



In transition

The latest on IFRS 17 implementation

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The IASB confirms decisions on eight of 19 topics arising from the Exposure Draft 'Amendments to IFRS 17', extending the scope of the amendment for recovery of losses on reinsurance contracts held to all reinsurance contracts held on the date of recognition of onerous direct contracts

At a glance

On 11 December 2019, the IASB ('Board') discussed eight of the 19 topics that it decided it would consider in its re-deliberations of the proposals in the Exposure Draft, 'Amendments to IFRS 17' ('ED'). The Board tentatively decided to finalise six amendments without substantive re-deliberation, as agreed at the November 2019 meeting. The Board also:

- confirmed the proposals in the ED relating to the recovery of insurance acquisition cash flows; and
- decided to extend the scope of the amendments relating to accounting for the recovery of losses for reinsurance contracts held on the date of recognition of onerous direct contracts to all reinsurance contracts held, rather than only to those that provide proportionate coverage.

The Board noted that it expects to consider the proposed effective date of IFRS 17 and the proposed extension of the IFRS 9, 'Financial Instruments', temporary exemption in IFRS 4, 'Insurance Contracts' towards the end of its re-deliberations.

The views in this In transition are based on our observations from the 11 December 2019 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'. The ED responded to some of the concerns and challenges raised by stakeholders, proposing amendments intended to support entities implementing IFRS 17, by reducing implementation costs and by making it easier for entities to explain results from applying IFRS 17 to users of financial statements.
2. The ED's 90-day comment period ended on 25 September 2019. At its October and November 2019 meetings, the Board discussed the feedback from outreach and comment letters on the ED. In November 2019, the Board decided on an approach for re-deliberating the matters raised by respondents on the ED, including the topics for which it would not consider further the feedback from respondents. The Board noted that its tentative decisions about the topics that it will not consider further should reduce uncertainty about any possible additional amendments to IFRS 17 and, therefore, limit disruption to implementation processes under-way.
3. The Board confirmed that, when it considers feedback from outreach and comment letters, it would continue to apply the criteria that the Board set when deciding to propose amendments to IFRS 17. Thus, the Board would seek to ensure that any amendments to IFRS 17 do not:
 - change the fundamental principles of the Standard, because that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17;
 - unduly disrupt implementation already underway; or
 - further delay the effective date of IFRS 17.

Items discussed during the December Board meeting

4. The Board tentatively decided to finalise six amendments without substantive deliberation, as agreed at the November 2019 meeting.
5. The Board also discussed the proposals relating to:
 - the expected recovery of insurance acquisition cash flows; and
 - the accounting for the recovery of losses for reinsurance contracts held.

Amendments finalised without substantive deliberation

6. The Board tentatively decided to confirm, as indicated at its November meeting, the following amendments as set out in the ED without substantive re-deliberation:
 - scope exclusions for loans;
 - coverage units for insurance contracts with direct participation features;
 - presentation of insurance contract assets and liabilities at a portfolio instead of group level;
 - applicability of risk mitigation option for reinsurance contracts held;
 - relief for insurance contracts acquired in a business combination before transition to IFRS 17 by permitting a liability for settlement of claims incurred before an insurance contract was acquired to be classified as a liability for incurred claims; and
 - transition reliefs for the risk mitigation option relating to application from the transition date and the option to apply the fair value approach.

PwC Observation:

The Board's decisions on these topics honour the plan that it agreed at its November 2019 meeting. The staff noted that it would consider the comments received about the requirements for retrospective application of the risk mitigation option at a future meeting.

Expected recovery of insurance acquisition cash flows

7. The Board tentatively decided to confirm, as set out in the ED, the proposed amendments to IFRS 17 relating to the expected recovery of insurance acquisition cash flows:

- to require an entity to allocate insurance acquisition cash flows that are directly attributable to a group of insurance contracts, applying a systematic and rational method to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;
- to confirm that the unit of account for an asset for insurance acquisition cash flows is the group of insurance contracts to which those cash flows have been allocated;
- to finalise the proposed requirements for an entity to assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired;
- to finalise the proposed disclosure requirements in the ED; and
- to retain, unchanged, the requirement in IFRS 17 for an entity to present any asset for insurance acquisition cash flows in the carrying amount of the related portfolios of insurance contracts issued.

PwC Observation:

The proposed amendments relating to insurance acquisition cash flows were supported by most respondents who commented on the proposals. Board members supported finalising the proposals with some clarifications:

- that the allocation of insurance acquisition cash flows to a group could not be revisited after the group had been recognised; and
- that the allocation of insurance acquisition cash flows to groups yet to be recognised should be revised each period, if the assumptions underlying the allocation change.

The Board discussed whether there should be further guidance on what constitutes a systematic and rational allocation, noting that any rational allocation would be expected to consider expected renewals. However, the Board was concerned about specifying guidance that might have unintended consequences for the meaning of systematic and rational allocation elsewhere in IFRS 17 and in other IFRS standards.

Recovery of losses for reinsurance contracts held

8. The Board tentatively decided to amend the proposals for the accounting for the recovery of losses for reinsurance contracts held on the date of recognition of onerous direct contracts, as follows:

- to extend to all reinsurance contracts the proposed requirement that an entity would adjust the contractual service margin of a group of reinsurance contracts held and, as a result, recognise income when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contract to that group;
- to amend the proposed calculation of the income, as a consequence of the extension of the scope of the proposed amendment, to require an entity to determine the amount of a loss recovered from a reinsurance contract held, based on the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held;
- not to add the proposed footnote to paragraph BC304 of the Basis for Conclusions on IFRS 17, relating to the definition of proportionate insurance contracts to avoid disrupting implementation processes, given that the Board had observed that some stakeholders had interpreted the explanation of proportionate coverage in that paragraph differently from what the Board intended. The footnote would no longer be necessary in the context of the Board's decision for the scope of the proposed amendment for reinsurance contracts held;
- to confirm that the amendment to IFRS17 would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts; and
- to clarify that the subsequent measurement of a group of reinsurance contracts held when a group of underlying insurance contracts becomes onerous, also applies when underlying insurance contracts are measured applying the premium allocation approach.

PwC Observation:

This topic attracted the most comments in the response to the ED. Board members expressed their appreciation for the constructive input provided in the comment letters, noting that the alternatives proposed had generally demonstrated an understanding of, and willingness to address the concerns that the Board set out in the Basis for Conclusions to the ED.

Board members acknowledged that their decision would extend the scope of the proposed requirement from a tightly defined population of contracts in the ED, to all reinsurance contracts held. However, the requirement that the reinsurance contract held must be recognised before or at the same time as the loss is recognised on the underlying insurance contracts means that there are still limitations on when the change would apply.

Board members noted that, practically, their choice lay between not addressing this issue at all, or by addressing it for all reinsurance contracts. Nonetheless, some Board members were hesitant, with one commenting that booking a gain against deferred increase of costs in the future was an odd thing for accountants to do.

Next steps

9. The Board is expected to consider the remaining topics in the first quarter of 2020. The Board noted that it would expect to consider the proposed effective date of IFRS 17 and the proposed extension of the IFRS 9 temporary exemption in IFRS 4 towards the end of its re-deliberations.

10. The Board confirmed that, as stated in the ED, its objective is to issue the final amendments to IFRS 17 in mid-2020.

11. The following table summarises which topics the Board expects to consider in future meetings -

Topics discussed at December 2019 meeting	Topics to be considered at a future meeting
Question 1: Scope exclusions	
Scope exclusions for loans proposed in the ED	Proposed scope exclusion for credit cards
Question 2: Expected recovery of insurance acquisition cash flows	
Proposed amendment for expected recovery of insurance acquisition cash flows	Transition relief for insurance acquisition cash flows
Question 3: Contractual service margin attributable to investment services	
Coverage units for insurance contracts with direct participation features	Coverage units for insurance contracts without direct participation features, disclosures and terminology
Question 4: Reinsurance contracts held - recovery of losses	
Proposed amendment for recovery of losses for reinsurance contracts held	
Question 5: Presentation in statement of financial position	
Presentation of insurance contract assets and liabilities at a portfolio instead of group level	
Question 6: Applicability of the risk mitigation option	
Applicability of risk mitigation option for reinsurance contracts held	Applicability of risk mitigation option for non-derivative financial instruments at fair value through profit or loss

Question 7: Effective date

	Deferral of the effective date of IFRS 17 Extension of the IFRS 9, temporary exemption in IFRS 4
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Question 8: Transition reliefs

Relief for insurance contracts acquired in a business combination before transition to IFRS 17 by permitting a liability for settlement of claims incurred before an insurance contract was acquired to be classified as a liability for incurred claims Transition reliefs for the risk mitigation option: <ul style="list-style-type: none">● application from the transition date● option to apply the fair value approach	Prohibition from applying risk mitigation option retrospectively Additional specific transition modifications and reliefs suggested in comment letters
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Question 9: Minor amendments

	Specific feedback on minor amendments and editorial corrections including the proposed amendment to paragraph B107
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Topics not proposed in the ED

	Annual cohorts for insurance contracts with intergenerational sharing of risks between policyholders Classification in a business combination of contracts acquired in their settlement period Balance of costs and benefits of the requirement in paragraph B137 of IFRS 17 relating to interim financial statements
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Find out more in PwC's publications and resources related to IFRS 17:

- [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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