In transition

The latest on IFRS 17 implementation

Release date: 21 May 2020

No. 2020-04

The IASB considers the final technical points before finalising the amendments to IFRS 17

At a glance

On 20 May 2020, the IASB ('Board') considered staff analysis and questions on sweep issues identified during the balloting process. The Board tentatively decided to amend IFRS 17 to correct minor technical issues relating to:

- pre-recognition cash flows other than insurance acquisition cash flows;
- reinsurance contracts held — identifying losses on underlying insurance contracts;
- insurance revenue — income tax;
- definitions of the liability for remaining coverage and the liability for incurred claims;
- variable fee approach — applying together the OCI option and the risk mitigation option; and
- the effects of the unexpected payment or non-payment of investment components in a period.

The Board expects to issue the amendments to IFRS 17 by the end of June 2020.

The views in this In transition are based on our observations from the 20 May 2020 meeting, and they might differ in some respects from the official report of the meeting that will be published by the IASB in an IASB Update at a later date.

Background

1. On 26 June 2019, the Board published the Exposure Draft, 'Amendments to IFRS 17' ('ED'). The ED responded to some of the concerns and challenges raised by stakeholders, proposing amendments intended to support entities implementing IFRS 17. The proposals were intended to reduce implementation costs and to make it easier for entities to explain results from applying IFRS 17 to users of financial statements.

2. Since the ED's 90-day comment period ended on 25 September 2019, the Board has discussed the feedback from outreach and comment letters on the ED and re-deliberated the matters raised by respondents. In March 2020, the Board completed its planned re-deliberations of the feedback on the ED and directed the staff to start the balloting process of the amendments to IFRS 17 as well as IFRS 4 (to extend the exemption from IFRS 9).

Items discussed during the May Board meeting

3. At its May 2020 meeting, the Board considered the staff analysis and questions for Board members on the following sweep issues identified during the balloting process:

Topic	Tentative decision	PwC observation
Pre-recognition cash flows other than insurance acquisition cash flows	The Board tentatively decided to amend paragraphs 38 and 79 of IFRS 17 to require an entity to include, in the initial measurement of the contractual service margin ('CSM') of a group of insurance contracts, the effect of the derecognition of any asset or liability previously recognised: (i) for cash flows related to that group paid or received before the group is recognised; and (ii) applying other IFRS Standards before the cash flows are paid or received and before the group is recognised.	These tentative decisions: ● correct an inadvertent restriction that would otherwise prevent an entity from including, in the determination of the CSM cash flows that would have been included in the fulfilment cash flows of the group if they were paid after initial recognition rather than before; and ● extends that approach to assets or liabilities previously recognised applying other IFRS Standards before the cash flows are paid or received. An example of such an asset or liability is when an entity recognises a liability applying IFRS 9 because it has been invoiced for received services from a broker relating to a group of contracts not yet recognised but has not yet paid the invoice. The cash flow when the liability is settled will meet the definition of an insurance acquisition cash flow. The tentative decision would allow recognition of an asset for insurance acquisition cash flows in this circumstance.
Reinsurance contracts held - identifying losses on underlying insurance contracts	The Board tentatively decided to amend IFRS 17 to add a paragraph that requires an entity with a group of onerous insurance contracts, and reinsurance held coverage on only some of those contracts, to use a systematic and rational method of allocation to determine the portion of losses recognised on the group of insurance contracts that is reinsured. An entity would use a systematic and rational method of allocation to determine the portion of subsequent changes in the loss component of the group of insurance contracts that relates to underlying insurance contracts in the group.	The Board recognised that a reinsurance contract that an entity holds could cover only some of the contracts issued within a group. This amendment is intended to avoid imposing the undue burden of requiring an entity to identify and track the amount of losses on onerous insurance contracts issued at a level lower than the group level. The staff reported feedback from stakeholders that the original recommendation to require the same systematic allocation and rational method of allocation be used at initial recognition and subsequent measurement would prevent an entity using the more granular information that might be available at initial recognition compared to subsequent measurement. Accordingly, the staff modified the recommendation so that the same method would not be required. However, the staff noted that a systematic allocation would be consistent between periods if the same information was available.
Insurance revenue - income tax	The Board tentatively decided to amend paragraph B121 IFRS 17 to require an entity to recognise insurance revenue	This amendment enables the Board to achieve its intention that an entity should recognise insurance revenue for the

	when the entity recognises in profit or loss amounts related to income tax that are specifically chargeable to the policyholder under the terms of an insurance contract.	consideration paid by the policyholder for income tax payments that are specifically chargeable to the policyholder under the terms of an insurance contract.
Definitions of the liability for remaining coverage and the liability for incurred claims	The Board tentatively decided to amend IFRS 17 to include in the definitions of the liability for remaining coverage and the liability for incurred claims all obligations arising from insurance contracts issued by an entity.	This amendment amends the definitions of the liability for remaining coverage and liability for incurred claims to provide a complete list of all obligations giving rise to cash flows that are included in the measurement of the insurance contract liability.
Variable fee approach - applying together the OCI option and the risk mitigation option	The Board tentatively decided to amend IFRS 17 to: (a) specify that paragraphs 88 and 89 of IFRS 17 do not apply to the insurance finance income or expenses that arise from the application of the risk mitigation option; and (b) add new requirements to the risk mitigation option that specify how to present insurance finance income or expenses that arise from the application of the risk mitigation option.	This amendment avoids a possible accounting mismatch if an entity that is required to use the current period book yield approach also elects to apply the risk mitigation option in IFRS 17.
The effects of the unexpected payment or non-payment of investment components in a period.	The Board tentatively decided to amend the wording of paragraph B96(c) of IFRS 17 to identify the differences that B96(c) requires to adjust the contractual service margin. After the amendment, B96(c) would specify that the difference that adjusts the contractual service margin is determined by comparing (i) the actual investment component or loan to a policyholder that becomes payable or repayable in a period with (ii) the payment or repayment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment or repayment before it becomes payable or repayable.	This amendment is intended to clarify the Board's intention in B96(c).

Next steps

4. The Board confirmed that it expects that the amendments will be issued by the end of June 2020.

PwC Observation:

The tentative decisions at this meeting dealt with very detailed, technical matters that have arisen as the staff finalise the wording for the amendments to IFRS 17. As expected, there are no substantive changes to the decisions previously taken. The Board's statement that it will issue the amendments by the end of June 2020, is in line with the plan that it set out in the ED.

Find out more in PwC's publications and resources related to IFRS 17:

- In transition INT 2020-03
- In transition INT 2020-02
- In transition INT 2020-01
- In transition INT 2019-09
- In transition INT 2019-08
- In transition INT 2019-07
- In brief INT 2019-09 Proposed amendments to IFRS 17, 'Insurance contracts'
- Illustrative IFRS consolidated financial statements 2019 - Insurance

PwC clients who have questions about this In transition should contact their engagement partner.

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190130-132255-EP-OS