IASB-Update 11/2019 – Amendments to IFRS 17 (AP 2)

The Board met on 20 November 2019 to discuss the feedback on its Exposure Draft *Amendments to IFRS 17* and to decide on its plan for redeliberating some of the matters raised by respondents to the Exposure Draft.

Comment letter summary (AP 2A–2C)

The Board received a summary of comment letters on the Exposure Draft, but was not asked to make any decisions.

Re-deliberation plan (AP 2D)

The Board tentatively decided that it will confirm at a future meeting the proposed amendments on the following topics without substantive redeliberation:

a. the scope exclusion for loans;
b. the contractual service margin attributable to investment services—coverage units for insurance contracts with direct participation features;
c. presentation in the statement of financial position—portfolio instead of group level;
d. the applicability of the risk mitigation option—reinsurance contracts held;
e. transition relief for business combinations; and
f. transition reliefs for the risk mitigation option—application from the transition date and the option to apply the fair value approach.

All 14 Board members agreed with this decision.

The Board also tentatively decided that it will consider further the feedback on the following topics:

a. the proposed scope exclusion for credit cards;
b. the proposed amendment for expected recovery of insurance acquisition cash flows;
c. the proposed amendment for contractual service margin attributable to investment services—coverage units for insurance contracts without direct participation features, disclosures and terminology;
d. the proposed amendment for reinsurance contracts held—recovery of losses;
e. the applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss;
f. the proposed effective date of IFRS 17;
g. the proposed extension of the IFRS 9 *Financial Instruments* temporary exemption in IFRS 4 *Insurance Contracts*;
h. transition—the prohibition from applying the risk mitigation option retrospectively;
i. proposed minor amendments;
j. the level of aggregation—annual cohorts for some specific insurance contracts;
k. business combinations—contracts acquired in their settlement period;
l. interim financial statements; and
m. additional specific transition modifications and reliefs.

All 14 Board members agreed with this decision.

The Board also tentatively decided that it will not consider further the feedback on the following topics:

a. presentation in the statement of financial position—premiums receivable and claims payable;
b. the risk mitigation option for insurance contracts without direct participation features;
c. the effective date—comparative information on initial application of IFRS 17;
d. the level of aggregation—annual cohorts for all insurance contracts other than some specific contracts;
e. cash flows in the boundary of a reinsurance contract held;
f. subjectivity in determining discount rates and the risk adjustment for non-financial risk;
g. the risk adjustment for non-financial risk in a consolidated group of entities;
h. the discount rate used to determine adjustments to the contractual service margin;
i. the other comprehensive income option for insurance finance income or expenses;
j. business combinations—classification of contracts acquired;
k. the scope of the variable fee approach—reinsurance contracts held and reinsurance contracts issued;
l. mutual entities issuing insurance contracts;
m. transition—general optionality and flexibility in the modified retrospective approach; and
n. transition—reliefs in the full retrospective approach.

Thirteen of 14 Board members agreed and one disagreed with this decision.

Next steps

At its future meetings, the Board will redeliberate some of the matters raised by respondents on the Exposure Draft *Amendments to IFRS 17*.

IASB-Update 12/2019 – Amendments to IFRS 17 (AP 2)

The Board met on 11 December 2019 to discuss the feedback on its Exposure Draft *Amendments to IFRS 17* relating to:

a. proposed amendments for the Board to finalise without substantive redeliberation;
b. insurance acquisition cash flows; and
c. reinsurance contracts held—recovery of losses.

Proposed amendments to be finalised (AP 2A)

The Board tentatively decided to finalise the following amendments to IFRS 17 *Insurance Contracts* as proposed in the Exposure Draft.

a. a scope exclusion for loans;
b. the contractual service margin attributable to investment services—coverage units for insurance contracts with direct participation features;
c. presentation in the statement of financial position—by portfolio instead of group level;
d. the applicability of the risk mitigation option—for reinsurance contracts held;
e. transition reliefs for business combinations; and
f. transition reliefs for the risk mitigation option—the application from the transition date and the option to apply the fair value approach.

All 14 Board members agreed with these decisions.

Expected recovery of insurance acquisition cash flows (AP 2B)

The Board tentatively decided to:

a. finalise the proposed amendment to IFRS 17 that would require an entity to allocate insurance acquisition cash flows directly attributable to a group of insurance contracts applying a systematic and rational method:
   i. to that group; and
   ii. to any groups that include contracts that are expected to arise from renewals of the contracts in that group.
b. clarify that:
   i. the amounts allocated to a group of insurance contracts cannot be revised after the group has been recognised; and
   ii. the amounts allocated to groups of insurance contracts yet to be recognised should be revised at each reporting date, to reflect any change in the assumptions that determine the inputs to the method of allocation.
c. 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.
d. finalise the proposed requirements for an entity to assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.
e. finalise the proposed requirements for an entity to disclose:
   i. a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows, showing separately any recognition of impairment losses and reversals of impairment losses; and

    ii. quantitative information, in appropriate time bands, about when an entity expects to derecognise an asset for insurance acquisition cash flows and include those cash flows in the measurement of the group of insurance contracts to which they are allocated.
f. retain, unchanged, the requirement in IFRS 17 for an entity to present any assets for insurance acquisition cash flows in the carrying amount of the related insurance contracts.

All 14 Board members agreed with these decisions.

Reinsurance contracts held—recovery of losses (AP 2C)

The Board tentatively decided to:

a. extend the scope of the proposed amendment to IFRS 17 to require an entity to adjust the contractual service margin 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 addition of onerous contracts to that group.
b. amend the proposed calculation of the income, as a consequence of the extension of the scope of the proposed amendment, to require an entity to determine the amount of a loss recovered from a reinsurance contract held by multiplying:
    i. the loss recognised on underlying insurance contracts; and
    ii. the percentage of claims on underlying insurance contracts the entity expects to recover from the reinsurance contract held.
c. confirm that the amendment to IFRS 17 described in paragraph (a) would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

The Board also tentatively decided to:

a. omit the proposed footnote to paragraph BC304 of the *Basis for Conclusions on IFRS 17 Insurance Contracts*.
b. clarify, in the final amendments to IFRS 17, that paragraph 66(c)(ii) of IFRS 17—for subsequent measurement of a group of reinsurance contracts held when a group of underlying insurance contracts become onerous—applies also when underlying insurance contracts are measured applying the premium allocation approach.

All 14 Board members agreed with these decisions.

Next steps

At its future meetings, the Board will redeliberate the remaining topics for discussion in response to the feedback on the Exposure Draft *Amendments to IFRS 17*.

IASB-Update 1/2020 – Amendments to IFRS 17 (AP 2)

The Board met on 30 January 2020 to discuss the feedback on its Exposure Draft *Amendments to IFRS 17* relating to:

- scope exclusion from IFRS 17 for some credit card contracts (AP 2A);
- transition—the prohibition from applying the risk mitigation option retrospectively (AP 2B);
- business combinations—contracts acquired in their settlement period (AP 2C);
- interim financial statements (AP 2D); and
- asset for insurance acquisition cash flows—transition and business combinations (AP 2E).

Scope exclusion from IFRS 17 for some credit card contracts *(AP 2A)*

The Board tentatively decided to confirm the proposed scope exclusion from IFRS 17, with some changes, resulting in the following requirement.

An entity is required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if and only if 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. If the entity provides the insurance coverage to the customer as part of the contractual terms of such a credit card contract, the entity is required to:

a. separate that insurance coverage component and apply IFRS 17 to it; and
b. apply other applicable IFRS Standards, such as IFRS 9, to the other components of the credit card contract.

The Board also tentatively decided to extend this amendment to other contracts that provide credit or payment arrangements that are similar to such credit card contracts if these contracts meet the definition of an insurance contract and 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.

All 14 Board members agreed with this decision.

Transition—the prohibition from applying the risk mitigation option retrospectively *(AP 2B)*

The Board tentatively decided to retain unchanged the prohibition in IFRS 17 from applying the risk mitigation option retrospectively.

Thirteen of 14 Board members agreed with this decision.

Business combinations—contracts acquired in their settlement period *(AP 2C)*

The Board tentatively decided to retain unchanged the requirements in IFRS 17 for insurance contracts acquired in their settlement period in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

All 14 Board members agreed with this decision.

Interim financial statements *(AP 2D)*

The Board tentatively decided to amend paragraph B137 of IFRS 17 to require an entity to:

a. make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period; and
b. apply its choice of accounting policy to all insurance contracts issued and reinsurance contracts held (ie an accounting policy choice at entity level).

Thirteen of 14 Board members agreed with this decision.

Asset for insurance acquisition cash flows—transition and business combinations *(AP 2E)*

Transition to IFRS 17

The Board tentatively decided to amend IFRS 17 to require an entity to identify, recognise and measure at the transition date an asset for insurance acquisition cash flows for a group of insurance contracts. If and only if it is impracticable for the entity to apply IFRS 17 retrospectively, the entity is required to measure an asset for insurance acquisition cash flows at the transition date applying either the modified retrospective approach or the fair value approach.

Modified retrospective approach

In the modified retrospective approach, in line with the requirement in paragraph C8 of IFRS 17, the Board tentatively decided to amend IFRS 17 to permit an entity to use the modification described below only if it does not have reasonable and supportable information to apply a retrospective approach.

The modification available in such cases is that an entity is required to:

a. measure an asset for insurance acquisition cash flows using information available at the transition date by identifying the amount of insurance acquisition cash flows paid before the transition date excluding the amount relating to the contracts that ceased to exist before the transition date;
b. allocate the identified amount using the systematic and rational allocation method that the entity will apply going forward to:
    i. groups of insurance contracts that are recognised at the transition date; and
    ii. groups of insurance contracts that are expected to be recognised after the transition date;
c. adjust the measurement of the contractual service margin of the insurance contracts that are recognised at the transition date by deducting the amount of insurance acquisition cash flows determined by applying subparagraph b(i); and
d. recognise an asset for insurance acquisition cash flows for the insurance contracts expected to be recognised after the transition date at the amount determined applying subparagraph b(ii).

The Board also tentatively decided to amend IFRS 17 to allow an entity that does not have reasonable and supportable information necessary to apply this modification to apply the modified retrospective approach by determining at the transition date:

a. an adjustment to the contractual service margin of the groups of insurance contracts that are recognised at the transition date as nil; and
b. an asset for insurance acquisition cash flows for the groups of insurance contracts that are expected to be recognised after the transition date as nil.

Fair value approach

In the fair value approach, the Board tentatively decided to amend IFRS 17 to require an entity to recognise an asset for insurance acquisition cash flows measured as the amount of insurance acquisition cash flows that the entity would incur at the transition date to obtain the rights to:

a. recover insurance acquisition cash flows from premiums of insurance contracts originated before the transition date but not yet recognised at the transition date;
b. obtain future contracts after the transition date without paying again insurance acquisition cash flows the entity has already paid; and
c. obtain future renewals of:
    i. contracts recognised at the transition date; and
    ii. contracts described in subparagraphs (a) and (b).

Transfer of insurance contracts and business combinations

The Board tentatively decided to amend IFRS 3 and IFRS 17 to require an entity that acquires insurance contracts in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3 to recognise a separate asset measured at fair value at the acquisition date for the rights to:

a. obtain future contracts after the acquisition date without paying again insurance acquisition cash flows the entity has already paid; and
b. obtain future renewals of:
    i. contracts recognised at the acquisition date; and
    ii. contracts described in subparagraph (a).

Impairment test

The Board tentatively decided to clarify that on transition to IFRS 17 for the assets for insurance acquisition cash flows recognised at the transition date, an entity is not required to apply the recoverability assessment requirement in paragraph 28D of the Exposure Draft retrospectively for the period before the transition date.

All 14 Board members agreed with this decision.

Next steps

At its future meetings, the Board will redeliberate the remaining topics for discussion in response to the feedback on the Exposure Draft *Amendments to IFRS 17*.