality of solutions possible in a limited timeframe and increase implementation costs.
- There is insufficient lead time for some stakeholders to inform and prepare investors, analysts and other users of financial statements for the significant changes in reporting.
- There are other elements outside the control of insurers relating to resources, education, impacts on regulation and taxation might not be resolved before 1 January 2021.
- Potential delays to the European Union endorsement process might mean that entities around the world will not initially apply IFRS 17 at the same time.
- The IASB is expected to begin exploring possible amendments to IFRS 17 at its December 2018 meeting. The process of developing changes to the standard, exposure to public comment and redeliberation by the Board could take at least a year.

Arguments against a delay:

- The IASB was aware that IFRS 17 would be complex to apply, and represented a fundamental change to accounting for insurance contracts and would place significant demands on internal and external resources. It therefore allowed a period of approximately three and a half years from publication of the standard to its effective date in order to give insurers time to gather data, change IT systems and processes.
- IFRS 4 is inferior to IFRS 17 and a delay means that insurance entity reporting will continue to reflect the inadequacies and diversity of existing accounting practices.
- A delay may appear to penalise insurers that expect to be ready for 2021, by amending project plans and increasing costs and reward those that have been slower to implement. It could even encourage some entities that have not started to implement the standard to delay implementation even further.
- A delay, particularly a delay of more than a year, could disrupt implementation processes already under way, cause a de-prioritisation or removal of resources from implementation projects and increase costs.
- The IASB's criteria for assessing possible amendments to IFRS 17 set a high benchmark in order to restrict those that could cause undue delays to the effective date.

Several Board members were not convinced by many of the arguments in favour of a delay, but they think that, pragmatically, a delay of a year is necessary because of uncertainty arising from the Board's decision to explore potential changes to the standard. They recognise that planning and budgeting processes within companies require certainty before allocating scarce resources between competing projects, and uncertainty over the IFRS 17 timelines could cause them to pause their preparations for implementation.

The decision to delay by a year is consistent with the Board's requirement that any changes to the standard would not risk undue delay to its implementation. One Board member said they would need to be pragmatic and disciplined when assessing potential changes in order to ensure the process of deciding on changes is performed efficiently.

One Board member commented that limiting the deferral to one year should serve as a signal to the market not to stop with implementation plans. The consideration of potential changes to the standard against the criteria agreed in the October Board meeting is not expected to be a long process with an unknown time limit and would not involve fundamental changes.

Whilst considering the length of any deferral, Board members noted the need to balance the requirements for preparers of financial statements to have sufficient time to prepare to apply the standard with those of users for IFRS 17 to be implemented as soon as possible. Several Board members expressed the view that four and a half years (three and a half for comparatives) should be sufficient.

The Board noted it would be most useful to stakeholders, regardless of whether they wanted a deferral, if a decision on a delay to implementing IFRS 17 is made sooner rather than later. Some stakeholders had expressed the view that waiting until closer to implementation date would have a more adverse effect on those insurers that are most advanced in their implementation.

All Board members voted in favour of proposing a one year deferral of IFRS 17.

Decision to extend the temporary deferral of IFRS 9

IFRS 4 as amended in September 2016, permits entities whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021.

The Board considered whether to extend the temporary exemption from applying IFRS 9 to enable insurers to apply IFRS 9 and IFRS 17 together for the first time in 2022. The IASB set a fixed end date to the temporary exemption, rather than linking it to the effective date of IFRS 17, because of the need to limit the deferral of IFRS 9 compared with all other IFRS financial reporters to a short period of time.

Arguments for a deferral of IFRS 9:

- A deferral would avoid additional accounting mismatches and volatility in profit or loss that could arise when IFRS 9 is applied in conjunction with IFRS 4 and additional costs of applying IFRS 9 in advance of IFRS 17 (with or without the overlay approach).
- Concerns have been raised by some stakeholders that preparers and users of financial statements would have to deal with two sets of major accounting change in a short period of time leading to significant cost and effort.
- The reasons noted above for the temporary deferral of IFRS 9 that was granted in 2016 would still be valid in 2021.
- If the effective date of IFRS 17 is deferred by one year, the cost relief benefits from an additional delay to IFRS 9 could outweigh the disadvantages from the delay in having improved information available.

Arguments against a deferral of IFRS 9:

- A deferral could result in a significant loss of useful information from insurers about financial instruments. This is particularly important given that insurers tend to hold significant amounts of financial instruments.
- Insurers that defer applying IFRS 9 will already be applying it up to three years after other entities. A further delay of a year would allow some insurers to apply IFRS 9 eight years after it was issued.
- The reasons for setting a fixed expiry date of 1 January 2021 still exist: IFRS 9 provides significant and necessary improvements to the accounting requirements for financial instruments and a temporary exemption is only acceptable when it is for a short period of time only.

In deciding to defer the effective date of IFRS 9 by another year, the Board balanced the need to gain the benefits of IFRS 9 (particularly providing both expected credit loss information and comparability between insurers and other investors) with the additional cost to preparers and the complexity for users of financial statements that application of IFRS 9 before IFRS 17 could introduce. One Board member noted that many insurers plan to implement both standards together, and separating their effective dates could interfere with their implementation plans.

A few Board members suggested that the staff consider the merits of amending the terms of any deferral beyond 2021 to include enhanced disclosure of expected credit losses or to require presentation of comparative amounts when insurers apply IFRS 9 in 2022. However, other Board members were reluctant to add complexity to IFRS 4, or amend IFRS 9, particularly when the staff need to focus on potential changes to IFRS 17.

The Board members decided by 13 votes to one to propose a one-year additional deferral of IFRS 9. Several Board members noted that it was only because this deferral was limited to one additional year that they were willing to agree.

How we see it

- It is interesting that the IASB decided on deferral before concluding on the extent and nature of other changes to IFRS 17 yet to be deliberated. Board members noted that stakeholders requested that a decision to delay be made as soon as possible so as not to disrupt 'in-flight' implementation projects too much and to have certainty in their planning and budgeting processes. The decision to delay by only one year is a further signal that the Board is not planning to make large-scale changes to the standard in the coming months.
- Most insurers will welcome the extra year to prepare for implementing IFRS 17. Not only will this give them more time to plan and implement a well-controlled and robust process, but it should also provide additional time for analysis and understanding of results, and preparation of analysts and other stakeholders.
- How preparers will ultimately view, and respond to, the delay will take into account the current status of their IFRS 17 preparations. Now may be a suitable time for them to take stock of project plans. Options could include:
  - Keep going in accordance with current plans. This is only a one year delay which may allow preparers the time to complete work that otherwise would not have been possible, and without losing momentum and buy in.
  - Re-phase activities, for example an extra year may allow more time for build and for proper dry runs, give more scope to use more internal resources.
  - Slow down or pause the project? This option could be risky in terms of losing momentum and duplication of costs, given there is only a one year delay but may be the approach taken by companies who are particularly resource constrained or distracted by other important projects.
- Many insurers will also welcome the Board's decision to extend the temporary exemption to applying IFRS 9 by one year because this will allow them to keep the implementation dates of both standards aligned.
- The next few months will be very important as the IASB considers what other amendments it will agree to make to the standard. If these result in additional implementation activities for insurers, it may reduce some of the benefit of this proposed one-year delay.
- It will be important to see how regulators of jurisdictions using IFRS reporting respond to this announcement – and whether they will also follow the IASB with a delay of the effective dates of one year.

Next steps

The next Board meeting will be held in December and is expected to begin consideration of potential changes to the standard. The IASB staff are expected to present more detailed analyses of at least some of the 25 topics discussed in the October Board meeting to help the Board consider whether any of the topics warrant further analysis of a potential change to the standard. Refer to our October 2018 *Insurance Accounting Alert* for further details of the concerns and implementation challenges that were discussed at the October meeting.

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

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