

The IASB accepts to discuss new topics to amend IFRS 17

Deliberation process to be completed in three months

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Agenda

- Highlights of the IASB meeting on 20 November 2019
- Detailed analysis of the IASB discussions and decisions reached with a pre-view on key topics tabled for discussion at the IASB meeting on 10-12 December 2019
- Next steps

Highlights of the IASB meeting on 20 November 2019

- The IASB discussed and tentatively decided on its plan for redeliberating on some of the matters raised by the respondents on the Exposure Draft *Amendments to IFRS 17* ("ED"). The topics have been grouped into 3 lists:
 - **The first list** includes proposed amendments for which the IASB tentatively decided to **confirm** at its meeting on 10-12 December 2019 (agenda paper AP2A) with limited discussion because of the general support coming from the respondents.
 - **The second list** includes topics for which the IASB tentatively decided to **consider feedback received from respondents** for further discussions. Some of the items in this list are planned for discussion at the IASB meeting on 10-12 December 2019 (agenda papers AP2B and AP2C).
 - **The third list** includes topics for which the IASB tentatively decided **not to consider further** because of either the general support received from the respondents for the IASB not to further consider these topics or because there are no new information received from the comment letters to warrant further discussions.

Comment letter summary – Overview and Introduction

- As of 7 November 2019, the IASB received **122 comment letters**.

Geographical region	Respondents		Respondent type	Respondents	
	Number	%		Number	%
Europe	49	40 %	Preparer / preparer representative body	51	42 %
Asia	27	22 %	Standard-setting body	23	19 %
Global	18	15 %	Accountancy body	13	10 %
Canada	9	7 %	Actuarial firm / body	12	10 %
Oceania	8	7 %	Auditor / Accounting firm	7	6 %
Africa	7	6 %	Individual, consulting and academic	7	6 %
US and Latin America	4	3 %	User of financial statements	5	4 %
TOTAL	122	100%	Regulator	4	3 %
			TOTAL	122	100%

- Respondents mainly provided feedback on the proposed amendments by answering the questions as raised in the ED and have expressed general support on the proposed amendments. However, some respondents think the IASB should:

(a) extend the scope of some of the proposed amendments;

(b) reconsider some of the amendments suggested by some respondents that the IASB considered when developing the ED and decided not to propose; and

(c) consider new concerns and implementation questions that some respondents have recently identified.

Deliberation plan

The list of topics for which the Staff recommended the IASB to **consider further feedback** from respondents was **approved unanimously**:

1. Proposed scope exclusion for credit cards
- ★ 2. Proposed amendment for expected recovery of insurance acquisition cash flows
3. Proposed amendment for CSM attributable to investment services—coverage units for insurance contracts without DPF, disclosures and terminology
- ★ 4. Proposed amendment for reinsurance contracts held—recovery of losses
5. Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss
6. **Proposed effective date of IFRS 17 and proposed extension of the IFRS 9 Financial Instruments temporary exemption in IFRS 4 Insurance Contracts**
7. Transition—the prohibition from applying the risk mitigation option retrospectively
8. Proposed minor amendments
9. **Level of aggregation—annual cohorts for insurance contracts with intergenerational sharing of risks between policyholders (a.k.a. Insurance contracts with mutualisation)**
10. **Business combinations—contracts acquired in their settlement period**
11. **Interim financial statements**
12. **Additional specific transition modifications and reliefs**

Topics 9-12 are the result of recommendations from the comment letters relating to topics that were not included in the ED. The Deloitte comment letter recommended improvements in IFRS 17 for topics 9 and 10.

★ IASB meeting 10-12 December 2019

Areas the IASB considered and for which amendments to IFRS 17 were not proposed

Level of aggregation

Comments from respondents

- Some respondents commented on the Board's decision to **retain** the annual cohort requirement **unchanged**. Most of the respondents that commented on the annual cohort requirement were European stakeholders.
- Of the respondents who commented on the annual cohort requirement:
 - (a) a small number of respondents, expressed support for the Board's decision **not to amend** the requirement and urged the IASB to reaffirm that decision;
 - (b) some respondents would prefer that the IASB **amend** or **delete** the annual cohort requirement for all insurance contracts;
 - (c) some respondents expressed support for the requirement generally, or did not comment on the requirement generally, but suggested the IASB **require an exception** to the annual cohort requirement for insurance contracts with intergenerational sharing of risks between policyholders;
 - (d) one respondent urged the IASB **not to specify an exception** to the annual cohort requirement for a specified subset of insurance contracts;
 - (e) some respondents suggested the IASB **provide further transition relief** compared to the existing annual cohort transition reliefs in the MRA and FVA.

Staff thoughts and recommendation

- The Staff think that the IASB should consider, as part of the redeliberations, whether outreach and comment letters additional information about the balance between the cost and benefits of annual cohorts for some specific contracts is relevant to the decision the IASB took previously and recommended **to consider further the feedback** from the respondents.

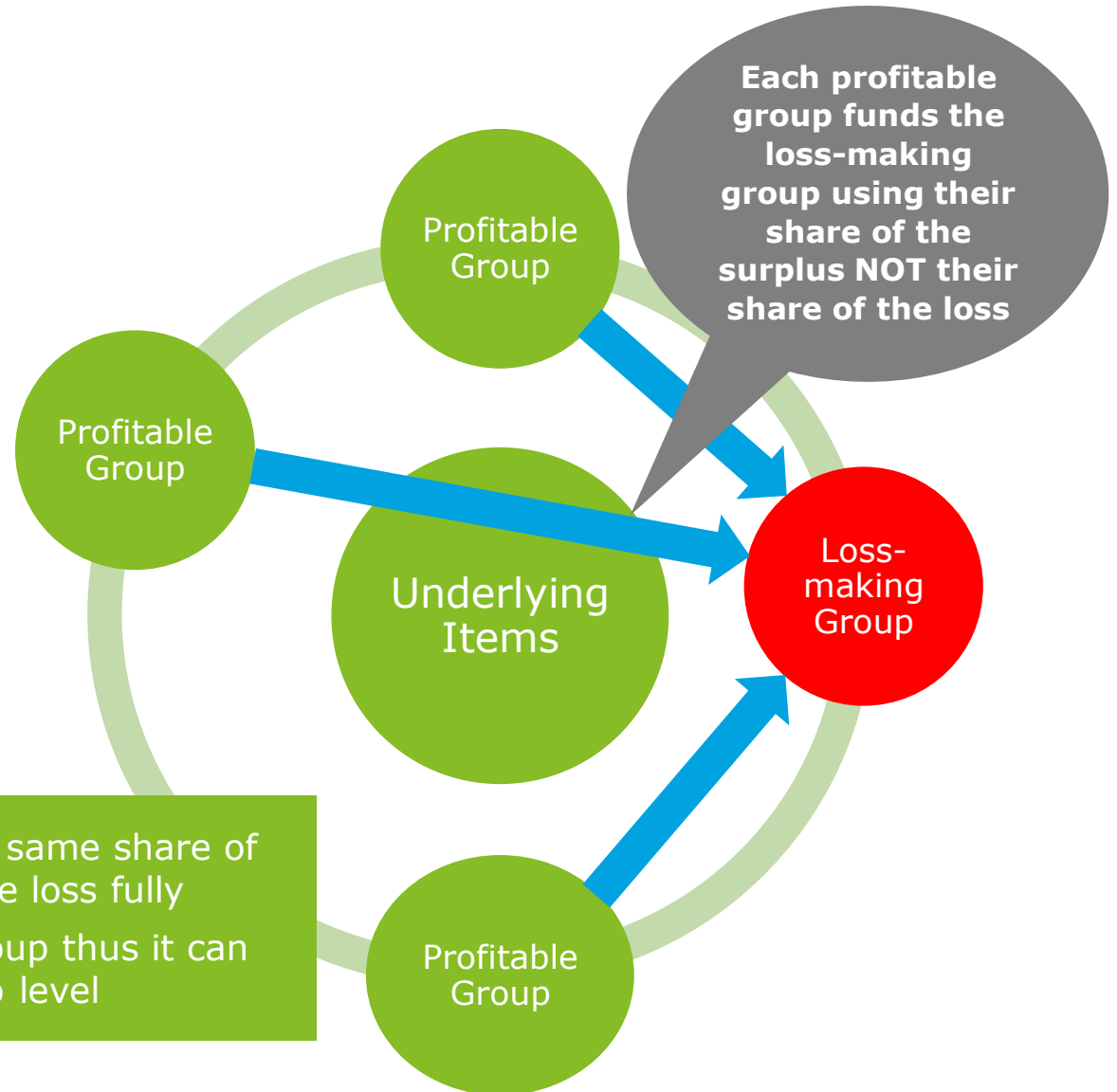
Areas the IASB considered and for which amendments to IFRS 17 were not proposed

Level of aggregation

Deloitte's point of view

- We remain supportive of the need to have the current IFRS 17 guidance for allocating CSM to insurance revenue in a way that is materially reflective of the duration of insurance service and of the size of CSM associated with the contracts in any given portfolio and its groups of contracts.
- However, the guidance in IFRS 17 on the accounting for the adjustments to CSM from the changes in fulfilment cash flows arising from these contracts could be improved.
- IFRS 17 could be more precise on how this adjustment is done across a larger unit of accounts that may comprise several groups bound by the same "mutualisation" characteristics.

- Each group receives the same share of surplus **after** funding the loss fully
- CSM is equal in each group thus it can be calculated at portfolio level



Areas the IASB considered and for which amendments to IFRS 17 were not proposed

Business combinations | Contracts acquired in their settlement period

Comments from respondents

Many respondents who commented on the Board's decision to **retain, unchanged**, the requirement that an entity classify a **liability for settlement of claims** as a **liability for remaining coverage** if the entity acquired the insurance contract during the settlement period of the claims:

- (a) suggested the IASB **amend** IFRS 17 to permit, in all circumstances, an entity to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired; and
- (b) expressed the view that such an amendment would:
 - (i) improve the usefulness of information provided by IFRS 17
 - (ii) reduce complexity and costs

Staff thoughts and recommendation

- The Staff have identified some feedback from respondents that challenges the determination of the insured event in contracts acquired in their settlement period.
- The Staff recommended that the IASB **consider further the feedback** received from the respondents.

Areas the IASB considered and for which amendments to IFRS 17 were not proposed

Business combinations | Contracts acquired in their settlement period

Deloitte's point of view

- Acquired liabilities for incurred claims are treated as “new business” and a liability for remaining coverage with a CSM is established at acquisition date.
- **Insurance revenue** is reported out of a claims handling activity where there is no stand-ready obligation to the underlying policyholders.
- **Investors are likely to discard this revenue in their analysis** and reclassify that as an adjustment to insurance service expense representing a run off gain/loss.
- Measurement principles can be respected (i.e. CSM calculated and reported) if a more useful presentation of insurance revenue and insurance service expense is adopted.

Areas the IASB considered and for which amendments to IFRS 17 were not proposed

Interim financial statements

Comments from respondents

- Some respondents from each region, including about half of the preparers and preparer representative bodies, commented on the requirement for interim financial statements in IFRS 17.
- Most of those respondents expressed concerns about the application of the requirement as follows:
 - (a) some respondents think that the requirement in paragraph B137 of IFRS 17 results in a more significant practical burden than the burden it is supposed to alleviate.
 - (b) some respondents noted that the requirement in paragraph B137 of IFRS 17 results in a fundamental change to existing insurance accounting practices for entities that currently use a year-to-date basis in interim financial statements.
 - (c) other respondents said that the requirement in paragraph B137 of IFRS 17 does not result in useful information.

Staff thoughts and recommendation

- The Staff have identified from the feedback from outreach and comment letters additional information about the balance between the cost and benefits of the requirement in paragraph B137 of IFRS 17.
- The Staff recommended to **consider further the feedback** from respondents.

Areas the IASB considered and for which amendments to IFRS 17 were not proposed

Interim financial statements

Deloitte's point of view

- We are neutral on this item.
- We note the deviation from IAS 34 and the Basis for Conclusions included in IFRS 17.
- It is evident from our implementation work globally that this requirement is more burdensome than if it was aligned to the general principle in IAS 34.

Areas the IASB considered and for which amendments to IFRS 17 were not proposed

Additional transition modifications and reliefs

Comments from respondents

- A small number of respondents commented on the transition requirements in IFRS 17. Those respondents:
 - (a) expressed appreciation for the Board's explanation in the Basis for Conclusions on the ED that the IASB expects entities to use estimates when applying IFRS 17 retrospectively.
 - (b) continued to express **concerns** that the MRA is **too restrictive** and continued to suggest the IASB permit an entity more optionality and flexibility generally when applying the MRA, rather than providing specified modifications.
 - (c) suggested the IASB provide additional specific transition modifications and reliefs for entities applying the MRA, as well as transition reliefs within the FRA.

Staff thoughts and recommendation

- The Staff think that the IASB:
 - (a) does not need **to consider further general suggestions** to permit an entity more optionality and flexibility in the MRA.
 - (b) does not need **to consider permitting any reliefs** within the FRA, as doing so would contradict the objective of the FRA and would reduce the usefulness of information for users of financial statements.
 - (c) should consider, in the redeliberations, **additional specific transition modifications** and reliefs suggested by respondents.
- The Staff recommended to **consider further the feedback** from respondents on additional specific transition modifications and reliefs.

Comment letter summary – Feedback on the questions in the Exposure Draft Question 2—Expected recovery of insurance acquisition cash flows (IACF)

Feedback

- Most respondents agreed with the Board’s proposal and rationale for proposing the amendment to IFRS 17.
 - (a) some respondents suggested the IASB:
 - (i) provide guidance on allocating IACF to expected renewals and determining any impairment loss
 - (ii) clarify the unit of account used to recognise an asset for IACF and to assess the recoverability of the asset
 - (iii) clarify the interaction between the wording of the proposed amendment and the requirements in IFRS 17
 - (b) some respondents expressed the view that the proposed requirements to assess the recoverability of an asset for IACF if facts and circumstances indicate the asset may be impaired are unduly complex.

Staff thoughts and recommendation

- The Staff think that:
 - (a) the feedback from outreach and comment letters provides support for the IASB to confirm the proposal for IACF in the ED; and
 - (b) the IASB should consider the concerns and suggestions from respondents as part of the redeliberations.
- The Staff recommended to **consider further the feedback** from respondents.

Comment letter summary – Feedback on the questions in the Exposure Draft Question 2—Expected recovery of insurance acquisition cash flows (IACF)

IASB Staff recommendations for IASB meeting on 10-12 December 2019

- **Confirm** that pre-coverage assets can include costs, such as commissions, that are calculated on a particular contract but economically relate to future renewal of this contract.
- The group of contracts is **the unit of account** when the acquisition cash flows are allocated. However, the impairment of the asset before it is allocated to a group is **the portfolio** for which the acquisition cash flows were paid.
- IFRS 17 will require a **roll-forward table** in the notes for the pre-coverage asset. This asset will be part of the portfolio carrying amount in the balance sheet, it will not be presented separately.
- Disclosure on the expected allocation of the pre-coverage asset, in appropriate time bands.

Deloitte's point of view

- We support the change in IFRS 17.
- Our first recommendation is for the improvement of the impairment testing:
 - How to calculate the **future net inflows**;
 - How to calculate the **"recoverable amount"** at the reporting date.
- Our second recommendation is to require **consistent application** in the eventuality that an insurer uses the PAA. The accounting policy choice on the treatment of acquisition cash flows should only apply after allocation from the pre-coverage asset.

Comment letter summary – Feedback on the questions in the Exposure Draft

Question 4—Reinsurance contracts held—recovery of losses

Feedback

- Most respondents expressed support for the objective of the proposed amendment to IFRS 17. However, they expressed the view that the proposed amendment requires refinement to achieve the Board’s objective of making it easier for entities to explain their results to investors. Respondents expressed concerns about:
 - (a) the **proposed population of reinsurance contracts held** to which the amendment would apply.
 - (b) the **proposed calculation of income (loss recovery)**. In particular, some respondents, including a regulator and a national standard-setter, expressed concerns that the proposal would result in an entity recognising income on a reinsurance contract held that is in a net cost position.

Staff thoughts and recommendation

- The Staff think that:
 - (a) the feedback from outreach and comment letters provides support for the IASB to proceed with the direction of the proposal for reinsurance contracts held; and
 - (b) the IASB should consider the concerns and suggestions from the respondents feedback as part of the redeliberations.
- The Staff recommended to **consider further the feedback** from respondents.

Comment letter summary – Feedback on the questions in the Exposure Draft

Question 4—Reinsurance contracts held—recovery of losses

IASB Staff recommendations for IASB meeting on 10-12 December 2019

- **Extend the scope** of the proposed amendment to IFRS 17 to require an entity to adjust the CSM of a group of reinsurance contracts held 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.
- **Confirm** that the above amendment to IFRS 17 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.
- **Amend** the proposed calculation of the income, as a consequence of the extension of the scope of the proposed amendment
- **Not add the proposed footnote** to paragraph BC304 of the Basis for Conclusions on IFRS 17.
- **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 when underlying insurance contracts are measured applying the PAA.

Deloitte's point of view

- We supported the change in IFRS 17 but recommended an extension of the scope in the ED. The proposals in the IASB Staff paper seems to incorporate our recommendation to an extent.

Comment letter summary – Feedback on the questions in the Exposure Draft

Question 7(a)-(b)—Effective date of IFRS 17 and IFRS 9 temporary exemption in IFRS 4

Feedback

- Almost all respondents supported the Board’s proposal to defer the effective date of IFRS 17. The remainder of respondents did not express a view on the proposal but commented on the importance of entities in jurisdictions around the world applying IFRS 17 for the first time at the same time.
- Overall, respondents supported the Board’s proposal to further delay the implementation of IFRS 9 for some insurers to continue to enable them to first apply IFRS 17 and IFRS 9 at the same time.

Staff thoughts and recommendation

- The Staff think that:
 - (a) the feedback from outreach and comment letters provides support for the IASB to confirm the proposal to defer the effective date of IFRS 17; and
 - (b) the feedback from outreach and comment letters provides support for the IASB to confirm the proposal to extend the temporary exemption from IFRS 9; and
 - (c) the IASB should consider the feedback from respondents as part of the redeliberations at the same time it considers the concerns and suggestions from respondents about the effective date of IFRS 17.
- The Staff recommended to **consider further the feedback** from respondents.

First list and recommendations in agenda paper AP2A for the IASB meeting on 10-12 December 2019

The list of proposed amendments for which the Staff recommended the IASB to **confirm at their meeting on 10-12 December 2019** was **approved unanimously**. Below is the set of recommendations that will be voted at this month's meeting (agenda paper AP2A).

Topic	IASB Staff recommendation
Scope exclusion for loans	<ul style="list-style-type: none"> The exclusion should remain voluntary with irrevocable designation on a portfolio by portfolio IFRS 17 will not contain guidance on whether these contracts pass the IFRS 9 SPPI test
CSM attributable to investment services—coverage units for VFA insurance contracts	<ul style="list-style-type: none"> Approve the requirement for coverage units to include both insurance and investment services for contracts under the VFA
Presentation in the statement of financial position—portfolio instead of group level	<ul style="list-style-type: none"> Presentation in the balance sheet will be done using the portfolio of insurance contracts as the mandatory level of aggregation. Reinsurance held will continue to be reported separately.
Applicability of the risk mitigation option—reinsurance contracts held	<ul style="list-style-type: none"> Reinsurance held will be a permissible hedging instrument for the new IFRS 17 hedge accounting (“the risk mitigation option”)
Transition relief for business combinations	<ul style="list-style-type: none"> Slight expansion of the proposal to make it applicable to acquired liabilities for incurred claims either from a business combination or a portfolio transfer.
Transition reliefs for the risk mitigation option—application from the transition date and the option to apply the FVA	<ul style="list-style-type: none"> Approve the ED approach that allows the full restatement of the comparative period's P&L and the optional use of the FVA at transition date balance sheet.

List of items that will be retained as drafted in the ED

The Staff recommended the IASB **not to consider further** a list of 14 items. This proposal was discussed and **approved with a majority of 13 against 1** – These topics are now finalised and will move forward into the drafting stage of the amended IFRS 17 text.

1. Presentation in the statement of financial position—premiums receivable and claims payable
2. Risk mitigation option for insurance contracts without DPF
3. Effective date—comparative information on initial application of IFRS 17
4. Level of aggregation—annual cohorts for all insurance contracts other than those with mutualisation characteristics
5. Cash flows in the boundary of a reinsurance contract held
6. Subjectivity in determining discount rates and the risk adjustment for non-financial risk
7. Risk adjustment for non-financial risk in a consolidated group of entities
8. Discount rate used to determine adjustments to the CSM
9. Other comprehensive income option for IFIE
10. Business combinations—classification of contracts acquired
11. Scope of the variable fee approach—reinsurance contracts held, and reinsurance contracts issued
12. Mutual entities issuing insurance contracts
13. Transition—general optionality and flexibility in the MRA
14. Transition—reliefs in the FRA

List of items that will be retained as drafted in the ED

Comments from Respondents

Topics for which the Staff recommended that the IASB does not need to discuss as part of the deliberations and recommended **to retain the IFRS 17 text as published or as amended in the ED.**

Cash flows in the boundary of a reinsurance contract held

- Some respondents commented on the Board's decision to **retain** the contract boundary requirements in IFRS 17 for reinsurance contracts held unchanged. Almost all of those respondents disagreed with the Board's decision.
- A small number of respondents continued to disagree with the Board's view explained in paragraph BC183 of the ED that differences arising between a **reinsurance contract held** and **underlying insurance contracts** are not accounting mismatches but predominantly relate to different timings of cash flows which are affected by the different discount rates.

Subjectivity in the determination of discount rates and the risk adjustment for non-financial risk

- A small number of respondents commented on the Board's decision to **retain** the requirements for determining discount rates and the risk adjustment for non-financial risk unchanged. Many of those respondents expressed support for the Board's decision.

Risk adjustment for non-financial risk in a consolidated group of entities

- A small number of respondents commented on the Board's decision to **retain** the requirements for determining the risk adjustment for non-financial risk in the consolidated financial statements of a group of entities unchanged. Those respondents expressed support for the Board's decision.

List of items that will be retained as drafted in the ED

Comments from Respondents

Scope of the VFA | Reinsurance contracts issued

- Some respondents commented on the Board's decision to **retain** the prohibition to apply the VFA to reinsurance contracts issued. Most of those respondents were preparers and preparer representative bodies from Europe.
- Those respondents disagreed with the Board's decision and continued to suggest that the IASB **amend** IFRS 17 to permit an entity that issues reinsurance contracts to apply the VFA to such contracts if they meet the criteria in paragraph B101 of IFRS 17.

List of items that will be retained as drafted in the ED

Mutual entities issuing insurance contracts

Comments from respondents

- A small number of respondents commented on the Board's decision to propose to **add a footnote to paragraph BC265** of IFRS 17. Comments were mixed.
 - About half of the respondents expressed support for the Board's decision.
 - The remainder disagreed with the Board's decision and, consistent with feedback during the development of the ED, continued to express concerns that the explanations included in BC264–BC269 of IFRS 17 and the educational materials developed by the Staff do not adequately reflect the nature of some mutual entities.

Staff thoughts

- The Staff think that the IASB does not need to re-discuss this topic as part of redeliberations and should confirm the proposed footnote to paragraph BC265 of the Basis for Conclusions on IFRS 17.

Staff recommendation

- The Staff recommended **not to plan to consider further** the topic and **to confirm** the addition of the proposed footnote to the Basis for Conclusions on IFRS 17.

Next steps

- The Staff expect that the IASB can finalise any resulting amendments and publish IFRS 17 amended by mid-2020.
- On 30 November 2019, the IASB released the papers to be discussed during the IASB meeting on 10-12 December 2019. The papers for this meeting will call for the IASB to vote on the following topics:
 - (a) proposed amendments to confirm without substantive redeliberation;
 - Scope exclusion for loans;
 - CSM attributable to investment services—coverage units for insurance contracts with DPF;
 - Presentation in the statement of financial position—portfolio instead of group level;
 - Applicability of the risk mitigation option—reinsurance contracts held;
 - Transition reliefs for business combinations;
 - Transition reliefs for the risk mitigation option—application from the transition date and the option to apply the FVA
 - (b) Expected recovery of insurance acquisition cash flows; and
 - (c) Reinsurance contracts held—recovery of losses.
- During January and February 2020 the IASB will vote on all the remaining topics





Contact details

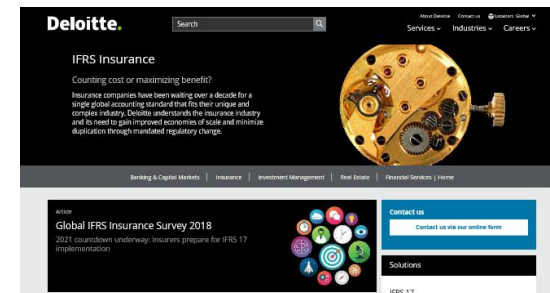
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