



In transition

The latest on IFRS 17 implementation

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The IASB finalises its discussions on IFRS 17 reported concerns and implementation challenges

IASB retains the level of aggregation requirements in IFRS 17, agrees to propose to scope credit cards out of the Standard and to propose some amendments to transition and disclosures

At a glance

At the 14 March 2019 IASB meeting, the Board evaluated whether the remaining concerns and implementation challenges -dealing with level of aggregation, scope, consequential disclosure requirements of previously proposed amendments, and remaining concerns on transition - meet the criteria for amending the standard. The Board agreed to retain the current requirements on level of aggregation as it believes this contributes to one of the main objectives of IFRS 17. The Board agreed to propose to exclude from the scope of IFRS 17 credit card contracts that provide insurance coverage if they meet specified criteria. The Board also agreed to propose some relief to meet preparer's concerns that past risk mitigation activity relating to participating contracts would not be appropriately captured at transition by agreeing to two proposed amendments. Finally, as a result of proposed changes previously agreed by the Board relating to coverage unit and acquisition cost recognition, the Board also agreed to propose additional disclosures.

The Board expects to assess the total package of proposed amendments against the previously agreed criteria at its April meeting, with the goal of issuing an exposure draft (possibly with a shortened exposure period from the typical 120 days) around the end of June 2019. The expected timeframe for issuance of final amendments, considering the due process required, is normally 12 to 18 months from the date of the exposure draft.

The views in this In transition are based on our observations from the 14 March 2019 meeting, and they might differ in some respects from the official report of the meeting that will be published by the IASB in IASB Update at a later date

Background

1. In connection with the issuance of IFRS 17, the IASB established a transition resource working group (TRG) to provide a public forum for stakeholders to follow the discussion of questions raised on implementation of the new standard. The purpose of the TRG is to facilitate a public discussion to provide support for stakeholders, and information to the Board, on implementation questions arising from the application of IFRS 17.
2. Since the issuance of the standard, IASB staff have also been engaged in a variety of activities with stakeholders to follow the implementation of IFRS 17. At the IASB meeting on 24 October 2018, the Board agreed to explore potential amendments to IFRS 17 based on a list of implementation issues and concerns compiled by the staff. The Board noted that the criteria set a high hurdle for change, and any amendments suggested would need to be narrow in scope and deliberated quickly to avoid significant delays in the effective date.
3. The IASB has held several meetings discussing the reported concerns and implementation challenges to date, and we have summarised the proposed amendments to date, including those addressed as annual improvements in June 2018, towards the end of this publication.

Overview of items discussed during the March IASB Board meeting

4. In its 14 March 2019 meeting the Board evaluated whether the remaining concerns and implementation challenges dealing with level of aggregation, scope, consequential disclosure requirements of previously proposed amendments and remaining concerns on transition met the criteria for amending the standard. The table below summarises the decisions reached relating to these issues. The staff believes all substantial concerns and implementation challenges have now been addressed although there may be some sweep issues as the staff prepare the exposure draft. The staff expect to bring the total package of proposed amendments to the April 2019 IASB Board meeting.

Staff paper	Concerns and implementation challenges	IASB Decision
Level of aggregation (Staff paper 2A , 2B and 2C)	The level of aggregation requirements in IFRS 17 are too prescriptive and too granular	Not amend
Credit cards that provide insurance coverage (Staff paper 2D)	Scope of credit card contracts that provide insurance coverage	Amend
Transition requirements - Risk mitigation option (Staff paper 2E)	Application of the risk mitigation option prospectively from the IFRS 17 transition date	Amend
	Application of fair value transition approach for a group of insurance contracts under the variable fee approach when certain criteria are met and the risk mitigation option is applied	Amend
Transition requirements - Loans that transfer significant insurance risk (Staff paper 2F)	Transitional requirements on loans that transfer significant insurance risk	Amend IFRS 9
Amendments to disclosure requirements resulting from the Board's tentative decisions to date (Staff paper 2G)	Disclosure requirements arising from the proposed amendment on amortisation of the contractual service margin	Amend
	Disclosure requirements arising from the proposed amendment on acquisition cash flows related to anticipated future renewals	Amend
Implications for disclosure and transition requirements (Staff paper 2H)	Other remaining disclosure and transition requirements of proposed amendments to IFRS 17	Not amend

Level of aggregation

5. All Board members agreed to retain the current IFRS 17 requirements on the level of aggregation. The Board members observed that one of the main benefits of IFRS 17 is the recognition of profit over the coverage period for the group of insurance contracts and recognition of onerous groups of contracts when those losses occur. It was also noted by the chair and several Board members that timely recognition of changes in profitability results in more transparent information than averaging profits and losses, or averaging different profits over time. The IASB expects that this transparency will contribute to improving investor understanding of insurance activity and improve long-term financial stability by revealing useful information on a timely basis.
6. Stakeholders have expressed the view that the level of aggregation requirements in IFRS 17 are too prescriptive and too granular. IFRS 17 prohibits contracts that are issued more than one year apart to be measured together. Stakeholders have argued that the segregation of the business does not properly depict insurers' business performance, and that the annual cohort requirements would not reflect the pooling of risks

that exists in the insurance industry, particularly when risks are shared between policyholders in different groups (mutualisation). Stakeholders have further noted that these requirements will require significant changes to existing systems that will result in significant implementation costs. Some stakeholders have also noted they think they could achieve the same outcome as IFRS 17 by applying other requirements for example related to coverage units without applying the annual cohort requirements. .

7. Several Board members appreciate that the reported implementation concern is a fundamental issue, and acknowledged that the appropriate unit of account for measuring insurance contract transactions has been discussed for many years throughout the development of the standard. The staff observed that the challenge was to create an approach that appropriately depicts trends in an entity's profit over time, recognises profits of contracts over the period they are outstanding, and doesn't delay losses, without being too operationally challenging. The IASB believes its compromise to require annual cohorts best accomplishes that objective. Although implementing IFRS 17 will result in significant costs, several Board members observed that the requirements of IFRS 17 on the level of aggregation already include practical expedients to reduce the operational burden. That is, the annual cohort requirement is a compromise from earlier proposals that were more principles-based (e.g. groupings based on similar margins and contract duration)

8. The Board observed that the numerical example in the staff paper of contracts that share the risks of underlying items across different generations of contracts was extremely helpful. It clearly demonstrated that if the grouping required by the standard is not employed, the result would be the averaging of profits and the recognition of profits beyond the coverage period of the group, resulting in the distortion of the periodic reporting of the underlying profit from different generations of insurance contracts. The annual cohort requirement therefore provides useful information for users of the financial statements. It was noted that the purpose of the example was to illustrate this point rather than to prescribe a particular detailed approach for doing the allocation, as IFRS 17 allows different approaches to be applied as long as they arrive at the same outcome.

9. It was noted that IFRS 17 already allows simplification compared to the accounting in other industries where accounting standards require a contract by contract unit of account. Stakeholders argue that pooling of risks is a main feature in the insurance industry; however, the Board noted that similar portfolio features exist in other industries, yet those industries have accepted a lower level of aggregation than a portfolio perspective. One Board member noted that in the banking sector, for example, retail loans may be managed at a portfolio level, as the credit risk results in a higher spread for all the contracts within a set of contracts, but the recognition of losses is done on a contract by contract basis.

Credit cards that provide insurance coverage.

10. All Board members agreed to propose an amendment 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 insurance risk associated with an individual customer in pricing of the contract. The proposed amendment would be a requirement rather than an option, and would apply whether or not the insurance cover within the credit card was required by law/regulation or was contractual. The Board agreed with the staff that current accounting for these contracts under IFRS 9 provides useful information to users of financial statements and that accounting for such contracts under IFRS 17 might impose costs and disruption, especially for those who have already made the change to apply IFRS 9 for these contracts.

11. Although the definition of insurance contracts has not changed from IFRS 4 to IFRS 17, the requirements for separation of components within an insurance contract have changed. The hurdle for separation of components in IFRS 17 is higher as it only allows separation of distinct investment components and distinct services as defined in the standard. Stakeholders have expressed concerns that certain credit cards that have an embedded insurance coverage would not meet the separation criteria and would therefore be accounted for in their entirety under IFRS 17. For example, some consumer protection rights require the entity to provide insurance coverage for some purchases made with the credit card, making the entity jointly liable for misrepresentation or breach by the supplier. Neither explicit pricing for this feature nor assessment of the insurance risk is performed at inception. Nonetheless the entire contract may meet the definition of an insurance contract.

12. One member noted that although it would feel odd to scope out contracts with insurance risk from IFRS 17, she was supportive of this amendment, because it would prevent undue disruption to accounting by banks. She believes that current standards outside IFRS 17 could adequately address such contracts, by the application of either IFRS 9 or a combination of IFRS 9 and IAS 37 depending on the facts and circumstances. Consequently, this amendment would not result in a loss of useful information.

13. In response to a question from a Board member, the staff noted that if a credit card issuer sells insurance coverage to its customers as an agent, for example roadside assistance or travel insurance provided by another party (the principal, for example an insurance company), the credit card contract would not be in the scope of IFRS 17. However, from the standpoint of the principal (in this case the insurer) that provides the travel insurance, it would most likely be in the scope of IFRS 17 (absent failure of the risk transfer criteria or some other scope exclusion).

Transition requirements - Risk mitigation option

14. All Board members agreed to two proposed amendments related to the transitional requirements for entities that apply the risk mitigation option under the variable fee approach. The Board proposes that on transition, entities be permitted to either:

- apply the risk mitigation option prospectively from the IFRS 17 transition date provided the entity designates its risk mitigation relationships no later than the IFRS transition date, thereby allowing comparative information to be presented on the same basis, or
- apply the fair value approach on transition (irrespective of whether full retrospective application is applicable) if the entity chooses to apply the risk mitigation option to the group prospectively from the transition date and has used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date

15. When entities use derivatives to mitigate financial risks inherent in contracts under the variable fee approach (VFA), the effect of the derivative is included in profit or loss, whilst the effects on the insurance contracts normally (absent an onerous contract situation) adjust the contractual service margin (CSM). Entities that apply the risk mitigation option under the VFA can choose to not include the effects of changes in financial assumptions in the adjustment of the CSM if certain criteria are met.

16. At the February 2019 Board meeting, the Board agreed to retain the transition requirement that prohibits retrospective application of the risk mitigation option under the VFA. It was noted that permitting retrospective application may involve the use of hindsight and could give rise to 'cherry picking' opportunities. However, in that meeting the Board agreed to consider further whether a solution could be reached relating to stakeholders continued concerns that without retrospective application, a potential misstatement of the CSM could result on transition (as past risk mitigation activity is not reflected) and the consequent misstatement of future profit, potentially for many years.

17. To deal with stakeholder concerns, the Board agreed to propose the two approaches noted above. With regard to the second proposed amendment, under the current version of IFRS 17, the fair value approach can be elected only if a full retrospective approach cannot be performed by the entity. However, the Board is proposing to permit a limited exception to this requirement only if specified criteria are met. That is, the alternative would be permitted if and only if, the entity chooses to apply the risk mitigation option prospectively from the transition date and has used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date. Therefore, applying this exemption, the CSM on the transition date would be determined as the difference between the fulfilment cash flows under IFRS 17 and the fair value of those cash flows - which is determined on a forward looking basis. Equity on the transition date will reflect previous changes in the fulfilment cash flows due to changes in financial assumptions, similar to the effects on the derivatives. This is expected to increase the comparability on transition and would sufficiently deal with the risk of cherry picking, as the opening CSM would not be affected.

Transition requirements - Loans that transfer significant insurance risk

18. In February 2019 the IASB agreed to propose an amendment to IFRS 17 introducing an election to apply IFRS 9 in its entirety rather than IFRS 17 to a portfolio of contracts for which the only insurance risk in the contract is the settlement of some or all of the obligation created by the contract. An example is a bank that provides a loan to a customer where repayment of the remaining loan is waived in the event of the debtor's death.

19. At the March 2019 meeting the Board agreed on the proposed transition provisions for this proposal, which depend on whether an entity initially applies IFRS 17 and IFRS 9 at the same time. If an entity elects to apply IFRS 9 to a loan portfolio that has these provisions, the entity would apply the current transition requirements in IFRS 9 if initial application of IFRS 9 is deferred until IFRS 17. If an entity elects to apply the requirements in IFRS 9 to a portfolio of such loans and has applied IFRS 9 before it initially applies IFRS 17, the entity would follow the amended transition requirements. These, transition requirements are similar to both the Board's past decisions for specifying transition requirements for previous amendments to IFRS 9 and the redesignation of financial assets when an entity applies IFRS 17 for the first time.

20. In the event that an entity decides to apply IFRS 17 to a portfolio of loans for which the only insurance risk in the contract is the settlement of some or all of the obligation created by the contract, IFRS 17 transition requirements would apply.

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

21. The Board agreed with the staff recommendation to propose amending the disclosure requirements in IFRS 17 to reflect the proposed amendments for (i) the CSM recognised in profit or loss on the basis of coverage units determined by considering both insurance coverage and investment related services or investment return services; and (ii) insurance acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts.

22. The proposed amendment for the disclosure related to CSM recognised in profit or loss on the basis of coverage units determined by considering both insurance coverage and investment-related services or investment return services, if any, will require:

- quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period, thereby removing the option of providing only qualitative information allowed by paragraph 109 of IFRS 17.
- specific disclosure of the approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment return services, as part of the disclosure requirements in paragraph 117 of IFRS 17 related to significant judgements and changes in judgements made in applying IFRS 17.

The Board noted that the first requirement on time bands would not prevent entities from also providing qualitative information.

23. The proposed amendment for the disclosure related to insurance acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts will encompass the following:

- reconciliation of the asset created by these cash flows at the beginning and the end of the reporting period and its changes, specifically recognition of any impairment loss or reversals. The aggregation of the information provided in this reconciliation should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts;
- quantitative disclosure, in appropriate time bands, of the expected inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts. The acquisition cash flows will be included in the measurement of the related group of insurance contracts when those contracts are recognised.

Implications for disclosure and transition requirements

24. The Board agreed to retain all other disclosure and transition requirements in IFRS 17 (except for disclosure requirements and the transitional requirements referenced above).

Overview of all proposed amendments

25. The IASB has now agreed to propose the following amendments to IFRS 17:

Area	Meeting	Proposed amendment
Scope	February 2019	Scope of loans with insurance cover
	March 2019	Scope of credit cards with embedded insurance cover
	March 2019	Transitional requirements for loans with insurance cover
Initial recognition	June 2018	Clarify terminology in paragraph 28 of IFRS 17.
Insurance acquisition cash flows	June 2018	Clarify paragraph 27 to include those relating to contracts issued and 'expected to be issued'.
	January 2019	Amend requirements for acquisition cash flows related to anticipated future renewals outside the contract boundary (and related amendments).
	March 2019	Disclosure requirements arising out the proposed amendment on acquisition cash flows related to anticipated future renewals
Risk adjustment for non-financial risk	June 2018	Clarify words related to risk adjustment to avoid the risk of double accounting.
Contractual Service Margin	June 2018	Clarify coverage period for contracts with direct participating features.
	January 2019	Amortisation of the contractual service margin for contracts under the general model that include an investment return service (and related amendments).
	March 2019	Disclosure requirements arising out of the proposed amendment on amortisation of the contractual service margin
Reinsurance Contracts held	January 2019	Recognise on inception a gain on reinsurance held when recognising a loss on onerous underlying insurance contracts that are covered by reinsurance contracts held that cover losses on a proportionate basis (and related amendments).
	January 2019	Risk mitigation exemption expanded to reinsurance held for insurance contracts with direct participation features.
Presentation of Insurance contracts	December 2018	Separate presentation of portfolios of assets and portfolios of liabilities.
Disclosures	June 2018	Clarify wording in the sensitivity analysis disclosure.

Effective date	November 2018	1 year deferral of effective date of IFRS 17 to 1 January 2022.
	November 2018	Temporary exemption to IFRS 9 extended to 1 January 2022.
Transition	February 2019	Classification of claims incurred acquired prior to transition under the modified retrospective approach and fair value approach.
	March 2019	Prospective application of risk mitigation option from transition date.
	March 2019	When risk mitigation option is elected, application of the fair value approach on transition if specified criteria are met
Business Combinations	June 2018	Consequential amendment to IFRS 3 to be applied prospectively.
	June 2018	Exclusion of business combinations under common control from IFRS 17 requirements.
Other proposed amendments	June 2018	Revise wording in IFRS 9, IFRS 7 and IAS 32 to achieve intended scope of these standards and IFRS 17.
	June 2018	Update IASB illustrative Example 9 in IFRS 17 with an explanation.

Next steps

26. The Staff noted that all the 25 identified implementation challenges reported to the Board in October 2018 have now been considered. Although consequential issues might arise in the drafting of the amendments, the staff believe that any potential additional issues are not expected to be significant enough to require further standard setting procedures.

27. In the April 2019 meeting the staff expects to bring back a summary of all the proposed amendments and request the Board to assess the total package of amendments against the previously agreed criteria. Under the assumption that the Board will continue with the proposed amendments, the staff will request to start the balloting process for issuance of an exposure draft. The Staff will also request that the Due Process Oversight Committee grant approval for a shorter exposure draft comment period than the normal 120 days.

28. The exposure draft is expected to be issued around the end of the first half of 2019, allowing an appropriate public comment period (less than 120 days), and redeliberating responses for any proposed amendments. The expected timeframe for issuance of final amendments proposed to date, considering the due process required, is normally 12 to 18 months.

PwC has developed the following publications and resources related to IFRS 17, 'Insurance Contracts':

Authored by:

- [In transition INT2019-02](#): The discussion continues on concerns related to transition and scope of IFRS 17
- [In transition INT2019-01](#): IASB proposes to further amend IFRS 17
- [In transition INT2018-07](#): IASB agrees to propose limited changes to balance sheet presentation of insurance contract assets and liabilities
- [In transition INT2018-06](#): IASB proposes to amend the effective date of IFRS 17 and extend the temporary exemption of IFRS 9 for insurers
- [In transition INT2018-05](#): IASB agrees on criteria for evaluating any potential future amendments to IFRS 17
- [In transition INT2018-04](#): TRG debates more IFRS 17 implementation issues
- [In transition INT2018-03](#): Amendments to IFRS 17 on the IASB Board agenda
- [In transition INT 2018-02](#): Insurance TRG addresses unit of account, contract boundary, and coverage unit issues
- [In transition INT2018-01](#): Insurance TRG holds its first meeting on IFRS 17
- [In brief INT2017-05](#): IFRS 17 marks a new epoch for insurance contracts
- [In depth INT2017-04](#): IFRS 17 marks a new epoch for insurance contract accounting
- [Using Solvency II to implement IFRS 17](#)
- [IFRS 17 – Redefining insurance accounting](#)

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