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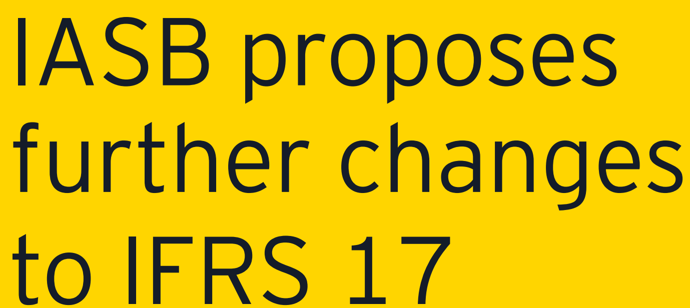
# Insurance Accounting Alert

March 2019



# IASB proposes further changes to IFRS 17

## What you need to know

At its meeting on 14 March 2019, the IASB (or Board) tentatively decided to:

- Exclude from the scope of IFRS 17 *Insurance Contracts* (IFRS 17), credit cards that provide insurance coverage for which the entity does not reflect the individual customer's insurance risk in setting the price of the contract with that customer
- Permit an entity to apply the risk mitigation option to contracts subject to the variable fee approach (VFA) prospectively from the IFRS 17 transition date if it has designated the relevant risk mitigation relationships no later than that date
- Permit an entity that is able to use the fully retrospective approach on transition to use the fair value transition approach instead for groups of contracts subject to the VFA if:
  - It chooses to apply the risk mitigation option prospectively from the transition date
  - It has used derivatives or reinsurance contracts held to mitigate financial risks arising from the group before the transition date
- Amend certain transition requirements of IFRS 9 *Financial Instruments* (IFRS 9) for loans that transfer significant insurance risk, to which an entity elects to apply IFRS 9 on initial application of IFRS 17, if it already applies IFRS 9 before IFRS 17
- Require quantitative disclosure of the expected release of the contractual service margin (CSM) to profit or loss into time bands
- Require disclosure of an entity's approach to the weighting of benefits provided by insurance coverage, investment-related services, or investment return services
- Require disclosure of a reconciliation between opening and closing balances of an asset representing insurance acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts together with quantitative disclosure of the expected inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts
- Retain all the existing requirements in IFRS 17 related to level of aggregation

## Overview

At its Board meeting on 14 March, the International Accounting Standards Board (IASB or the Board) considered potential changes to IFRS 17 relating to four topics:

- The level of aggregation of insurance contracts
- The scope of IFRS 17 – in respect of credit cards that transfer significant insurance risk
- Transition to IFRS 17 in respect of: (a) contracts subject to the VFA to which an entity applies the risk-mitigation option; and (b) loans that transfer significant insurance risk
- Amendments to transition and disclosure requirements resulting from the Board's tentative decisions to make changes to IFRS 17

In line with the staff recommendations, the Board decided not to change the level of aggregation, but it tentatively decided to make changes to the other three topics.

## 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: 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 March 2019 meeting, including an analysis of the concerns raised by stakeholders are available on the IASB's website: ifrs.org/news-and-events/calendar/2019/march/international-accounting-standards-board/

## Potential changes to IFRS 17

The IASB agreed during its October 2018 meeting to consider changes to IFRS 17 at future meetings in respect of 25 concerns and implementation challenges raised by stakeholders. The Board has now discussed all 25 of the topics in the months from November 2018 to March 2019. Of the 25 topics discussed, the Board has tentatively decided to make changes to IFRS 4 *Insurance Contracts* (IFRS 4), IFRS 9 and IFRS 17 in respect of the following (items refer to the table in the Appendix):

- To permit an entity to apply IFRS 17 or IFRS 9 to certain loans that transfer significant insurance risk; and to amend certain IFRS 9 transition requirements if an entity applies IFRS 9 to such loans and applies IFRS 9 prior to applying IFRS 17. [item 1]
- To exclude certain credit cards that provide insurance coverage from the scope of IFRS 17 [item 1]
- To require deferral of insurance acquisition cash flows relating to renewals outside the contract boundary and to introduce related disclosure requirements. [item 3]
- To amend the coverage period in the general model to include when an entity provides investment return services and to require additional related disclosures. [item 7]
- To extend the scope of the variable fee approach (VFA) risk mitigation exception to include financial risk mitigation through reinsurance contracts. [item 8]
- To permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date, and if it does so, to permit the entity to apply the fair value approach on transition when the risk mitigation is in place prior to the transition date, even if it is able to apply a retrospective approach to the related groups of contracts. [item 8]
- To require an entity to recognise a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that reinsurance contracts held cover losses on a proportionate basis. [item 12]
- To require separate presentation of insurance contract assets and liabilities in the statement of financial position, by portfolios of insurance contracts rather than groups of insurance contracts. [item 15]
- To delay the effective date of IFRS 17 to 2022. [item 20]
- To extend the temporary exemption from applying IFRS 9 to 2022 for entities whose activities are predominantly connected with insurance (this is a change to IFRS 4). [item 22]
- To amend the transition requirements in IFRS 17 for liabilities that relate to the settlement of claims incurred before an insurance contract was acquired. [item 24]

In our October *Insurance Accounting Alert*, we provided the full list of the 25 concerns and implementation challenges, as reported to the IASB. The initial tentative decisions made by the IASB on these items are summarised in the table in the Appendix.

## The criteria for assessing potential changes to IFRS 17

The Board applied the criteria agreed upon at the October 2018 Board meeting to assess whether any of the potential changes suggested by stakeholders were warranted.

Those criteria are that, in addition to demonstrating a need for amendment, the IASB staff must show that:

1. The 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
    3. Increasing complexity for users
2. The amendments should not unduly disrupt implementation processes that are already under way or risk undue delays to the effective date of a standard that is needed to address many inadequacies in the existing wide range of insurance accounting practices.

# Proposed changes to IFRS 17

## 1. Credit cards that provide insurance coverage

The Board agreed with the staff recommendations to exclude from the scope of IFRS 17, credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the individual customer's insurance risk in setting the price of the contract with that customer.

**Rationale for the decision**

Credit card contracts that provide insurance coverage in addition to payment services and the provision of credit are insurance contracts within the scope of IFRS 4 and IFRS 17 if they transfer significant insurance risk. However, similar to loans that transfer significant insurance risk that were discussed in the February Board meeting, the accounting consequences for insurance contracts under IFRS 4 are different from those under IFRS 17.

The IASB staff provided the following example of a credit card contract that provides insurance coverage:

- A retail credit card with typical terms such as credit limit, minimum monthly repayments, etc.
- The credit card issuer is required by regulation to provide coverage for some purchases made by the customer using the credit card:
    - The entity must refund the customer for some claims against a supplier, for example, if goods are defective or if the supplier fails to deliver the goods, and the supplier does not rectify this
    - The entity is entitled to claim from the supplier for any loss incurred in meeting its obligation with the customer
- The entity and supplier are jointly and severally liable to the customer, i.e., the customer can choose whether to claim from the entity or the supplier
- The customer can claim an amount in excess of the amount paid using the credit card (for example, the entire purchase price if only part of the price was paid using the credit card)
- The entity does not charge a fee to the customer or does not charge a fee that reflects an assessment of the insurance risk associated with that individual customer

The staff note that IFRS 4 may permit entities that issue such credit card contracts to separately account for the embedded loan components and associated interest applying IFRS 9, and apply IFRS 4 to the insurance obligations (in a similar way to applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), and IFRS 15 *Revenue from Contracts with Customers* to determine any revenue for providing other services. However, only embedded derivatives, investment components, goods and non-insurance services can be assessed for separation from an insurance contract applying IFRS 17. A loan component is not eligible for separation, for example, it is not an investment component as it is not an amount repaid to the policyholder. Consequently, an entity would need to apply IFRS 17 to the contract in its entirety.

The staff think that applying IFRS 17 is appropriate, but they acknowledge that there may be significant costs to implement IFRS 17, without corresponding benefits, for entities that do not issue insurance contracts other than these ones. For such entities, applying IFRS 9, and potentially IFRS 15 and IAS 37, to the contracts would provide useful information and could avoid significant costs. The IASB staff considered several potential mechanisms for identifying credit card contracts to be excluded from the scope of IFRS 17. Based on their analysis, they recommended that the Board excludes from the scope of IFRS 17 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.

The staff paper prepared for the meeting outlined that, when excluded from the scope of IFRS 17, credit cards that provide insurance coverage would, for example, be in the scope of:

1. IFRS 9 for the loan or loan component (including the insurance elements) and any interest charged if the customer does not settle the balance in full by a specified date
2. IFRS 15 for revenue from contracts with customers for other services provided by the entity (such as access to airport lounges)
3. IAS 37 if the contract in the scope of IFRS 15 is, or has become, onerous and in circumstances not covered by another IFRS standard

The IASB staff had also considered amending IFRS 17 to permit, rather than require, an entity to apply IFRS 9 to credit card contracts that provide insurance coverage. However, they concluded that such an option could result in diversity in practice. They also acknowledged that, in addition to the example of the credit card contract discussed above, the scope exclusion may capture other types of credit card contracts where the entity does not reflect the individual customer's insurance risk in setting the price of the contract, such as travel insurance provided for a fixed fee.

**Observations from the Board meeting**

The IASB staff observed that the insurance coverage provided by such contracts would be in the scope of IFRS 9 if it is included in the contractual terms and conditions of the contract. When it is required by regulation, rather than by contractual terms, it would be within the scope of IAS 37.

The IASB staff clarified that the scope exclusion applies when the entity issuing the credit card also acts as principal in providing the insurance coverage to the card holder. In cases where a credit card issuer is acting as agent and a separate insurance entity acts as principal in providing the insurance cover (such as travel insurance for a fixed fee), the credit card contract is not in the scope of IFRS 17. The insurance provided would be in the scope of IFRS 17 for the insurance entity unless other existing scope exclusions in IFRS 17 apply.

One Board member noted the staff proposal to require, rather than permit, a scope exclusion from IFRS 17 for such credit cards was made in the absence of evidence that credit card issuers also issue other types of insurance that would be under the scope of IFRS 17. The staff responded that if evidence came to light to the contrary, they would need to assess the specific facts and circumstances at that time. Another Board member noted that the main risks within these credit cards is credit risk, and even if such evidence came to light in the future, they would want to revisit the matter carefully before considering permitting entities to apply IFRS 17 rather than IFRS 9 to these contracts.

The Board voted unanimously in favour of the staff recommendation to amend the standard.

## 2. Transition — Risk mitigation option

The Board agreed with the staff proposal to permit an entity to apply the risk mitigation option available under the VFA prospectively from the IFRS 17 transition date, provided the entity designates its risk mitigation relationships no later than that date. The transition date for calendar year-end entities is expected to be 1 January 2021, based on the proposed effective date of 1 January 2022.

The Board also agreed to permit an entity that is able to apply the fully retrospective approach to a group of contracts subject to the VFA approach to use the fair value transition approach if, and only if the entity:

- Chooses to apply the risk mitigation option to the group prospectively from transition date
- Has used derivatives or reinsurance contracts held to mitigate financial risk arising from the group of contracts before the transition date

**Rationale for the decision**

Accounting mismatches can arise if the effects of changes in financial assumptions adjust the contractual service margin (CSM) of groups of contracts subject to the VFA, while the effects of the same changes on the fair value of derivatives held to mitigate those risks are recognised in profit or loss. For this reason, there is a "risk mitigation option" in the VFA that allows an entity, in specified circumstances, to recognise the effect of some changes in financial risk on insurance contracts an entity issues in profit or loss, instead of adjusting the CSM.

The tentative decisions made at the March IASB meeting address some stakeholder's concerns, following the Board's decision at its February meeting to retain the existing requirements in IFRS 17 to prohibit retrospective application of the risk mitigation option at the date of initial application of IFRS 17. The IASB considers that the risk mitigation option is prospective in nature, and applying it retrospectively without the use of hindsight is challenging and creates a risk of cherry picking risk mitigation relationships, knowing at the date of initial application of IFRS 17 how those relationships had developed.

Applying the risk mitigation option from the transition date, rather than from the date of initial application of IFRS 17, would, in the staff's view, eliminate accounting mismatches in the comparative periods presented. A change in the fair value of derivatives an entity holds, and the effect of changes in financial assumptions on a reinsurance contract held would be recognised in profit or loss, and where financial risk arising from insurance contracts an entity has issued was mitigated by the derivative or reinsurance contract held, the change in the carrying amount of the insurance contracts would also be recognised in profit or loss rather than adjusting the CSM.

The above change does, however, not yet address concerns about a mismatch arising before the transition date. To address these pre-transition concerns, the IASB has tentatively agreed to permit entities to apply the fair value approach to transition (provided the two conditions outlined above are met), even when they are able to apply the fully retrospective approach. Shareholders' equity on transition will include the fair value of the derivatives, and, under the fair value approach, the group of insurance contracts will be measured using current estimates of financial assumptions, so that the net impact on shareholders' equity on transition date will also reflect previous changes in fulfilment cash flows due to changes in financial risks. As a result, the CSM on transition should not be impacted by those changes. The Board considers that this approach would not involve the use of hindsight or the risk of cherry picking, as it is limited to groups of contracts to which the risk mitigation approach has already been applied before the transition date.

Creating these two additional points of relief may decrease comparability on transition, but the staff views this as an acceptable compromise. In contrast, the staff does not consider the possibility of prospective application of the risk mitigation option from a date earlier than the date of transition, for example any date after IFRS 17 was issued. The staff believes that it would not be possible to apply risk mitigation at dates significantly earlier than the transition date in a way that provides significant incremental benefit.

**Observations from the Board meeting**

Some Board members noted that the amendments are not a perfect solution. However, Board members considered that they are helpful for avoiding accounting mismatches and any resulting distortions in the CSM, at the same time as addressing Board concerns about the risk of cherry picking and the use of hindsight. They also noted that another key benefit will be to have more meaningful comparative information on initial application of IFRS 17.

The Board voted unanimously in favour of the staff recommendation to amend the standard.

## 3. Transition requirements: loans that transfer significant insurance risk.

At the February meeting, the IASB tentatively agreed to amend the scope of IFRS 17 and IFRS 9 to allow entities to apply either standard for portfolios of loans where the only insurance cover is for settlement of the obligation created by the contracts.

The Board agreed with the staff decision to:

- Maintain the existing IFRS 17 transition requirements when entities apply IFRS 17 to a portfolio of such loans
- Maintain existing IFRS 9 transition requirements when an entity elects to apply IFRS 9 to a portfolio of such loans and adopts IFRS 17 and IFRS 9 at the same time
- Amend the transition requirements of IFRS 9 when an entity elects to apply IFRS 9 to a portfolio of such loans when adopting IFRS 17 and has applied IFRS 9 before initially applying IFRS 17
    - Require an entity to identify and apply the transition requirements in IFRS 9 that are necessary for applying IFRS 9 to the loans for the first time, in a situation where the entity already applies IFRS 9 before IFRS 17
    - Permit an entity to newly designate, and require it to revoke, previous designations of an associated financial liability under the fair value option – if a new accounting mismatch is created or a previous accounting mismatch no longer exists as a result of accounting for the loan asset in accordance with IFRS 9
    - Not to require restatement of prior periods, but permit them if it is possible without the use of hindsight and the restated financial statements reflect all of the requirements of IFRS 9 for the affected financial instruments
    - Exempt an entity from presenting quantitative information on adjustments by financial statement line item, and earnings per share required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
    - Require specific disclosures on the changes in classification and measurement of such loans and associated financial liabilities related to changes in the fair value option designation

**Rationale for the decision:**

The staff believe the transition requirements of IFRS 17 are sufficient for loans that transfer significant insurance risk when an entity elects to apply IFRS 17 to such loans. They also consider that the transition requirements of IFRS 9 are sufficient when an entity elects to apply IFRS 9 to such loans and adopts IFRS 9 at the same time as IFRS 17.

Where an entity has already applied IFRS 9 prior to applying IFRS 17, and the loans would have been accounted for wholly or partly under IFRS 4 previously, it would not normally be eligible to apply IFRS 9 transition requirements or reliefs for a second time when it applies IFRS 17 and elects to make loans it has issued that transfer significant insurance risk within the scope of IFRS 9. The IASB considered that entities that have already transitioned to IFRS 9 before IFRS 17 becomes effective, will be familiar with IFRS 9 and have the relevant facts and circumstances related to the loans. They consider that these entities will be best placed to identify the relevant IFRS 9 transitional requirements necessary for applying IFRS 9 to such loans.

The staff proposed to extend the transition requirements that allow revisiting IFRS 9 classification and measurement requirements for financial assets when it applies IFRS 17 for the first time. In the paper prepared for the meeting, the staff expresses its expectation that applying IFRS 9 to a portfolio of loans that transfer significant insurance risk would change, either partially or in full, the measurement basis of loans, which could create new accounting mismatches that would justify applying the fair value option to these assets or to the financial liabilities affected by them. It could alternatively eliminate mismatches and justify revoking the fair value option.

The staff also recommended to require additional disclosure of:

- The previous classification and carrying amount and the new measurement category and the carrying amount of loans after applying the proposed amendments
- The carrying amount of any financial liabilities that were previously measured at fair value through profit or loss, but are no longer so designated as a result of the amendments
- Reasons for any designation or de-designation of financial liabilities measured at fair value through profit or loss

Consistent with the general approach in IFRS 9, the staff decided not to require an entity to restate prior periods, but to permit restatement, if this is possible without the use of hindsight and if the restated financial statements reflect all requirements in IFRS 9 for the affected financial instruments.

The Board voted unanimously, without further detailed discussion, in favour of the staff recommendation to amend the standard.

## 4. Amendments to disclosure requirements resulting from the Board's tentative decisions to date

The IASB agreed with the staff recommendations to amend disclosure requirements in IFRS 17 to reflect the proposed amendments related to:

1. The CSM recognised in profit or loss based on coverage units that consider both insurance coverage and investment-related services by requiring:
    - Quantitative disclosure, in appropriate time bands of expected recognition in profit or loss, of the CSM remaining at the end of the reporting period, thereby removing the possibility to provide qualitative information currently allowed by IFRS 17
    - Specific disclosure of the approach to assess the weighting of benefits provided by insurance coverage and investment-related services or investment return services
2. Insurance acquisition cash flows not yet included in the measurement of groups of insurance contracts by requiring:
    - Reconciliation of assets created by these cash flows at the start and end of the period, including any impairment losses or reversals, at the same level of aggregation as set out in paragraph 98
    - Quantitative disclosure in appropriate time bands of when these cash flows are expected to be included in the related group of insurance contracts

The paper prepared for the meeting also noted that the staff expect to include a consequential amendment following the tentative decision to require separate presentation of insurance contract assets and liabilities in the statement of financial position by portfolios of insurance contracts rather than groups of insurance contracts. This will clarify that the reconciliations that show movements in the carrying amounts of insurance contracts in the period, should similarly show separate totals for portfolios (rather than groups) of contracts in an asset position, and those in a liability position.

The Board agreed with the staff recommendation to retain all other disclosure and transition requirements in IFRS 17 and considered that no further amendments to these, other than those outlined above, were required as a result of possible amendments to IFRS 17.

The Board voted unanimously, without further detailed discussion, in favour of the staff recommendation to amend the standard.

## Potential changes rejected by the Board

**Level of aggregation:**

The IASB agreed with the staff recommendation to retain the existing requirements in IFRS 17 on level of aggregation.

**Rationale for the decision:**

IFRS 17 requires an entity to recognise and measure groups of insurance contracts by identifying portfolios of contracts with similar risks that are managed together, and dividing them into a minimum of three so-called "profitability buckets": those that are onerous at initial recognition, if any; those that have no significant possibility of becoming onerous; and the remaining contracts in the portfolio. The profitability buckets are divided into annual cohorts of contracts issued no more than one year apart.

Stakeholders have expressed concern about the level of aggregation requirements, in particular, those related to annual cohorts. Some believe that the requirements do not accurately reflect the pooling of risks that is fundamental to the insurance business model, and many are concerned about the cost and effort required to comply with the standard. Possible amendments suggested by stakeholders included:

- Removing the profitability bucket of "contracts that have no significant possibility of becoming onerous"
- Allowing alternative approaches that better reflect an entity's internal management
- Removing the annual cohort requirement for VFA contracts that fully share risks

The staff noted that the requirements on level of aggregation are a fundamental component of IFRS 17. The staff believes that timely recognition of losses and changes in profitability is essential. It was concerned that proposals for a higher level of aggregation would result in "averaging" of profits between groups of contracts over time, and contracts could continue to contribute to the recognition of profits long after the contracts had expired.

**Observations from the Board meeting**

The Board's discussion of this topic considered in detail the staff analysis prepared for the meeting.

The Board recognises that applying the level of aggregation required by IFRS 17 will be a costly effort, but believes the costs will be outweighed by the benefit to users of the financial statements. The Board emphasised that it sees these benefits as core benefits of the standard: improving comparability with other industries and providing clarity and transparency of profitability and better insights into performance.

During the meeting, it was also noted that the level of aggregation requirements already include some simplifications (e.g., IFRS 17 does not require measurement at individual contract level).

The IASB staff also outlined that the annual cohort requirement was introduced as a practical simplification in response to feedback from stakeholders that earlier proposals by the IASB for more granular groupings by similar profitability would be unduly burdensome.

The Board voted unanimously in favour of the staff recommendation not to amend the standard.

## How we see it

- Banks and other non-insurers will welcome the opportunity to apply IFRS 9 to certain credit card contracts that include the transfer of insurance risk.
- Conglomerates with both banking and insurance activity will need to consider how such credit card arrangements are structured and how the tentative decisions could affect their accounting for those arrangements.
- Preparers may be disappointed that no changes have been made to the level of aggregation requirements, particularly in relation to contracts where losses on a contract are borne by holders of other contracts (a mechanism also referred to as "mutualisation").
- Some entities will welcome the further changes and transition relief related to the risk mitigation exception in the VFA approach, but may not necessarily want to apply, or solely rely on, the fair value approach to transition.
- Entities preparing drafts of their financial statements and updating processes and systems to collect and report the data needed for complying with IFRS 17's disclosure requirements should pay special attention to outcome of today's meeting. (Additional disclosure requirements resulting from the Board's tentative decisions on amendments to the standard proposed to date have been set out in the staff papers for the March meeting.)

## Next steps

The IASB has now completed its consideration of the 25 topics raised at its October 2018 Board meeting. The Board will consider, at its April 2019 meeting, the total package of proposed amendments to determine whether: (a) the benefits of the changes outweigh their costs; and (b) the changes do not unduly disrupt implementation.

An Exposure Draft of the proposed amendments to IFRS 17 is expected by June 2019. The staff indicated during the March meeting that they would seek permission from the IFRS Foundation's Due Process Oversight Committee for a comment period less than 120 days.

The next meeting of the Transition Resource Group for IFRS 17 (TRG) is on 4 April 2019.

# Appendix: status of suggested changes to IFRS 17 raised by stakeholders

Status of suggested changes to IFRS 17 raised by stakeholders

| Suggested changes to the Standard raised by stakeholders | Decision Timing | Tentative Decision |
|---|---|---|
| 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 | February 2019 Paper 2A March 2019 Paper 2D | Amend. Choice of IFRS 9 or IFRS 17 for certain contracts |
| 2. Level of aggregation \| Simplify the level of aggregation requirements to make them less prescriptive and/or less granular | March 2019 Paper 2A/B/C | No change |
| 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 | January 2019 Paper 2A | Amend. Require deferral |
| 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 | December 2018 Paper 2B | No change |
| 5. Subjectivity regarding risk adjustment and discount rate \| Prescribe specific methods for selecting of discount rates and techniques for measuring the risk adjustment | December 2018 Paper 2B | No change |
| 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 | December 2018 Paper 2B | No change |
| 7. CSM coverage period in general model \| Change the definition of the coverage period for contracts to which the general model applies that provide both insurance and investment return services to policyholders | January 2019 Paper 2E | Amend. Include investment return service |
| 8. Limited applicability of risk mitigation exception\| (A) Extend the applicability of the risk mitigation exception in the variable fee approach to non-derivative instruments (e.g., reinsurance contracts); (B) allow the application of the exception retrospectively on transition; (C) permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date and (D) permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participation features to use the fair value transition approach for the group | (A) December 2018 Paper 2C and January 2019 Paper 2D (B) February 2019 Paper 2C March 2019 Paper 2E (C) March 2019 Paper 2E (D) March 2019 Paper 2E | (A) Amend. Allow for reinsurance held (B) No change (C) Amend, permit from transition date (D) Amend, permit use of fair value approach |
| 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 | December 2018 Paper 2A | No change |
| 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 | December 2018 Paper 2D | No change |
| 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 | December 2018 Paper 2D | No change |
| 12. Reinsurance contracts held \| Modify the requirements on initial recognition of reinsurance contracts held that provide proportionate coverage 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 recognised on the underlying contracts reinsured | January 2019 Papers 2B and 2C | Amend. Recognise reinsurance gain in P/L to match underlying loss |

| Suggested changes to the Standard raised by stakeholders | Decision Timing | Tentative Decision |
|---|---|---|
| 13. Reinsurance contracts and Variable fee approach \| Allow reinsurance contracts to be eligible for accounting under the variable fee approach | January 2019<br>Paper 2D | No change |
| 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 | December 2018<br>Paper 2E | No change |
| 15. Presentation in the statement of financial position \| Permit aggregation of groups of contracts in an asset position with groups of contracts in a liability position in the statement of financial position where they form part of the same portfolio | December 2018<br>Paper 2A | Amend. Aggregate at portfolio level |
| 16. Presentation in the statement of financial position \| Measure and present premiums receivable separately from insurance contract assets and liabilities | December 2018<br>Paper 2A | No change |
| 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 | December 2018<br>Paper 2B | No change |
| 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 | December 2018<br>Paper 2C | No change |
| 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 | December 2018<br>Paper 2F | No change |
| 20. Effective date \| Delay date of initial application of IFRS 17, suggested by stakeholders to be between one and three years | November 2018 | Defer to 2022 |
| 21. Comparative information on initial application \| Remove the requirement for comparative information on initial application of IFRS 17, consistent with IFRS 9 | February 2019<br>Paper 2B | No Change |
| 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 | November 2018 | Extend to 2022 |
| 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) | February 2019<br>Paper 2B | No change |
| 24. Modified retrospective approach \| Include additional modifications to the modified retrospective approach at transition to IFRS 17 for groups of contracts to which the full retrospective approach is impracticable | February 2019<br>Paper 2D | Amend.<br>For contracts acquired in pre-settlement period |
| 25. Transition: Alternative to full retrospective approach with use of OCI option \| Where an entity applies a modified retrospective or fair value approach on transition and elects to disclose the impact of market movements in discount rates in OCI, IFRS 17 allows or requires accumulated OCI on insurance contracts to be set to nil at transition date in certain circumstances. Stakeholders have called for changes to IFRS 17 to help align the treatment of insurance finance expense for insurance contracts with that for financial assets | February 2019<br>Paper 2C | No change |

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