



ACTUARIAL ASSOCIATION OF EUROPE

IFRS 17 status report for the Insurance Committee
Spring Meeting, Sofia, 2019

Agenda

1. Progress on IFRS 17 adoption and implementation
2. Status of the Working Group
 - Next possible initiative
3. Current initiatives
 - Response to the IAN 100 consultation with a European perspective
 - Response to EIOPA's analysis on IFRS 17 vs. Solvency II balance sheet

Progress on IFRS 17 adoption and implementation

Amendments and time line

- By March 2019, the ISAB staff has treated 25 issues with recommendations for the IASB
 - Tentative decision to implement changes in relation to 12 of the issues
 - Tentative decision to retain the existing requirements on 13 of the issues
 - A copy of the tentative decisions are provided as an appendix to presentation
- For full description, see <https://www.ifrs.org/news-and-events/calendar/2019/march/international-accounting-standards-board/>

AP2: Cover note

- Expected time line
 - 8-12 April the IASB is expected to treat all the recommendations as an all-in package
 - Exposure draft to be published by mid-2019
 - Final version to be published early 2020

Key amendments proposed

- Insurance acquisition flows – potential allocation to renewals outside contract boundaries, with asset disclosure
- Reinsurance of insurance contracts
- Allocation of CSM to investment services under the general model
- Application of risk mitigation option
- Balance sheet presentation of insurance contracts at portfolio level
- Alteration of scope, to exclude credit card contracts and allow option to apply IFRS9 or IFRS17 to loans transferring significant insurance risk

Status of the Working Group

Activities

- Proposal for a new initiative to be started 1 May 2019
- Two on-going initiatives that will be reported separately
 - Response to the IAN 100 with an European perspective
 - Response to EIOPA's analysis on the balance sheets of Solvency II and IFRS 17, respectively

Proposal for a new initiative (I/II)

Similarities and differences in the Solvency II and IFRS 17

- IFRS 17 is in many aspects principle based and details are open for interpretation. A large number of European insurers are in progress of defining their IFRS 17 requirements and specifications and deciding the specific interpretation of their product portfolio
- Much focus are directed towards decisions on whether the Solvency II framework for cash flows can be reused or whether new definitions and data are required.
- These entities will inevitably reach different conclusions on how to report similar products. Further, we expect that regulators will enforce a convergence in the years after initial adoption of IFRS 17.
- This means that some entities will have to alter their dataflow and set-up to adapt to new harmonized interpretations

Proposal for a new initiative (II/II)

How to impact the process

- It is not likely that the AAE will play a role in deciding the interpretation of IFRS 17 and how to represent specific products following the new standard.
- However, the AAE may be able
 - **to identify the more controversial subjects** in relation to similarities and differences in the Solvency II and IFRS 17 frameworks,
 - respectively, **and foster a more open discussion** on the interpretation of the rules in order **to accelerate the harmonization and convergence** towards a more unified interpretations of the standard already before implementation.
- The purpose would be for insurers and actuaries **to avoid the waste of resources** in implementing interpretations that have to be redone within a relatively short time frame.



Response to the IAN 100 consultation with an European perspective

IAN 100 consultation

- IAN 100 will become to International Actuarial Note and is an educational document. It serves to familiarize actuaries with approaches that might be taken how the actuarial profession might approach the IFRS 17. IAN does not impose any obligation to MA or individual actuary.
- The current status of IAN takes into account the issued standard and the discussions held until the May 2018 at Transition Resource Group (TRG) meetings.
- The comment period ends 26th April 2019.
- IAN 100 will be developed when more information and decisions will be available.
- The draft IAN has been structured to questions and answers to them.

Response to the IAN 100 consultation

- TF considers the document as helpful tool for actuaries when implementing IFRS 17.
- The main idea of TF is that IAN could provide more concrete answers in order to properly explain the standard from actuarial perspective.
- It will serve the convergence of the application of the standard.
- TF propose further questions which are not discussed in the draft IAN.
- TF extended the scope of IAN by:
 - proposing that those guidelines which may be changed due to the tentative decisions of the IASB will be marked so that the reader can understand that the guidance is still uncertain;
 - that the comments referred in some points to discussions of TRG after May 2019.
- Detailed comments are submitted to Insurance Committee in form of IAA's template and track-changes of the draft IAN.

Response to EIOPA's analysis on IFRS 17 vs. Solvency II balance sheet

Appendix

Tentative decisions about possible amendments to IFRS 17

Copied in from IASB meeting material for March 2019

Proposed amendments

1—Proposed amendments to IFRS 17

Scope of IFRS 17 (February 2019)

- A1. The Board tentatively decided to amend the scope of IFRS 17 and IFRS 9 for insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract. These amendments would enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9. The choice would be made portfolio by portfolio, using the IFRS 17 definition of a portfolio.

Initial recognition (June 2018)

- A2. The Board tentatively decided to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group.

Insurance acquisition cash flows (June 2018 and January 2019)

- A3. The Board tentatively decided to:
- (a) amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued.
 - (b) amend IFRS 17 to require an entity to allocate to any expected contract renewals their related part of the insurance acquisition cash flows directly attributable to newly issued contracts.
 - (c) amend IFRS 17 to require an entity to recognise the insurance acquisition cash flows allocated to expected contract renewals as assets applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.
 - (d) amend IFRS 17 to require an entity to assess the recoverability of any asset recognised applying paragraph 27 of IFRS 17 each period before the related contracts are recognised. The recoverability assessment would be based on the expected fulfilment cash flows of the related group of contracts.

- (e) amend IFRS 17 to require an entity to recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised by applying paragraph 27 of IFRS 17.
- (f) amend IFRS 17 to require an entity to recognise in profit or loss the reversal of some or all of any such loss previously recognised when the impairment conditions no longer exist or have improved.

Risk adjustment for non-financial risk (June 2018)

- A4. The Board tentatively decided to remove requirements in IFRS 17 that could result in double-counting of the risk adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses.

Contractual service margin (June 2018 and January 2019)

- A5. The Board tentatively decided to:
- (a) clarify the definition of the coverage period for insurance contracts with direct participation features in IFRS 17. The proposed amendment would clarify that the coverage period for such contracts includes periods in which the entity provides investment-related services.
 - (b) amend IFRS 17 so that in the general model the contractual service margin is recognised in profit or loss on the basis of coverage units that are determined by considering both insurance coverage and investment return service, if any.
 - (c) amend IFRS 17 to establish that an investment return service exists only when an insurance contract includes an investment component.
 - (d) amend IFRS 17 to require an entity to use judgement applied consistently in deciding whether an investment return service exists when determining

Proposed amendments

coverage units, and not provide an objective or criteria for that determination. However, the Board instructed the staff to consider including in the Basis for Conclusions some of the analysis in the January 2019 Agenda Paper 2E *Recognition of Contractual Service Margin in Profit or Loss in the General Model*, to indicate what such judgements might involve.

- (e) amend IFRS 17 to establish that the period of investment return services should be regarded as ending when the entity has made all investment component payments to the policyholder of the contract and should not include any period of payments to future policyholders.
- (f) amend IFRS 17 to require assessments of the relative weighting of the benefits provided by insurance coverage and investment return services and their pattern of delivery to be made on a systematic and rational basis.
- (g) confirm that, applying IFRS 17, cash flows relating to fulfilling the investment return service are included in the measurement of the insurance contract.
- (h) amend IFRS 17 to establish that the one-year eligibility criterion for the premium allocation approach (PAA) should be assessed by considering insurance coverage and an investment return service, if any.

Reinsurance contracts held (January 2019)

- A6. The Board tentatively decided to amend IFRS 17 to:
 - (a) expand the scope of the exception in paragraph 66(c)(ii) of IFRS 17 to require an entity to recognise a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that a reinsurance contract held covers the losses of each contract on a proportionate basis; and
 - (b) require an entity to apply the expanded exception when the entity measures contracts applying the PAA.

- A7. The Board also tentatively decided to amend IFRS 17 to expand the scope of the risk mitigation exception for insurance contracts with direct participation features in paragraph B115 of IFRS 17 so that the exception applies when an entity uses a derivative or a reinsurance contract held to mitigate financial risk, to the extent that the entity meets the conditions in paragraph B116 of IFRS 17.

Presentation of insurance contracts on the statement of financial position (December 2018)

- A8. The Board tentatively decided to amend the requirements in IFRS 17 so that the presentation of insurance contract assets and liabilities in the statement of financial position is determined using portfolios of insurance contracts rather than groups of insurance contracts.

Disclosures (June 2018)

- A9. The Board tentatively decided to correct the terminology in the sensitivity analysis disclosures in IFRS 17.

Effective dates (November 2018)

- A10. The Board tentatively decided that:
 - (a) the mandatory effective date of IFRS 17 should be deferred by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.
 - (b) consequently, the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 should be amended, so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.

Proposed amendments

Transition (February 2019)

- A11. The Board tentatively decided to amend the transition requirements in IFRS 17 for liabilities that relate to the settlement of claims incurred before an insurance contract was acquired as follows:
- (a) to add a specified modification to the modified retrospective approach so that an entity classifies such liabilities as a *liability for incurred claims*. Consistent with the other specified modifications, an entity would be permitted to use this specified modification only to the extent that it does not have reasonable and supportable information to apply a retrospective approach.
 - (b) to permit an entity applying the fair value approach to choose to classify such liabilities as a *liability for incurred claims*.

Business combinations (June 2018)

- A12. The Board tentatively decided to:
- (a) exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17; and
 - (b) amend IFRS 3 *Business Combinations* so that the amendment made by IFRS 17 on the classification of insurance contracts applies prospectively.

Other proposed amendments (June 2018)

- A13. The Board tentatively decided to:
- (a) amend IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 and IAS 32 *Financial Instruments: Presentation* to achieve the intended scopes of these financial instruments Standards and the scope of IFRS 17, particularly with respect to insurance contracts held; and
 - (b) add an explanation that, in Example 9 of the Illustrative Examples on IFRS 17, the time value of the guarantee changes over time.

2—Tentative decisions to retain IFRS 17 requirements without amendments

Use of locked-in discount rates to adjust the contractual service margin (December 2018)

- A14. The Board tentatively decided to retain the requirements in IFRS 17 for the discount rates used to determine the adjustments to the contractual service margin.

Discount rates and risk adjustment for non-financial risk (December 2018)

- A15. The Board tentatively decided to retain the requirements in IFRS 17 for the principle-based approach to determining the discount rates and the risk adjustment used to measure insurance contracts.

Risk adjustment in a group of entities (December 2018)

- A16. The Board tentatively decided to retain the requirements in IFRS 17 for the risk adjustment for non-financial risk in consolidated financial statements.

Contractual service margin (December 2018)

- A17. The Board tentatively decided to retain the requirements in IFRS 17 for the non-transitional requirements relating to risk mitigation activities.
- A18. The Board tentatively decided to retain the requirements of IFRS 17 relating to changes in fulfilment cash flows that adjust the contractual service margin in the general model.

Business combinations (December 2018)

- A19. The Board tentatively decided to retain the requirements in IFRS 17 for the classification, applying IFRS 17 and IFRS 3, of contracts acquired in a business combination as insurance contracts.
- A20. The Board tentatively decided to retain the requirements in IFRS 17 for the determination of the insured event for insurance contracts acquired in a business combination.

Proposed amendments

Reinsurance contracts held (December 2018)

A21. The Board tentatively decided to retain the requirements in IFRS 17 for the future cash flows in the measurement of reinsurance contracts held.

Presentation of insurance contracts (December 2018)

A22. The Board tentatively decided to retain the requirements in IFRS 17 for the presentation and measurement of premiums receivable and claims payable.

A23. The Board tentatively decided to retain the requirements in IFRS 17 for the option to present specified amounts of insurance finance income or expenses in profit or loss or other comprehensive income.

Transition (February 2019)

A24. The Board tentatively decided to:

- (a) retain the IFRS 17 transition requirements without making amendments that would reduce the optionality included in those requirements.
- (b) retain the IFRS 17 requirement to present restated comparative information for the annual reporting period immediately preceding the date of initial application of IFRS 17.
- (c) retain the transition requirement in IFRS 17 that prohibits retrospective application of the risk mitigation option. The Board asked the staff to continue to explore alternative proposals that would address stakeholders' concerns about the results of not applying the option retrospectively.
- (d) retain the transition requirements in IFRS 17 relating to the cumulative amounts included in other comprehensive income.
- (e) retain the transition requirements in the modified retrospective approach set out in IFRS 17 that:

- (i) prohibit an entity from using a specified modification to the extent that the entity has reasonable and supportable information to apply the related IFRS 17 requirement retrospectively; and
 - (ii) permit an entity to use a specified modification only when the entity has reasonable and supportable information to apply that modification.
- (f) retain the transition requirements in IFRS 17 for the modified retrospective approach, without an amendment that would permit an entity to develop its own modifications that it regards as consistent with the objective of the modified retrospective approach. However, the Board noted the importance of the clarification in the February 2019 Agenda Paper 2D *Transition—Modified Retrospective Approach* that the existence of specified modifications does not preclude the normal use of estimation techniques.
- (g) retain without amendment the specified modification in the modified retrospective approach relating to the use of cash flows that are known to have occurred, instead of estimating retrospectively cash flows that were expected to occur.
- (h) retain the modified retrospective approach for insurance contracts with direct participation features, without an amendment that would permit an entity to apply to such contracts the specified modifications permitted for insurance contracts without direct participation features.

Defined terms (December 2018)

A25. The Board tentatively decided to retain the requirements in IFRS 17 for the definition of an insurance contract with direct participation features.

Interim financial statements (December 2018)

A26. The Board tentatively decided to retain the requirements in IFRS 17 for the treatment of accounting estimates in interim financial statements.