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Transition Resource Group (‘TRG’) debates more IFRS 17 implementation issues

Insurance TRG held a two-day meeting addressing 32 submissions received since the May meeting

At a glance

At its third meeting held on 26 and 27 September 2018, the TRG for IFRS 17 continued the discussion on implementation issues. The IASB has received 81 submissions, and 32 for the September meeting. At the meeting the TRG discussed ten detailed agenda papers including matters related to identification of the issuer of an insurance contract and policyholder, cash flows outside the contract boundary, identification of insurance risk, application of the top-down discount rate, insurance revenue and commissions, acquisition cash flows, annual cohorts and premium experience adjustments. The issues resulted in clarification but do not require further consideration, although the industry noted that some submissions will give rise to further implementation challenges.

The views in this document are based on our observations from the meeting, and they might differ in some respects from the official summary of the meeting to be published by the IASB at a later date.

Background on TRG

1. In connection with the issuance of IFRS 17, ‘Insurance Contracts’, the IASB established a working group, the TRG, to provide a public forum for stakeholders to follow the discussion of questions raised on implementation of the new standard. The TRG comprises financial statement preparers and auditors, and an additional three members with observer status representing international security regulators, insurance supervisors and actuarial organisations.
2. Overall, 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. During the meetings, the TRG members share their views on the issues. The TRG will not issue guidance. The IASB will determine what action, if any, will be taken on each issue. Possible actions include providing supporting implementation guidance, such as webinars and case studies, and/or referral to the Board for potential editorial corrections or referral to the Interpretations Committee.
3. Additional background on the issues discussed at the TRG meeting can be found on the IASB website.

Highlights of the TRG discussions

Summary of issues discussed

4. The Chairman of the TRG noted that the IASB expects to have an educational session on IFRS 17 at the October Board meeting. This session will include issues identified through other processes, such as the matters raised by the CFO Forum to EFRAG, and the letter that EFRAG has sent to the IASB.

5. Submissions for the December TRG meeting are requested by 26 October 2018. The IASB is seeing more detailed fact patterns relevant only in particular situations in the submissions received, and the IASB will decide in October whether the scheduled TRG meeting for December should be postponed to the first quarter of 2019.

6. There were ten detailed agenda items discussed at the September meeting. These issues resulted in clarification of the guidance. A summary of the issues discussed is provided in the table below, followed by a detailed description of the meeting:

Date	TRG Agenda Ref #	Topic discussed	Anticipated next steps
26 and 27 September 2018	1	Insurance risk consequent to an incurred claim	No further action expected
	2	Determining discount rates using a top-down approach	No further action expected
	3	Commissions and reinstatement premiums in reinsurance contracts issued	No further action expected
	4	Premium experience adjustments related to current or past service	No further action expected
	5	Cash flows outside the contract boundary at initial recognition	No further action expected
	6	Recovery of insurance acquisition cash flows	No further action expected
	7	Premium waivers	No further action expected
	8	Group insurance policies	No further action expected
	9	Industry pools managed by an association	No further action expected
	10	Annual cohorts for contracts that share in the return of a specified pool of underlying items	No further action expected
	11	Reporting on other questions submitted	One submission will be reported back to the Board, and some other submissions will be considered through processes other than the TRG

Issues discussed at the TRG meeting

Insurance risk consequent to an incurred claim

7. The TRG discussed a situation in which an incurred claim under an insurance contract creates an additional insurance risk for the entity that would not have existed if no claim were made (referred to as ‘consequential insurance risk’). An example is a policy that

provides coverage for a policyholder becoming disabled during a specified period. The consequential insurance risk is that, if a valid claim is made, the entity is required to make regular payments to the policyholder until the policyholder recovers, reaches a specified age, or dies. To illustrate the wide variation of contracts affected, another example considered a fire insurance coverage that provides coverage for the cost of rebuilding a house damaged by fire that occurred in the period specified in the contract, where there is uncertainty regarding the ultimate cost of rebuilding the house.

8. The issue is whether the coverage period comprises only the specified period in which a policyholder suffers a disability event (or fire) covered by the contract, or whether it also comprises the period over which the disability payments might be made (or the ultimate cost of fire damage is determined) for which the amount of payments is uncertain. That is, is the entity's obligation to pay amounts consequent on an incurred claim that are subject to insurance risk: (a) a liability for incurred claims; or (b) a liability for remaining coverage? The answer affects the timing and pattern of recognition of the contractual service margin (CSM), as well as how changes in fulfilment cash flows are treated – that is, as adjustments to the CSM if they relate to future service, or immediately in profit or loss if they relate to current or past service.

9. The TRG agreed with the staff that both views are valid interpretations of IFRS 17, and that it is a matter of judgement for the entity as to which interpretation provides the most useful information about the insurance service provided.

10. An entity's election would be treated as an accounting policy choice, subject to IAS 8. In accordance with IAS 8, an entity is required to apply accounting policies consistently for similar transactions, other events and conditions. The IASB staff paper noted that the same approach should be applied to similar transactions and over time. For example, the same approach should be applied to contracts of the same product type or with similar insurance service. This implies that an entity could adopt different policies for, say, disability products and workers' compensation products. However, different accounting policies could not be applied to the same products offered in different geographies.

PwC observation:

During the discussion, there was some debate as to whether this was truly an accounting policy choice or a judgement based on management's perception on what is the most useful information about the insurance service provided. The staff summary at the end of the discussion reiterated that this is an accounting policy choice as described in IAS 8. IAS 8 notes that management uses its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users and that is reliable.

Determining discount rates using a top-down approach

11. The TRG addressed the application of the top-down discount rate approach for insurance cash flows that do not vary based on the returns on underlying items. The issue is whether an entity should reflect in the discount rate any changes occurring in the assets that it holds when it buys less liquid, higher-yielding assets without there being a change in the liquidity characteristics of the insurance cash flows. It is assumed that the entity employs the practical expedient in paragraph B81 of IFRS 17 and does not adjust the yield curve for differences in liquidity between the group of insurance contracts measured and the reference portfolio.

12. The TRG noted that, as a simplification to the discount rate determination under paragraph 36 of IFRS 17, the top-down approach (para B81 of IFRS 17) permits an entity to not adjust the yield curve derived from a reference portfolio of assets for differences in liquidity characteristics between the insurance contracts and the reference portfolio. Despite this practical expedient, the staff paper clarified that an entity should select an appropriate portfolio of assets that has liquidity characteristics consistent with those of

the insurance liabilities. Paragraph B196(b) of IFRS 17 notes that “the Board expects a reference portfolio will typically have liquidity characteristics closer to the liquidity characteristics of the group of insurance contracts than highly liquid, high-quality bonds”. This is consistent with the broad principle in paragraph 36 of IFRS 17 that the discount rate needs to reflect the characteristics of the insurance contracts. TRG members commented that the staff paper’s clarification of the discount rate selection under the top-down approach was helpful.

13. A TRG member noted that changes can be made to an asset portfolio (such as replacement with more illiquid assets) supporting long tail liabilities in which the characteristics of the revised portfolio of assets are still representative of the characteristics of the liabilities. However, because of the long-term nature of the cash flows, even small changes made to the composition of the asset portfolio (without affecting the value of the assets) can have a large impact on the liability measurement. This could result in a significant change in the liability and consequent movement in either profit or loss or other comprehensive income, without there being a change in the liquidity characteristics of the insurance contract liabilities. It was emphasised that disclosure will be important in such situations, to help users understand the impact of the top-down approach and the expedient to not adjust the discount rate for differences in liquidity characteristics between the assets and the liabilities.

PwC observation:

The discussion clarified that the IASB intended that, in employing the top-down approach, the liquidity characteristics of the referenced asset portfolio and the insurance contract liabilities should be consistent, despite the practical expedient in paragraph B81 to not require adjustment for any differences in liquidity. Entities using this approach should ensure that, both at inception and on an ongoing basis, they adhere to this principle.

Commissions and reinstatement premiums in reinsurance contracts issued

14. The IASB received a number of submissions about how amounts exchanged between the issuer of a reinsurance contract (reinsurer) and the holder (cedant) should be accounted for in the financial statements of the reinsurer. The discussion covered common types of payments between the two parties to the contract, which are often labelled as commissions but can be referred to by other names. The discussion also covered reinstatement premiums charged to the cedant or insured following the occurrence of an insured event.

15. The TRG agreed that amounts exchanged between the reinsurer and the cedant that are not based on the amount of claim incurred represent adjustments to the reinsurer’s insurance service revenue (premium) rather than acquisition costs or claims. The economic effect of such an exchange, for both the cedant and the reinsurer, is equivalent to the reinsurer charging a lower premium. To the extent that the amount represents an amount that is repaid to the cedant (for example, a gross premium is paid to the reinsurer and, at a later date, an amount is repaid to the cedant in the form of a ceding commission or otherwise), it could be a deposit component.

16. The TRG also agreed that amounts that are exchanged between the parties, based on the level of claims incurred by the cedant, should be recognised as adjustments to insurance service expense (claims incurred) by the reinsurer.

17. A TRG member and the staff pointed out that, while the above accounting is not explicitly described in the standard as it relates to accounting by the reinsurer, the above conclusions are consistent with the accounting that is explicitly required for reinsurance contracts held (para 86 of IFRS 17). It was noted that the requirements for reinsurance

held are based on the economic effects of the exchange between the reinsurer and the cedant, and therefore the guidance is equally applicable to both parties.

18. The IASB staff paper noted that mandatory reinstatement premiums that are payable based on the level of claims are within the boundary of the existing reinsurance (or insurance) contract, and they should be recognised as adjustments to claims incurred by the reinsurer (or insurer) when the related claims are incurred. Voluntary reinstatement premiums that are charged to the cedant (or insured) based on predetermined terms are also within the boundary of the existing contract, and they should be recognised as insurance service revenue as the additional coverage is provided.

19. One TRG member suggested that mandatory reinstatement premiums in some fact patterns should be recorded as insurance service revenue (premium) rather than as an adjustment to claims, because the premium is for additional cover. A TRG member and the staff noted that, in the fact pattern provided in the submission, cash flows are contingent on claims and therefore should adjust claims, no matter how those cash flows are labelled (for example, as premiums, commissions, or experience adjustments).

PwC observation:

The IASB staff paper noted (and staff commented during the meeting) that the issues and principles discussed in the paper are relevant for both insurance contracts and reinsurance contracts issued. However, a few TRG members seemed to take exception to this view. Direct insurance contracts mentioned, that might have similar features, included various types of property/casualty contracts with experience-rating provisions or similar features. It was suggested that perhaps the staff should update their educational materials to clarify these views, although the staff noted that, due to time constraints, this was not likely in the near future.

Premium experience adjustments related to current or past service

20. The IASB staff received questions from a few constituents on how differences between expected premiums and actual premiums (that is, premium experience adjustments) that relate to current or past service should be accounted for. The issue is whether those differences should adjust the CSM or be recognised in the statement of profit or loss immediately. Examples include workers' compensation in which a premium rate is applied to estimated headcount and the total premium is adjusted at a later date based on actual headcount, and reinsurance in which coverage in a prior period was based on estimated exposure and adjusted in the current period based on the actual amount of underlying insurance contracts covered.

21. The IASB staff paper and the TRG members agreed that premiums relating to past or current service (premium experience adjustments) should be recognised in the current period as revenue. However, TRG members noted that the analysis of insurance revenue in paragraphs B124 and 106 of IFRS 17 does not specifically identify premium experience adjustments relating to past or current service as a component of revenue. Some members suggested that, in addition to the three revenue components listed in these paragraphs, premium adjustments relating to past or current service should also be listed. The IASB staff noted that they did not think this clarification was needed, given that the purpose of paragraph B124 of IFRS 17 is merely to demonstrate an alternative analysis of insurance revenue as determined by paragraph B123 of IFRS 17.

22. Two TRG members pointed out that there might be an unintended consequence of the interaction between the current period recognition of premiums relating to current service and the requirement in paragraphs 44(e) and B119 to recognise CSM based on actual coverage units provided in the current period. If an additional premium is recognised in the current period relating to additional exposure (for instance, due to actual headcount being higher than expected), and coverage units are also increased in

the current period due to the increased headcount, applying actual coverage units will affect the pattern on CSM being recognised.

PwC observation:

One TRG member noted that it is sometimes difficult to determine whether premium experience adjustments relate to past/current service versus future service. The staff indicated that this is a matter of judgement.

Cash flows outside the contract boundary at initial recognition

23. The TRG addressed the issue of how to subsequently account for cash flows that are outside the contract boundary of an insurance contract at initial recognition, but the cash flows belong to the same legal contract. In particular, there was discussion on the interrelationship between the requirements in paragraph 35 of IFRS 17 (cash flows that are outside the boundary of an insurance contract) and the requirements in paragraph B64 of IFRS 17 (reassessment of the boundary of an insurance contract at each reporting date).

24. Example 1, used by the staff to illustrate the application of paragraphs B64 and 35 of IFRS 17, was a five-year health insurance contract with an annual repricing mechanism, where the insurer is able to reprice the premium within limits. At first, the ability to reprice annually is expected to have commercial substance, but it is later determined not to have substance. Example 2 is a one-year contract with a renewal option, and Example 3 is a two-year proportional reinsurance contract in which either party has the unilateral right to cancel with 90 days' notice. Examples were provided to illustrate the narrow application of paragraph B64 that was intended by the IASB.

25. The IASB staff paper illustrated that application of paragraph B64 was appropriate for the fact pattern in Example 1 of the paper, but not for the other two examples. Example 1 is a five-year health insurance contract with an annual repricing mechanism, where the insurer is able to increase premiums annually by a maximum of 100%. At first, the ability to reprice annually is expected to have commercial substance, and it results in a one-year contract boundary. However, the entity subsequently determines that, due to major increases in local costs of healthcare, the 100% increase limitation will prevent it from being able to fully reprice, and so the revised contract term for accounting purposes is now five years. The boundary of the contract is reassessed at each reporting date only when there are matters already considered related to determination of the original contract boundary.

26. The staff paper illustrated the application of paragraph 35 of IFRS 17 with Example 3, a two-year proportional reinsurance contract in which either party has the unilateral right to cancel with 90 days' notice. This would result in a 90-day contract and, subsequently, even if neither party exercises its right to cancel, it is still a 90-day contract. Any cash flows beyond the initial 90-day contract would be considered a new contract, rather than an extension of the existing contract. Paragraph B64 does not apply, because the boundary of the contract is reassessed at each reporting date only when there are matters already considered related to determination of the original contract boundary.

27. The TRG noted that the staff paper's proposed timing of recognition for the new 90-day accounting contracts was helpful. The paper pointed out that a new reinsurance contract would be recognised after the end of the first three month-period, consistent with the requirement in paragraph 62 of IFRS 17 that recognition should be at the later of the beginning of the coverage period and the initial recognition of any underlying contract in the 'new' reinsurance contract.

28. The TRG members agreed with the staff paper's conclusions on the examples provided, which all involved an extension of coverage rather than the exercise of options for some other type of coverage within the base insurance contract.

29. However, some TRG members interpreted paragraph B64 of IFRS 17 as broader than the description included in the IASB staff paper. They noted that, at each reporting date, when contracts are measured, facts and circumstances should be considered, to determine whether there is a change in the contract boundary – including whether an option that changes the boundary is exercised. Some questioned the interrelationship with the discussion held by the TRG in May 2018, where a few TRG members disagreed with the view that options or riders that are priced on exercise are inside the original contract boundary. One TRG member noted that applying this view is inconsistent with the requirements for contract modifications in paragraph 73 of IFRS 17. However, an IASB Board member noted that an option embedded in the contract is not a modification, and that this question was outside the provided fact pattern.

PwC observation:

For proportional reinsurance contracts held, where there is determined to be a contract boundary that is shorter than the legal coverage period (due to, for example, a 90-day unilateral termination clause), the 'new' reinsurance contract for the next 90 days is only recognised when underlying contracts are recognised. Hence, the cedant does not recognise the 'new' reinsurance contract before the recognition criteria of the underlying contracts are met.

Recovery of insurance acquisition cash flows

30. The question raised is whether insurance acquisition cash flows and the related revenue are recognised in the statement of profit or loss using paragraph B125 if those cash flows cannot be recovered from the cash flows of the portfolio of contracts. In addition, the TRG addressed how experience adjustments related to insurance acquisition cash flows should be presented.

31. The TRG agreed with staff that an entity is not required to separately identify whether it will recover insurance acquisition cash flows at each reporting date, since any remeasurement of fulfilment cash flows will capture any lack of recoverability. The TRG agreed with the analysis prepared by the staff that the amount recognised as insurance revenue should be determined by applying both paragraphs B123 and B125 of IFRS 17. Hence, insurance revenue cannot exceed the amount that the entity is expected to receive as consideration for services provided.

32. A TRG member asked for clarification on whether commissions that are payable in future periods and are contingent on contract continuation (for example, 'renewal commissions'), and that do not require any services other than original contract placement, are acquisition costs. The IASB staff noted that such commissions could be acquisition cash flows if they meet the definition of acquisition cash flows. Other types of recurring commissions might be incurred in exchange for servicing claims or performing other administrative tasks for the insurer; these costs are not acquisition costs, but instead are administrative or maintenance costs as described in paragraph B65(h) of IFRS 17.

33. The TRG members noted that the seven numerical examples included in appendix to the staff paper were very helpful, and they provide useful information on how to account for insurance acquisition cash flows in different situations.

34. The TRG observed that entities need to consider whether experience variances related to insurance acquisition cash flows relate to future service, and adjust the CSM in accordance with paragraph B96 of IFRS 17, or relate to past or current service. Consistent

with the discussion related to premium experience adjustments, TRG members noted that it would be helpful to preparers if the guidance in paragraph 106 relating to experience adjustments was clarified, to include acquisition cost experience adjustments.

PwC observation:

The TRG noted that, in some situations, an experience adjustment could relate to both current and future service and partly adjust the CSM.

Premium waivers

35. The question discussed by the TRG was whether terms in a contract that waive premium payments if an uncertain future event occurs (such as disability of the policyholder) is a pre-existing risk of the policyholder transferred to the entity by the contract and therefore an insurance risk. Alternatively, if the risk is created by the contract, the premium waiver would not be insurance risk.

36. The TRG agreed with the analysis prepared by the staff and observed that the event that gives rise to the premium waiver (for example, becoming disabled) adversely affects the policyholder and is a risk transferred to the insurer (that is, the risk that waives the premiums exists prior to the contract). Therefore the risk that the issuer of the contract is obligated to continue to provide the same benefits (for example, other insurance coverage or investment services) to the policyholder without receiving any consideration is insurance risk.

37. Several TRG members emphasised that the analysis of this issue was useful. They noted that, while the definition of insurance risk has not changed from IFRS 4, the requirements for separation of components in a contract have changed to further restrict ‘unbundling’. Therefore, for certain products, there could be an interrelation between this paper and submission 33 in agenda paper 11. However, the staff emphasised that, unlike some of the products referenced in agenda paper 11, IFRS 17 contains specific guidance related to separation of investment components, whilst separation of loans is not included in the standard.

38. It was observed that the existence of a premium waiver in a contract that otherwise would be an investment contract could result in a contract being classified as an insurance contract in its entirety (unless the investment component separation criteria are met) if the premium waiver constitutes significant insurance risk. Such waivers included in insurance contracts (for example, a term life insurance policy with a premium waiver on disability) are likely to result in multiple coverage units, and they could also impact the coverage period to the extent that the coverage period for the waiver differs from that of the base insurance contract.

PwC observation:

The TRG noted that, in situations where premiums are waived, resulting in a reduction in cash flows (for example, premium payments), this ‘claim’ should not be presented in the insurance service revenue, because this is not consideration received.

Group insurance policies

39. The TRG discussed accounting for group insurance, which can be offered by, for example, an employer or other large-scale entity, a bank, an association or a labour organisation, to its workers or members. The TRG noted that the fact pattern in the submission was very specific, and that the accounting outcome could be different in different fact patterns. The main purpose of the discussion was to outline the key steps required in analysing any group insurance scheme.

40. The TRG agreed with the analysis prepared by the staff. The first step is to identify the policyholder, applying the definition in Appendix A to IFRS 17. Whether compensation is paid either directly or indirectly to the policyholder does not matter, it is who benefits from the compensation.

41. The second step is identifying the insurance contract. For group insurance policies, an entity should consider whether the arrangement, in substance, reflects a single insurance contract (with all certificate holders) or multiple insurance contracts (with each certificate holder). As noted in prior TRG meetings, while the legal form of a contract would generally be considered a single contract for accounting purposes, there are instances in which the legal form does not reflect the substance. The staff paper noted that the following indicators are relevant: (a) whether the insurance coverage is priced and sold separately; (b) the relationship between the certificate holders; and (c) whether the purchase of the insurance coverage is optional for each individual.

42. The TRG noted that the third step is to determine the contract boundary. The fact that the certificate holder expects the contract to extend beyond the termination is not a relevant factor in the contract boundary assessment.

PwC observation:

The TRG observed that group insurance schemes vary significantly, and that minor changes in the fact pattern could lead to different conclusions. For example, the policyholder could be either the entity, the collective of certificate holders or each certificate holder.

Industry pools managed by an association

43. The submission raised two issues related to the accounting for insurance contracts that are within industry pools managed by an association. In the pool scheme, risk is shared between insurers, and results of the pool are allocated to the members. The first issue discussed by the TRG was the accounting by the insurers who are members in the pool, and the second issue discussed was the implications for determination of the risk adjustment for the members in the pool.

44. With regard to the first question, TRG members acknowledged that it might be challenging to determine whether the issuer of the insurance contract is the pool member writing the contract (the insurer), the member's individual share of the pool assumed, or the collective of all the pool members. It was agreed that determination of the issuer in the context of IFRS 17 would depend on the facts and circumstances.

45. IFRS 17 does not cover situations where the contract is issued by more than one entity, and TRG members agreed with the view presented by the staff to first consider whether the contract is within the scope of IFRS 11 or, given that IFRS 17 is silent on such contracts, to apply IAS 8 in determining an appropriate accounting policy by looking to IFRS 11. One TRG member noted that an analysis using agent/principal guidance from IFRS 15 could also be a potential approach for identifying the nature of the agreements between the policyholder, the insurer and the pool activity. Compared to the IFRS 11 application, presentation of the revenue could be different if this approach is taken.

46. In the scenario where the contracts are considered to be issued by the collective of pool members, several TRG members disagreed with the staff paper related to the determination of the risk adjustment. They argued that this confirmed their view from the May TRG meeting that different risk adjustments could exist for different reporting entities within a consolidated group. The IASB staff noted that the difference of views by some members expressed in May was included in an appendix to the staff paper and was not discussed further.

47. The TRG observed that, in determining the risk adjustment, it is the insurer that determines the risk adjustment, not the pool, but acknowledged that the insurer would consider the risk diversification benefits that exist through its membership in the pool. That is, different members could have different risk adjustments for the same share of the assumed risk in the pool, depending on the entity's judgement.

PwC observation:

Several different types of pool arrangements exist, each with unique structures, and each requires its own individual analysis to determine the appropriate accounting under IFRS 17. For example, an insurer that writes business with individual policyholders on behalf of the pool, and then separately takes back a proportionate interest in the pool, might in some situations be considered to be acting as an agent for the pool in the first transaction, and entering into co-insurance with the other pool members in the second transaction. In other situations, the insurer can write 'direct business' directly with individual policyholders and choose to transfer some insurance contracts to the pool as a separate transaction.

Annual cohorts for contracts that share in the return of a specified pool of underlying items

48. There was a lengthy discussion on the level of aggregation for calculating the fulfilment cash flows for contracts where cash flows are affected by cash flows in other groups of contracts. Will the calculation of the fulfilment cash flows at a higher level than the annual cohort level achieve the same accounting outcome as measuring the CSM at an annual cohort level?

49. In the first fact pattern in the IASB staff paper, policyholders share 100% of the returns in the pool of underlying items, including the performance of the insurance contracts. No CSM is recognised, because the entity is unaffected by the cash flows between the policyholders due to the risk sharing. In such situations, calculating the fulfilment cash flows at a higher level than the annual cohort level would achieve the same accounting outcome as calculating them at the annual cohort level.

50. In the second fact pattern in the IASB staff paper, the policyholders equally share in 90% of the returns of the insurance contracts in the portfolio, with the remaining 10% belonging to the entity. In such situations, the example notes that the entity could be affected by the expected cash flows of each contract issued in the group, and calculating the fulfilment cash flows at a higher level would, in this particular fact pattern, not achieve the same outcome as a calculation at the annual cohort level.

51. Several TRG members thought that the fact pattern in the second example was unrealistic, noting that, in many cases, the cash flows at the annual cohort level are not known, as this example assumed; and that, instead, the entity has to allocate the effect of changes in the underlying items in accordance with paragraph B70 of IFRS 17. The staff reiterated that their intent was to illustrate the application of the standard (using the fact pattern that was submitted), and acknowledged that, in different fact patterns, there could be different results. Some members were concerned that the paper could be read as suggesting that, unless there was 100% sharing in the contracts, insurers would have to use annual cohorts.

52. Several TRG members disagreed with the conclusion in the second example in the IASB staff paper. Even though the cash flows by group of contracts are known (and not needing to be allocated), the members still believe that the sharing of any guarantee (or offsetting the adverse claims experience in group 1 in this example) should be done before the underlying results are shared between the groups of contracts. However, other TRG members agreed with the staff conclusion in example 2.

53. One board member noted that the basis for conclusions provides observations about the standard rather than requirements on how to apply it. Paragraph BC 138 of the IFRS 17 basis for conclusions is merely acknowledging that entities do not need to use annual cohorts if the same accounting outcome can be achieved at a higher level, but this equivalence needs to be demonstrated.

PwC observation:

During the discussion by the TRG, it was clear that different forms of profit sharing do exist, and that often the share in returns needs to be allocated at a higher level and allocated to groups in a systematic and rational way which could lead to different outcomes depending on facts and circumstances in each situation.

Reporting on other issues submitted

54. Several TRG members expressed concern over submission number 33 related to the scope of IFRS 17, because many of these products are not issued by insurers, and they emphasised the importance of bringing this to the Board's attention. Products include loans issued by banks and other financial institutions that waive payments on death of the borrower and credit cards providing the holder with coverage for failure of a supplier.

55. Many of the TRG members expressed concern over issue numbers 56 and 67 which note that applying the requirements in IFRS 17 to interim reporting could lead to different measurement of insurance contracts issued by subsidiaries within a group in the subsidiary's financial statements and the group's consolidated financial statements, subject to materiality considerations. TRG members noted that this would be an operational implementation challenge.

56. Some TRG members noted that it would be useful to have a discussion in a future meeting related to mutual entities. However, the staff noted that, unless a new submission is received, the current issue is addressed by the issued educational material.

Topics to be discussed at future TRG meetings

57. The next TRG meeting is scheduled for 4 December 2018 and might be postponed to the first quarter of 2019, depending on the number and content of submissions. The IASB will decide, based on the submissions received by 26 October, whether the meeting in December should be postponed. All of the 81 submissions to date have been considered by either a detailed TRG discussion or reported to the TRG.

What's next

58. The IASB will prepare a report of the meeting, expected to be made publicly available within two working weeks from the meeting date.

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

- 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.

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