



IASB begins re-deliberation of amendments to IFRS 17

What you need to know

At its meeting on 11 December 2019, the Board:

- ▶ Agreed to extend the scope of the proposed amendment for “reinsurance contracts held – recovery of losses” to **all** reinsurance contracts held (the previous proposal applied to proportionate reinsurance contracts only)
- ▶ Confirmed the proposed amendment on “expected recovery of insurance acquisition cash flows” as proposed in the ED
- ▶ Agreed to finalise six other proposed amendments in the ED to which respondents to the ED either agreed or did not raise concerns the Board had not previously considered
- ▶ Noted the IASB staff’s expectation for the Board to consider the proposed effective date of IFRS 17 and the proposed extension of the IFRS 9 temporary exemption towards the end of its re-deliberations

Overview

At its December Board meeting, the International Accounting Standards Board (IASB or the Board) started re-deliberations on the proposed amendments in the Exposure Draft *Amendments to IFRS 17 Insurance Contracts* (the ED), in line with the plan outlined in its November meeting.

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

Having considered 25 concerns and implementation challenges arising since IFRS 17 *Insurance Contracts* (IFRS 17 or “the standard”) was issued, the IASB issued an ED in June 2019 proposing targeted amendments to the standard to respond to some, but not all, of those concerns and challenges: <https://www.ifrs.org/projects/work-plan/amendments-to-ifrs-17/#published-documents>.

For further details of the IASB’s exposure draft, and its subsequent discussions refer to our recent Insurance Accounting Alerts: <https://www.ey.com/gl/en/issues/ifrs>.

Reinsurance contracts held – recovery of losses

The IASB agreed with the staff recommendation to:

- ▶ Extend the scope of the proposed amendment to require an entity to adjust the Contractual Service Margin (CSM) of a group of reinsurance contracts held and, as a result, recognise income when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on the addition of onerous contracts, to that group. The amendment will now apply to all reinsurance contracts held, rather than only those defined as providing proportionate coverage
- ▶ Confirm this amendment would only apply when the reinsurance contract held is recognised before, or at the same time as, the loss is recognised on the underlying contracts

- ▶ Amend the proposed calculation to require an entity to determine the amount of the adjustment and resulting income (i.e., loss recovery) by multiplying:
 - ▶ The loss recognised on the group of underlying insurance contracts
 - ▶ The percentage of claims on underlying contracts the entity expects to recover from the group of reinsurance contracts held
- ▶ Not add a footnote to paragraph BC304 of the Basis for Conclusions on IFRS 17 (as had initially been proposed in the ED) stating that reinsurance contracts held covering claims in excess of a specified amount on an individual insurance contract do not provide proportionate reinsurance
- ▶ Clarify that paragraph 66(c)(ii) or IFRS 17, for subsequent measurement of a group of reinsurance contracts held when a group of underlying contracts become onerous, applies when the underlying insurance contracts are measured applying the premium allocation approach (PAA)

The staff also clarified that the loss-recovery component of the asset for remaining coverage of a group of reinsurance contracts held is required when an entity recognises a loss on initial recognition of an onerous group of underlying contracts as well as for subsequent measurement, and that it should be accounted for in a manner consistent with the loss component of the group of underlying insurance contracts issued. The staff will consider extending the illustrative example in the ED or including educational material to provide guidance on the measurement of the loss-recovery component.

All 14 Board members agreed with the staff recommendations.

Comments from the staff and observations from the Board meeting

The decision by the IASB to extend the scope of this proposed amendment is a response to the feedback it received from outreach and comment letters that the definition of proportionate coverage in the ED was too narrow, and should either be broadened or the scope be extended to apply to all reinsurance contracts held. Some respondents argued that extension to all reinsurance contracts held would be in line with the similar exception already in place to address accounting mismatches between reinsurance contracts held and underlying insurance contracts that become onerous at subsequent measurement. Respondents also noted that the same accounting mismatch between a reinsurance contract held and onerous underlying insurance contracts would arise regardless of whether or not the reinsurance contract held provides proportionate coverage. Treating these types of reinsurance cover differently would result in inconsistent accounting treatment between contracts entered into to achieve the same economic outcome.

The Board agreed with the staff to extend the amendment to all reinsurance contracts held, rather than to extend the definition of proportionate coverage, since it has not identified a reason to amend the definition of proportionate coverage. It considers that its original reasons for excluding certain types of reinsurance contracts from the scope of the proposed amendment apply as much to those commonly described in practice as “proportionate” as they do to other reinsurance contracts held. (The Board decided to exclude from the scope, reinsurance contracts where it is not possible to identify a known reinsurance claim recovery for each underlying insurance claim amount, and where the reinsurance contract does not cover all underlying claims at a fixed percentage.)

The IASB agreed with the staff assessment that the revised calculation for recognition of a gain would still identify income on the reinsurance contract held in a direct and consistent way without arbitrary assumptions or subjective judgments.

Some Board members were surprised by the scale of the proposed amendment – from restricting the recognition of income from a tightly defined population of reinsurance contracts held by an entity to potentially all reinsurance contracts. The IASB staff explained that the factors leading to this change were:

- ▶ The comment letters from constituents had informed them that the underlying population of reinsurance contracts that met the original proposed criteria was very small
- ▶ The new proposal is based on the measurement of expected cash flows which is the bedrock of IFRS 17 and does not require new information
- ▶ The revised amendment makes the treatment at initial recognition of underlying contracts consistent with subsequent measurement

Expected recovery of insurance acquisition cash flows

The IASB agreed with the staff’s clarifications on the proposed amendment in the ED and agreed to finalise the amendment, confirming that an entity is required to:

- ▶ Allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of newly issued contracts and to any groups that are expected to arise from renewals of those contracts
- ▶ Recognise as an asset insurance acquisition cash flows paid before the related group of insurance contracts is recognised
- ▶ Confirm that the unit of account for an asset for insurance acquisition cash flows is the group of insurance contracts to which those cash flows have been allocated
- ▶ Assess the recoverability of such an asset at the end of each reporting period if facts and circumstances indicate the asset may be impaired. This is a two-step impairment test:
 - ▶ At the level of a group of insurance contracts (group level impairment test)
 - ▶ An additional impairment test specific to insurance acquisition cash flows allocated to expected contract renewals (additional impairment test)
- ▶ Disclose a reconciliation of the opening and closing balance of assets for insurance acquisition cash flows, showing separately any recognition and reversal of impairment losses; and disclose quantitative information, in time bands, about expected derecognition of the asset due to inclusion in the measurement of the related group of insurance contracts
- ▶ Present any asset for insurance acquisition cash flows in the carrying amount of the related portfolios of insurance contracts issued, rather than as a separate asset in the statement of financial position

All 14 Board members agreed with the staff recommendations.

Comments from the staff and observations from the Board meeting

The Board agreed with the IASB staff that the unit of the account for recognising insurance acquisition cash flows is the group of insurance contracts to which the insurance acquisition cash-flows have been allocated. In order to recognise insurance acquisition cash flows as an asset, this will require identifying the future groups that will include expected renewals. While acknowledging this could be complex, the IASB considers this is consistent with the recognition and measurement requirements of IFRS 17 and is necessary for recognition of an asset. Some respondents had suggested the unit of account for the asset should be entity level. However, this would mean the impairment test should be performed at entity level, against expected net cash inflows of all insurance contracts rather than against the specific subset of contracts the acquisition cash flows refer to, meaning it would be highly unlikely to identify any impairment losses.

The Board agreed with the staff not to provide further guidance on how to allocate acquisition cash flows “on a systematic and rational basis” between the group of contracts and groups expected to arise from their renewals (or to restrict this to specific methods such as expected recovery of the cash flows). In their view, such guidance could restrict an entity’s ability to apply judgement to the specific facts and circumstances and could disrupt implementation of other paragraphs of IFRS 17 that also refer to systematic and rational allocation.

However, the Board acknowledged that, while a systematic and rational application should be applied consistently over time, the method of allocation could result in changes in the amounts being allocated to different groups if there are changes in facts and circumstances upon which the methods depend (such as changes in the expectation of number of renewals). The Board agreed with the staff’s proposal to revise the wording during drafting to refer to “methods that are systematic and rational”. The IASB staff emphasised that an entity could not change the allocation of acquisition cash flows to groups of contracts that had already been recognised.

While some respondents to the ED had asked for clarification on the frequency of the impairment test and its application, the IASB agreed with the staff recommendation that the proposal for testing when facts and circumstances give an indication of impairment, is consistent with IAS 36 *Impairment of Assets* and with paragraph 26 of IFRS 17.

The staff papers prepared for the meeting included an example of applying the two-step impairment test proposed in the ED. Some constituents had expressed concern that the two-step impairment test would be unnecessary or burdensome. However, the IASB confirmed its view that, in line with paragraph BC45 of the Basis for Conclusions for the ED, the additional impairment test is required to identify any impairment losses on expected future renewals when the entity no longer expects those renewals to occur. Without this additional test, expected cash flows from future policyholder contracts in the same group (rather than from renewals of contracts with current policyholders) might prevent the recognition of such an impairment loss. Board members also noted that users of financial statements had indicated that such information was valuable to them.

The IASB agreed to retain, unchanged, the requirement to present any asset for insurance acquisition cash flows in the carrying amount of the related portfolios of insurance contracts issued, rather than as a separate asset in the statement of financial position. They consider that presenting such an asset in the carrying amount of the related portfolio of insurance contracts would provide useful information as the insurance acquisition cash flows will be subsequently included in the measurement of the group of insurance contracts. Also, the required disclosures will provide information about assets for insurance acquisition cash flows, consistent with other balances included as part of the portfolio of insurance contracts such as the CSM.

During the meeting, the staff noted that this presentation is a consequence of the decision to present the carrying amount of portfolios of insurance contracts that are assets and those that are liabilities at a portfolio level: the asset would be allocated to future groups and presented in the carrying amount of the portfolio to which that future group would belong.

The IASB staff noted that it will consider during drafting whether there is a need to align the proposed amendments and the definition of insurance acquisition cash flows. Appendix A of IFRS 17 defines insurance acquisition cash flows as costs that are “directly attributable to the portfolio of insurance contracts to which the group belongs”. The IASB staff clarified that the proposed amendment refers to an allocation of acquisition cash flows directly attributable to a “group” of insurance contracts because it is not relevant to those attributable to a portfolio. An entity is already required by IFRS 17 to allocate those to a group of contracts on a systematic and rational basis.

The staff mentioned they will provide recommendations for consideration at a future Board meeting on the treatment of the asset for insurance acquisition cash flows at transition.

Six proposed amendments confirmed

The Board agreed to finalise six proposed amendments to IFRS 17; these had been identified at their November meeting as items to which respondents to the ED either agreed or did not raise concerns that the Board had not previously considered:

1. Scope exclusion for loans
2. CSM attributable to investment services – coverage units for contracts with direct participation features
3. Presentation in the statement of financial position – carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities
4. Extension of risk mitigation option within the VFA to reinsurance contracts held
5. Transitional relief for business combinations – treatment of claims in their settlement period acquired prior to transition
6. Transition relief for the risk mitigation option – application prospectively from the transition date, and application of the fair value approach at transition even when an entity could apply the standard retrospectively

All 14 Board members agreed with the staff recommendations, without further comment.

Refer to our [June 2019 Insurance Accounting Alert](#) for further details of these proposed amendments: [June 2019 Insurance Accounting Alert](#).

How we see it

- ▶ Many insurers will welcome the IASB's tentative decision to extend the proposed amendment for 'reinsurance contracts held – recovery of losses to all reinsurance contracts. It is evident that the IASB has listened to comments from the insurance industry when it made this significant change to its proposals
- ▶ Determining the amount to be recognised in profit or loss for the entire population of reinsurance contracts held will require more complex calculations compared to more straight-forward contracts with proportionate coverage. The IASB staff mentioned during the meeting that preparers appear willing to accept this additional complexity
- ▶ The confirmed amendment requiring, rather than permitting, entities to allocate insurance acquisition cash flows to expected renewals and requiring a two-step impairment test for a resulting asset is potentially complex

Next steps

The IASB staff have yet to decide on the order and timing of the remaining topics for re-deliberation of the topics, except that they intend that the Board would complete its re-deliberations by February 2020 and to finalise any resulting amendments to IFRS 17 by mid-2020. As noted above, the staff expect the Board to consider the proposed effective date of IFRS 17 and the proposed extension of the IFRS 9 temporary exemption towards the end of its re-deliberations.

Appendix: Summary of proposed amendments included in the Board's plans for re-deliberations

Proposed Amendment in the ED	IASB to confirm the amendment where feedback indicates general agreement, but to consider the additional points raised in feedback and comment letters:	Date of re-deliberation
1(a). Scope exclusion for credit cards	<p>To consider the suggestion to extend the scope exclusion for credit card contracts to other banking products that meet the definition of an insurance contract.</p> <p>To consider concerns that IFRS 9 would require entities to account for some credit card contracts captured by the scope exclusion at fair value through profit or loss due to failing the SPPI test applying IFRS 9.</p>	Future meeting
2. Expected recovery of insurance acquisition cash flows	<p>To consider concerns that allocation of a part of acquisition cash flows to expected renewals, their recognition as assets, and their assessment for recoverability would add complexity and increase costs.</p> <p>To consider feedback requesting guidance on how the allocation of acquisition cash flows to expected renewals should be done, and on recognition of any asset at transition and on the unit of account used.</p>	December 2019
3(a). coverage units for contracts without direct participation features	<p>To consider concerns that the proposed criteria for when an investment-return service can exist are too narrow. (For example, some suggestions that this should also apply to some contracts without an investment component or a right to withdraw).</p> <p>Also, to consider requests for further clarification, such as on "positive investment return" and concerns about the complexity of identifying coverage units for contracts with multiple services. To consider requests for further application guidance, illustrative examples or educational materials.</p>	Future meeting
3(c). disclosures	To address concerns raised on disclosures such as about the requirement to provide quantitative (rather than qualitative) information about expected recognition in profit or loss of the CSM remaining at the end of a period	Future meeting
4. Reinsurance contracts held – recovery of losses	<p>To address concerns about the scope of the amendment, seeing the population it would apply to as too narrow (for example, thinking it should be expanded to also apply to excess loss reinsurance contracts held, or apply to all reinsurance contracts held).</p> <p>To consider some observations that the proposed accounting for proportionate reinsurance would be different from general IFRS principles and could be open to abuse.</p>	December 2019
6. Applicability of the risk mitigation option	<p>To consider some concerns that the risk mitigation option should apply to all financial instruments used for risk mitigation purposes accounted for at fair value through profit or loss (rather than only derivatives and reinsurance held).</p> <p>To address suggestions to add a risk mitigation option for insurance contracts without direct participation features or to permit an entity to account for reinsurance contracts held applying the variable fee approach.</p>	Future meeting
7(a). Effective date of IFRS 17	<p>To consider feedback received around the importance of having the same effective date in different jurisdictions around the world; suggestions to defer by more than one year to allow additional time for implementation by smaller entities.</p> <p>Also, to consider the feedback from a small number of respondents who opposed a further deferral as it would further increase implementation costs or further delay improvements in accounting practices that are urgently needed, and suggestions to not require entities to restate comparative information as an alternative to further deferral.</p>	Future meeting (expected to be towards end of re-deliberations)
7(b). IFRS 9 temporary exemption in IFRS 4	To address concerns raised by some respondents who considered alignment between IFRS 17 and IFRS 9 implementation as essential against the concerns of some users and regulators about further delaying improved information about expected credit losses by insurance entities that hold significant financial assets. To consider suggested additional disclosure requirements on financial asset ratings until insurers apply IFRS 9.	Future meeting (expected to be towards end of re-deliberations)

Proposed Amendment in the ED	IASB to confirm the amendment where feedback indicates general agreement, but to consider the additional points raised in feedback and comment letters:	Date of re-deliberation
8(a). Transitional reliefs for business combinations	To address the request to clarify that this amendment would apply to both business combinations and portfolio transfers. Refer also to "Business combinations - contracts acquired in their settlement period" below.	Future meeting
8(b-c). Transitional reliefs for risk mitigation	To consider feedback received to allow an entity to apply the risk mitigation option retrospectively, either in addition to, or instead of, the proposed amendments, and to reduce the risk of an entity using hindsight to apply the option based on a known accounting outcome by reconsidering permitting an "all or nothing" approach to applying the risk mitigation option retrospectively.	Future meeting
9. Minor Amendments	To consider requests for clarification about certain items, including eligibility for the VFA: Some respondents view an editorial correction to paragraph B107 to specify that an entity assesses contracts that are eligible for the VFA at individual contract level (consistent with the wording in paragraph B101) as a major change of requirements. (Refer to agenda item 2B of the staff papers for further details on these minor amendments).	Future meeting
10. Terminology	To consider further the feedback from respondents as part of re-deliberations on question 3, regarding whether the proposed definition of "insurance contract services" may have implications for the proposed amendments in question 3.	Future meeting
Other topics raised by respondents which the Board agreed to consider		
Interim Financial Reporting	To consider concerns raised by some respondents about the requirements in paragraph B137 of IFRS 17 that an entity should not change treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 subsequently. Concern was raised that paragraph B137 could result in a more significant burden than the one it is supposed to alleviate, particularly for entities in consolidated groups. Some respondents noted it is a fundamental change to existing accounting practices and others said it does not result in useful information. Some suggested permitting rather than requiring application of B137, others suggested deleting paragraph B137. Others expressed a view that the objective should be to avoid the need for entities in consolidated groups to keep two sets of accounting estimates.	Future meeting
Annual Cohorts – contracts subject to mutualisation across generations	To consider further the feedback received from respondents primarily in Europe, that the annual cohort requirement is costly to apply, and for certain contracts, it does not provide useful information. In particular, to consider suggestions that it should not be required for contracts with intergenerational sharing of risks between policyholders and the suggestions that additional disclosures could be required for such contracts instead. To consider requests for further transitional relief such as not being required to apply the annual cohort requirement under the full retrospective approach or modified retrospective approach.	Future meeting
Business combinations – contracts acquired in their settlement period	To consider further the feedback from respondents to permit an entity to classify the liability for settlement of claims incurred before acquisition as a liability for incurred claims. In their view, this would: increase comparability between insurance contracts issued and those acquired by an entity; reduce complexity and costs since it is consistent with many existing accounting practices, in particular for entities that would be required to apply the general model rather than the PAA, only as a result of these requirements.	Future meeting
Additional transitional modifications and reliefs	To consider further the feedback from respondents on additional specific transition modifications and reliefs.	Future meeting

Refer also to our June 2019 Insurance Accounting Alert for further details of the proposed amendments in the ED.

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