



No. INT2018-05
25 October 2018

IASB agrees on criteria for evaluating any future potential amendments to IFRS 17

The IASB notes that a high hurdle will be set for any future amendments to IFRS 17

At a glance

On 24 October 2018, the Board unanimously agreed criteria for evaluating any future potential amendments to IFRS 17. 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. In the coming months, the Board will discuss whether any amendments to IFRS 17 are justified, including a potential deferral of the effective date. If the Board decides to amend the standard, any amendments would be subject to the IASB Board's due process for amendments to IFRS standards, including developing an exposure draft and subsequent consultation period. The Board shared its concern about the temporary exemption from IFRS 9 if it were to defer the effective date for IFRS 17.

The views in this In transition are based on our observations from the 24 October meeting, and they might differ in some respects from the official minutes of the meeting to be published by the IASB 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. After issuance of the standard, IASB staff have also been engaged in a variety of activities with stakeholders to follow the implementation of IFRS 17. During these activities, and through the TRG discussions, the staff have become aware of several instances where the standard might be interpreted in ways that were not intended by the Board. At the 24 October meeting, the IASB staff presented to the Board a list of 25 concerns and implementation challenges raised by constituents.

Items discussed at the IASB Board meeting

3. Four staff papers were prepared for the meeting (available [here](#)), including the TRG submission log and the IASB Summary from the September 2018 TRG meeting. The IASB Board had no comments on the September 2018 TRG summary prepared by the staff, and the discussion in the Board meeting was mainly focused on the criteria for any potential amendments to IFRS 17.

Criteria for evaluating possible amendments to IFRS 17

4. Subsequent to issuance of the standard, the IASB has received feedback from both preparers and users of financial statements. The staff noted that more than 500 users of financial statements have been interviewed, and the IASB has received positive feedback on the standard through this outreach.

5. The Board agreed that the following criteria, as identified by the staff, should be applied for evaluating whether IFRS 17 should be subject to any amendments:

- The amendment would not result in a significant loss of useful information relative to that which would have been provided by IFRS 17 for users of financial statements. Any amendment would avoid:
 - reducing the relevance and faithful representation of information in the financial statements of entities that issue insurance contracts;
 - causing reduced comparability or introducing internal inconsistency in IFRS standards, including within IFRS 17; or
 - increasing complexity for users of financial statements, thus reducing understandability.
- The amendment would not unduly disrupt implementation processes that are currently underway or result in undue delays in the effective implementation of IFRS 17.

6. In addition to the above criteria, Board members requested that the IASB staff expand the analysis on each topic raised by constituents, to consider the cost versus benefit analysis and to provide insight as to whether any new arguments or information are available, beyond what was already considered in deliberating the standard. That is, several Board members were unwilling to redebate any concerns unless new information that was not considered in the deliberations was presented by the staff.

7. The Board acknowledged the 25 topics identified as concerns and implementation challenges, and some Board members asked for clarification or further information on several of the topics. The IASB staff in future meetings will present separate submissions for each topic, setting out firstly whether there is a need to amend IFRS 17, and secondly whether the amendment satisfies the agreed criteria. The IASB staff emphasised that, even if the Board agrees that a potential amendment meets the criteria, it does not mean that amendments meeting these criteria will be made. That is, meeting the criteria will not automatically result in an amendment to the standard. Several Board members and staff also noted that they would need to look at any proposed amendments in aggregate, and not just individually.

8. Board members were reluctant to amend the standard, because they believe that it could lead to greater complexity, with many stating that the meeting had left them very disheartened at the thought of doing this. The Board did not comment on changes to the effective date of the standard, or whether IFRS 9 would continue to be deferred with IFRS 17. However, the IASB chairman did note his concern that, since insurers are very active in debt markets and some are searching for high-yielding debt, the impact of not implementing IFRS 9 would be difficult to accept. He went on to voice his concern that, if insurers had not implemented IFRS 9 by the next financial crisis, it would have severe repercussions.

Specific concerns and implementation challenges

9. The IASB staff recommended that the Board’s assessment of whether there is a need to amend IFRS 17 should be balanced against the need to limit any such amendments other than those that meet specified criteria. As a basis for the discussion in the Board meeting, a 61-page document (available [here](#)) was prepared by staff, summarising the 25 concerns and implementation issues identified.

10. The Board provided comments on only some of the matters addressed below, and it was agreed that the discussion would continue in more detail at a future meeting, including addressing comments provided by the Board. The staff noted that the issues are listed in the order in which they appear in the standard.

Concerns raised	
1	Scope of IFRS 17: Loans and other forms of credit that transfer insurance risk
2	Level of aggregation of insurance contracts
3	Acquisition cash flows for renewals outside the contract boundary
4	Use of locked-in discount rates to adjust the contractual service margin
5	Discount rates and risk adjustment
6	Risk adjustment in a group of entities
7	Contractual service margin: coverage units in the general model
8	Contractual service margin: limited applicability of risk mitigation exception
9	Premium allocation approach: premiums received
10	Business combinations: classification of contracts
11	Business combinations: contracts acquired during the settlement period
12	Reinsurance contracts held: initial recognition where underlying insurance contracts are onerous
13	Reinsurance contracts held: ineligibility for the variable fee approach
14	Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued
15	Separate presentation of groups of assets and groups of liabilities
16	Presentation in the statement of financial position: Premiums receivable
17	OCI option for insurance finance income or expenses
18	Definition of insurance contract with direct participation features
19	Interim financial statements: Treatment of accounting estimates
20	Date of initial application of IFRS 17
21	Effective date: Comparative information
22	Temporary exemption from applying IFRS 9
23	Transition: Optionality
24	Modified retrospective transition approach: further modifications
25	Transition-Fair value approach: OCI on related financial assets

Next step

11. The Board will continue its discussion in the forthcoming months, including whether there is a need to propose any changes to the standard. The IASB noted that it is too early to say whether these discussions will result in any proposals to change the standard. Any amendments to the standard will need to follow the IASB due process, which will include issuance of an exposure draft and a public consultation period. The IASB has already published a short note of the meeting that is available [here](#).

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

- 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 INT2018-02: *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*

PwC clients who would like to obtain any of these publications, or have questions about this In transition, should contact their engagement partner.

For more information on this publication, please contact:

Gail Tucker
Partner
+44 (0) 7712 489634
gail.l.tucker@pwc.com

Mary Saslow
Managing Director
+ 1 860 241 7013
mary.saslow@pwc.com

Lars Jorgensen
Senior Manager
+44 (0) 7710 036926
jorgensen.lars@pwc.com

Chantal Moodley
Manager
+44 (0) 7525 281596
chantal.moodley@pwc.com