



# In transition

## The latest on IFRS 17 implementation

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### **IASB agrees to proceed an exposure draft to amend IFRS 17 that will include a one year deferral of the effective date**

**The IASB discusses the total package of previously proposed amendments and addresses some additional clarifications to the standard**

#### **At a glance**

At the 9 April 2019 IASB meeting, the Board agreed that the total package of proposed amendments met the criteria agreed to by the Board in October 2018 of avoiding significant loss of useful information to users of financial statements and not unduly disrupting implementation processes already underway or risking undue delays in the effective date of IFRS 17. The Board therefore granted approval for the staff to start the balloting process for issuance of an exposure draft to amend IFRS 17. The Board also reconfirmed the proposed one year deferral of IFRS 17 and the temporary exemption of IFRS 9. None of the Board members noted that they, at this stage, plan to dissent from the proposals in the Exposure Draft.

The IASB Board also agreed that the effective date of the amendments would be consistent with the revised effective date and proposed some clarifying amendments to the standard to ensure that the words in the standard reflect the decisions made by the Board during its deliberations. The Board also considered some additional stakeholder concerns but decided that they did not require amendment of the standard.

The exposure draft of proposed amendments to IFRS 17 is expected to be published at the end of June 2019.

The views in this In transition are based on our observations from the 9 April 2019 meeting, and they might differ in some respects from the official report of the meeting that will be published by the IASB in the 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. From October 2018 to March 2019 the IASB evaluated the reported concerns and implementation challenges against the criteria for potential amendments on an individual basis. The staff noted that as part of this, both staff and the Board have reviewed possible approaches to dealing with the concerns and implementation challenges. In total, the process has resulted in proposed narrow scope amendments in 12 areas of IFRS 17 in addition to several clarifying amendments that are classified as annual improvements. These latter amendments are minor changes that clarify the words in a standard or correct relatively minor unintended consequences, oversights, or conflicts between existing requirements in a standard.

### Items discussed during the April IASB Board meeting

4. In the April 2019 Board meeting the IASB evaluated, as a whole, the amendments proposed in the period from October 2018 to March 2019 against the criteria it agreed to, considered the likely effects of the proposed amendments to IFRS 17 and the effective date of the amendments. The Board also agreed to propose 7 clarifications that are classified as annual improvements. Below is a summary of the staff papers and the decisions reached by the Board at the April 2019 meeting.

Staff paper	Description	IASB Decision
<a href="#">02A</a> - Overview of the amendments to IFRS 17	Consideration and evaluation of all proposed amendments as a whole against the criteria and analysis of the effects of the proposed amendments	N/A - Background paper
<a href="#">02B</a> - Due process steps and permission for balloting	Asks the Board to confirm its tentative decision to defer the mandatory effective date of IFRS 17 (and IFRS 9 deferral) by one year to periods commencing on or after 1 January 2022 and seeks the Board's permission for the staff to begin the balloting process for an Exposure Draft.	All Board members agreed; no Board members plan to dissent
<a href="#">02C</a> - Sweep issues	Discussion of the staff proposal to align the effective date of the proposed amendments with the IFRS 17 revised effective date and additional stakeholder concerns relating to IFRS 17	The Board agreed with the proposed effective date of the amendments and agreed not to propose further amendments.
<a href="#">02D</a> - Annual improvements	Consideration of limited changes to IFRS 17 that either clarify the wording in the standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements.	The Board agreed with the staff proposals
<a href="#">02E</a> - Supplement to Agenda Paper 2D Annual improvements - feedback from April TRG meeting	Feedback from the April TRG on definition of investment component, disaggregation of changes in the risk adjustment for non-financial risk, and treatment of changes in the value of underlying items that were incorporated into the annual improvements discussed in agenda paper 2D	N/A - Background paper

### Consideration and evaluation of all proposed amendments as a whole and permission for balloting

5. All Board members agreed to give the Staff permission to start the balloting process for an Exposure Draft of proposed amendments to IFRS 17. None of the Board members provided any comments on the analysis prepared by staff of the amendments against the criteria agreed by the Board in October 2018. That is, the amendments do not result in a significant loss of useful information relative to that which would otherwise be provided by IFRS 17 for users of financial statements or unduly disrupt implementation processes already under way or risk undue delays in the effective date of IFRS 17. The Board members had no comments on the staff analysis of the proposed amendments. A summary of the amendments is included towards the end of this publication.

6. All Board members confirmed the decisions from November 2018 where the Board tentatively agreed to defer the mandatory effective date of IFRS 17 and the fixed expiry date for the temporary exemption applying IFRS 9 - Financial Instruments by one year, making it effective for periods commencing on or after 1 January, 2022. The Board acknowledged that effective date is normally considered after the extent of potential amendments are evaluated. However, the proposed one year deferral was discussed in advance to provide a clear direction to help companies with their planning.

7. No Board members intend, at this stage, to dissent from the proposals in the Exposure Draft.

## Sweep issues addressed

8. The IASB Staff had identified five sweep issues for this meeting. A sweep issue is a technical matter identified during the balloting of a document that needs to be resolved by a discussion by the IASB or the Interpretations Committee in a public meeting. They noted that additional sweep issues would be brought to the Board at its May meeting.

9. All Board members agreed to propose that the effective date of the proposed amendments should be aligned with the effective date of IFRS 17. That is, entities would be required to apply IFRS 17, and any proposed amendments at the same time. Entities that elect to early adopt the standard would be required to adopt the amended standard. A Board member commented that this approach is similar to the IFRS 9 project where entities were not allowed to adopt a superseded version of IFRS 9 when an updated version was finalised. The staff responded to a question from one Board member that whether an entity is required to restate comparatives if an entity early adopts IFRS 17 prior to the amendments' finalisation would be considered if and when this scenario arises, which staff believe is unlikely.

10. All Board members agreed to not propose any further amendments for the four other sweep issues addressed in the meeting. One Board member noted that any further amendments that introduce additional optionality in the standard would need to pass a very high hurdle. The stakeholder concerns considered by the Board in these sweep issues are summarised as follows:

- Accounting mismatch that occurs when an entity is applying the option to disaggregate insurance finance income or expenses between profit or loss and OCI in the general model and is using derivatives to mitigate financial risks. The staff noted that this only occurs when the OCI election is made, and other elections could be made to mitigate these mismatches.
- Accounting mismatch that occurs when an entity is applying the option to disaggregate the insurance finance income or expenses between profit or loss and OCI in the variable fee approach (VFA) and chooses to apply the risk mitigation option. The staff noted that, similar to the previous reported concern, this only occurs when the OCI election is made, and other elections could be made to mitigate these mismatches. In addition, entities have more options under the VFA model that could mitigate this mismatch.
- Some stakeholders have noted that due to significant use of net settlement of balances, particularly in reinsurance and broker arrangements, it has been requested that the requirements of IFRS 17 be amended to exclude amounts payable and receivable from the scope of IFRS 17 and instead include them in the scope of IFRS 9.
- A stakeholder has asked that IFRS 9 be amended such that entities that choose to restate comparatives upon IFRS 9 adoption be permitted to apply IFRS 9 to items that have already been derecognised (which is not permitted in the existing IFRS 9 transition requirements). One Board member noted that in the deliberations of the transition requirements in IFRS 9, this requirement was introduced as a relief. Some IFRS 9 adopters had previously expressed similar concerns, but the Board ultimately agreed to retain the requirements.

## Annual improvements

11. Annual Improvements are defined as narrow-scope or minor amendments to Standards or Interpretations. The IASB noted that the annual improvements related to IFRS 17 will be exposed for comments in the same exposure draft as the other amendments.

12. All Board members agreed on the seven annual improvements proposed in this meeting. A summary of proposed annual improvements, including those agreed to in June 2018 is included towards the end of this publication. When the IASB discussed the annual improvements in June 2018, it was agreed to amend the definition of coverage period for contracts under the VFA to include the period in which investment-related services are performed. This annual improvement is now included in the general amendment for the contractual service margin with investment-return services for general model contracts.

13. Many Board members noted that the feedback from the TRG was relevant, and the staff noted that one of the concerns addressed by the TRG in April 2019 on whether entities are required to separate the amounts related to return of premium and investment components for disclosure purposes would be brought back as a sweep issue in the IASB May Board meeting.

14. The IASB members mainly provided comments on the same matters that TRG members expressed their views on in the previous TRG meeting. Many Board members were satisfied with the reporting from the TRG:

- In the April TRG meeting TRG members expressed mixed views on the need for a clarification of the definition of an investment component to the amount that is expected to be repaid 'in all circumstances' instead of 'even if an insured event does not occur'. Some Board members noted that this clarification is needed given the discussion held by the TRG, and that the rationale included in the staff papers should be included in the amended basis for conclusions.
- One IASB member noted that it was the Board's intention that when an entity elects to disaggregate the financial effects in the risk adjustment, it should not adjust the contractual service margin for changes in financial risks, thus the proposed clarification was aligned with the Board's intention.
- One Board member noted that he found helpful the description from the TRG that changes in the measurement of a group of insurance caused by changes in underlying is in all circumstances treated as a change related to financial risk.

## Next steps

15. The staff will start the process of drafting an exposure draft on the amendments including the annual improvements to IFRS 17, and plan to ask the Due Process Oversight Committee permission for a reduced comment period. In the May 2019 IASB meeting the staff will ask the Board to set the comment period and at this meeting, the staff will bring any additional sweep issues.

16. The previously communicated timeline has not changed, and the staff expect to publish the exposure draft of proposed amendments to IFRS 17 at the end of June 2019.

## Overview of proposed amendments and annual improvements

### Summary of proposed amendments to IFRS 17

17. In the table below we have summarised the proposed amendments agreed by the Board in the period from October 2018 to March 2019 (in addition to the June 2018 decisions on coverage period for VFA contracts).

Area	Meeting	Proposed amendment
Scope	February 2019	Scope exclusions from IFRS 17 for loans where the only insurance in the contract is for the settlement of some or all of the obligations created by the contract.
	March 2019	IFRS 9 transitional requirements on loans that transfer significant insurance risk
Scope	March 2019	Scope exclusion in IFRS 17 for credit cards with insurance coverage, where the insurance cover is not considered in the pricing of the credit card agreement
Insurance acquisition cash flows	January 2019	Amend requirements for acquisition cash flows that are related to anticipated future renewals outside the contract boundary, allowing an entity to recognise an asset for these acquisition cash flows (and related amendments, including a recoverability analysis).
	March 2019	Disclosure requirements arising from the proposed amendment on acquisition cash flows related to anticipated future renewals.
Contractual Service Margin	June 2018	Clarify that the coverage period for contracts with direct participating features includes the period the entity provides coverage for insured events or investment-related services
	January 2019	Require an entity to allocate the contractual service margin for insurance contracts without direct participation features based on coverage units determined considering both insurance coverage and any investment-return service (and related amendments).
	March 2019	Disclosure requirements arising out of the proposed amendment on amortisation of the contractual service margin
Risk mitigation	January 2019	Risk mitigation exemption expanded to reinsurance held for insurance contracts with direct participation features (financial risks).
Reinsurance Contracts held	January 2019	Require an entity to recognise a gain on reinsurance contracts held when, at initial recognition, 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).
Presentation of Insurance contracts	December 2018	Separate presentation of portfolios of assets and portfolios of liabilities.
Effective date	November 2018	One year deferral of the effective date of IFRS 17 to 1 January 2022.
	November 2018	Temporary exemption to IFRS 9 extended to 1 January 2022.
Transition	February 2019	Amend the transition requirements related to classification of claims incurred acquired prior to transition under the modified retrospective approach and fair value approach.
Transition	March 2019	Allowing an entity to apply the risk mitigation option under the VFA prospectively from the transition date.
Transition	March 2019	When the risk mitigation option is elected, permit entities to apply the fair value approach on transition even if they can apply the standard retrospectively, if specified criteria are met.

## Summary of proposed annual improvements to IFRS 17

18. In the table below we have summarised all amendments classified as annual improvements

Impacted paragraph	Meeting	Proposed annual improvement
IFRS 17.B96(c)	April 2019	Clarify that the impact of changes relating to the time value of money and financial risk should not adjust the contractual service margin for differences in the investment components expected to be payable in the period and the actual investment component that becomes payable in the period.
IFRS 17.B96(d) and 17.B97 (a)	April 2019	Clarify that when an entity chooses to disaggregate the impact of financial risk and time value of money in the changes in the risk adjustment, it shall not adjust the contractual service margin for the impact of those changes.
IFRS 17. B118	April 2019	Clarify that an entity can discontinue the use of the risk mitigation option to a group of insurance contracts only if the eligibility criteria for the group cease to apply.
IFRS 17 Appendix A	April 2019	Clarify the definition of an investment component, to be 'the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances'.
IFRS 17.11	April 2019	Ensure IFRS 17 applies to investment contracts with discretionary participation features and that contracts meeting that definition are not subject to separation of a distinct investment component
IFRS 17.48 and 17.50	April 2019	Clarify that changes related to future service related to changes in the risk adjustment for non-financial risk also adjust the loss component.
IFRS 17.B128	April 2019	Clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items should, for the purposes of IFRS 17, be treated as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk
IFRS 17.27	June 2018	Clarify that the asset recognised for acquisition cash flows relating to insurance contracts in the group include those relating to contracts issued and 'expected to be issued';
IFRS 17.24 and 17.28	June 2018	Clarify that in recognising a group of insurance contracts, an entity should include only contracts that meet the recognition criteria, applied to each contract, rather than those 'issued by the end of the reporting period'
IFRS 17.104, 17.B121 and 17.B124	June 2018	Clarify that some amount of risk adjustment for non-financial risk might be captured in other components in the IFRS 17 insurance contract reconciliations and revenue analyses which was not recognised in the existing disclosure wording and could have led to potential double counting of the risk adjustment in the disclosures;
IFRS 17.128 and 17.129	June 2018	Clarify that the IFRS 17 sensitivity analysis disclosures should show how profit or loss and equity would have been affected by changes in 'risk variables' rather than changes in 'risk exposures'
IFRS 17.39 and 17.B93-95	June 2018	Clarify that business combinations under common control are excluded from the scope of the requirements for business combinations in IFRS 17;
IFRS 3.64N	June 2018	Clarify that the consequential amendment in IFRS 3, 'Business Combinations', on the classification of insurance contracts applies prospectively (that is, to those transactions entered into after the date of initial application of IFRS 17);
IFRS 7.3, IFRS 9.2.1 and IAS 32.4	June 2018	Clarify that insurance contracts, as defined in IFRS 17, which would include those held as well as those issued and subject to IFRS 17, are exempt from the requirements of financial instruments standards (IFRS 7, IFRS 9 and IAS 32), except as otherwise noted; and
IFRS 17.IE104-105	June 2018	Clarify that the IASB illustrative Example 9 in IFRS 17 includes estimates of the time value of the death benefit guarantee embedded in the contract at initial recognition. An explanation will be added to indicate what factors are included, even though the numbers cannot be derived.

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

**Authored by:**

- [In transition INT2019-04](#): Transition Resource Group ('TRG') continues discussions on IFRS 17 implementation
- [In transition INT2019-03](#): The IASB finalises its discussions on IFRS 17 reported concerns and implementation challenges
- [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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