

Date	29 September 2019
Location	London
Topic	Insurance Contracts

AOSSG Meeting

Background

In June 2019, the International Accounting Standards Board issued an Exposure Draft of proposed amendments to IFRS 17 *Insurance Contracts*. The Exposure Draft *Amendments to IFRS 17*—open for comment until 25 September 2019—is available on the IFRS Foundation website [here](#).

Purpose of this session

The staff of the International Accounting Standards Board would welcome AOSSG members views and information about the proposed amendments to IFRS 17 to supplement the information provided in the comment letters.

The session expects to cover the following topic areas:

- Topic 1: Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract
- Topic 2: Expected recovery of insurance acquisition cash flows
- Topic 3: Contractual service margin attributable to investment-return service and investment-related service
- Topic 4: Reinsurance contracts held—recovery of losses on underlying insurance contracts
- Topic 5: Presentation in the statement of financial position
- Topic 6: Applicability of the risk mitigation option
- Topic 7: Effective date of IFRS 17 and the IFRS 9 *Financial Instruments* temporary exemption in IFRS 4 *Insurance Contracts*
- Topic 8: Transition modifications and reliefs

Comments on other matters addressed in the Exposure Draft would also be welcome at the end.

Topic 1: Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract

Exposure Draft proposals

The Exposure Draft proposes that an entity:

- would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The entity would be required to apply IFRS 9 to those credit card contracts.
- would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

Main discussion points

- Whether the proposed amendments would reduce implementation costs for entities
- Whether applying IFRS 9 to the credit card contracts and loan contracts that would be captured by the proposed two additional scope exclusions would provide relevant information to investors

Topic 2: Expected recovery of insurance acquisition cash flows

Exposure Draft proposals

The Exposure Draft proposes that an entity:

- allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;
- recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised;
- assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired; and
- provide disclosures about such assets.

Main discussion points

- Whether the benefits of the proposed amendment (for example, reducing the number of loss-making contracts at initial recognition) would outweigh costs (for example, need to assess recoverability of an asset and to provide additional disclosures)
- What insurance contracts are expected to be affected by the proposed amendment (for example, short-term contracts)

Topic 3: Contractual service margin attributable to investment-return service and investment-related service

Exposure Draft proposals

The Exposure Draft proposes that an entity:

- identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage;
- identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service;
- disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period; and
- disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Main discussion points

- Views on the proposed amendments, including the proposed additional disclosures
- What insurance contracts are expected to be affected by the proposed amendment for insurance contracts without direct participation features (for example, deferred annuities)

Topic 4: Reinsurance contracts held—recovery of losses on underlying insurance contracts

Exposure Draft proposals

The Exposure Draft proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, 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 contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

- the loss recognised on the group of underlying insurance contracts; and
- the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Main discussion points

- Views on the proposed amendment, including the population of reinsurance contracts held to which the proposed amendment would apply

Topic 5: Presentation in the statement of financial position

Exposure Draft proposals

The Exposure Draft proposes that an entity present separately in the statement of financial position the carrying amount of portfolios (rather than groups) of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Main discussion points

- Whether the proposed amendment would reduce implementation costs for entities

Topic 6: Applicability of the risk mitigation option

Exposure Draft proposals

The Exposure Draft proposes to extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

Main discussion points

- Whether the proposed amendment would reduce accounting mismatches and make the accounting for insurance contracts more understandable to investors

Topic 7: Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4

Exposure Draft proposals

The Exposure Draft proposes to:

- defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022; and
- extend the IFRS 9 temporary exemption in IFRS 4 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Main discussion points

- Views on the proposals about the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4

Topic 8: Transition modifications and reliefs

Exposure Draft proposals

The Exposure Draft proposes that an entity:

- applying the modified retrospective approach, to the extent permitted, classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.
- applying the fair value approach be permitted to classify such a liability as a liability for incurred claims.
- apply the risk mitigation option for insurance contracts with direct participation features prospectively from the transition date, rather than the date of initial application. An entity would be required to designate risk mitigation relationships at or before the date it applies the option.
- that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participation features be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Main discussion points

- Whether the proposed amendments would ease implementation and reduce its costs