CFO FORUM

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Mr. Hans Hoogervorst
IASB Board Chair
IASB
7 Westferry Circus, Canary Wharf
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17 October 2018

Re: Proposed solutions to IFRS 17 issues discussed on 3 July 2018

Dear Mr Gauzes and Mr. Hoogervorst,

As indicated in our letter dated 3 August 2018, we have prepared proposed solutions for the issues in IFRS 17 identified during our testing and presented to you in your meeting on 3 July 2018. The proposed solutions are attached to this letter.

We have been able to address the issues presented on 3 July through the combination of the attached proposed solutions and further implementation discussions, including the recent IASB's Transition Resource Group. Resolution of all these issues is important and the proposed solutions are supported by the members of the CFO Forum.

We continue to appreciate the work done to obtain a high quality accounting standard for insurance contracts and we would like to maintain the momentum on developing and agreeing the necessary changes to IFRS 17. We would welcome discussion of the proposed solutions and the next steps in the process with both EFRAG and the IASB.

Yours faithfully

Matthew Rider Chairman
European Insurance CFO Forum

Copy CC:

- Mr. Olivier Guersent – Director-General, Financial Stability, Financial Services and Capital Markets Union, European Commission
- Mr. Alain Deckers – Head of Unit, Accounting and Financial Reporting at DG Financial Stability, Financial Services and Capital Markets Union, European Commission
- Mr. Theodor Stolojan MEP – Chair of the IFRS Permanent Team, ECON Committee, European Parliament
- Mr. Gabriel Bernardino - Chairman of the European Insurance and Occupational Pensions Authority
- Mr. Olav Jones – Deputy Director General, Insurance Europe
- Mr. Patrick Raaflaub – Chairman, CRO Forum
- Mr. Thomas Buberl – Chairman, Pan-European Insurance Forum
- Mr. Steven Maijoor - Chair, European Securities and Markets authority

Topic name:	**Acquisition cash flows**
Description of issue:	Acquisition cash flows on new business that is expected to renew cannot be allocated to future periods. This is inconsistent with other industries which capitalise acquisition costs over multiple contracts. This was particularly evidenced in the testing of P&C contracts.
Implications of issue	This results in incorrect matching of income and expenses over time. The implications are intensified if the inability to allocate acquisition costs to future periods results in contracts being onerous in accounting (but not in economic reality).
Explanation of the proposed solution	The proposed solution is to amend the wording to permit acquisition costs to be amortised over the expected economic benefit period (initial contract and expected renewals), in combination with an impairment test. This approach would be consistent with the amortisation of acquisition costs under IFRS 15.
Proposed amendments to IFRS 17 text to resolve issue:	The starting point is the wording of IFRS 17.27 as amended by the IASB Meeting of 21 June 2018. IFRS 17.27: "An entity shall recognise an asset or liability for any *insurance acquisition cash flows* relating to a group of insurance contracts issued or expected to be issued that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income applying paragraph 59(a). <u>Insurance contracts expected to be issued include expected future renewals of contracts. An asset for insurance cash flows that relate to future renewals must be tested for impairment in accordance with IAS 36.</u> An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b))."

Topic name:	**CSM amortisation**
Description of issue:	The requirements on coverage units to be used for the CSM amortisation are not appropriate for all types of contracts. A key issue is that the CSM (of which the initial amount is impacted by investment spreads) cannot be amortised over the period in which investment services are provided. This issue was mainly identified in the testing for savings and participating contracts. It is acknowledged that this is a topic under discussion by the IASB for contracts in scope of the VFA. However, the issue is equally relevant for the general measurement model.
Implications of issue	Profit recognition over the life of the contract is not appropriate. For certain contracts, profit recognition is strongly frontloaded or backloaded. For example, on a simple annuity contract profit is not appropriately recognised in the accumulation and deferral phases.
Explanation of the proposed solution	The proposed solution is to expand the 'coverage units' to include more than only insurance benefits. This is achieved by adding the proposed wording which would permit coverage units to include "related activities performed to deliver those benefits". This is intended to cover key non-insurance benefits such as investment activities. In order to narrow the scope of "related activities" two criteria were added: i. that are required to be performed by law or regulation; or ii. that were assumed in the pricing of the contract, and performance or non-performance of those activities would have had a significant impact on either the premium charged or benefits offered under the contract.
Proposed amendments to IFRS 17 text to resolve issue:	B119 An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by: (a) identifying the coverage units in the group. The number of coverage units in a group is the quantity of coverage provided by the contracts in the group, determined by considering for each contract both the quantity of the benefits provided and the related activities performed to deliver those benefits under a contract and its expected coverage duration. Related activities performed to deliver benefits are those: i. that are required to be performed by law or regulation; or ii. that were assumed in the pricing of the contract, and performance or non-performance of those activities would have had a significant impact on either the premium charged or benefits offered under the contract. **Appendix A** **coverage period** The period during which the entity provides coverage for insured events or investment related services. This period includes the coverage that relates to all premiums within the boundary of the insurance contract. **Basis of conclusions** BC 279 As discussed in paragraph BC21, the Board views the contractual service margin as depicting the unearned profit for coverage and other services provided over the coverage period. Insurance coverage is often the defining service provided by insurance contracts but may not be the sole driver in all cases, for example where there are significant activities performed by the entity to deliver those services or where the contract includes an investment related service. The Board noted that an entity provides this service over the whole of the coverage period, and not just when it incurs a claim. Consequently, IFRS 17 requires the contractual service margin to be

	recognised over the coverage period in a pattern that reflects the provision of services, including both the contractual benefits ~~coverage~~ and the activities performed to deliver those benefits ~~as~~ required by the contract. To achieve this, the contractual service margin for a group of insurance contracts remaining (before any allocation) at the end of the reporting period is allocated over the coverage provided in the current period and expected remaining future coverage, on the basis of coverage units, reflecting the expected duration, ~~and~~ quantity of benefits provided and the activities performed to deliver the benefits ~~by~~ of the contracts in the group. The Board considered whether: (a) the contractual service margin should be allocated based on the pattern of expected cash flows or on the change in the risk adjustment for non-financial risk caused by the release of risk. However, the Board decided the pattern of expected cash flows and the release of the risk adjustment for non-financial risk are not relevant factors in determining the satisfaction of the performance obligation of the entity. They are already included in the measurement of the fulfilment cash flows and do not need to be considered in the allocation of the contractual service margin. Hence, the Board concluded that coverage units better reflect the provision of ~~insurance~~ coverage.

Topic name:	**Discount rates**
Description of issue:	• The use of a locked in discount rate for the CSM in the general model. The impact of assumption updates is absorbed in the CSM at the locked-in rate. The BEL is measured at the current rate. The difference between the locked-in and the current rate is reflected in the P&L or OCI and may significantly distort the current period result. • In the situation where the BEL component of the insurance liability is an asset and the CSM component is a liability, inconsistencies arise due to the different discount rates for BEL (current rate) and CSM (locked-in rate).
Implications of issue	The result is significantly distorted by the discount rate components of the impact of assumption changes that are otherwise absorbed in the CSM. The P&L and/or OCI is distorted by the use of different discount rates for different components of the insurance liability. This is particularly exacerbated when the BEL component is an asset.
Explanation of the proposed solution	For those portfolios where changes in discount rates are recognised directly in the income statement (the 'FVPL model'), it is proposed to amend the Standard such that the current discount rate should always be utilised for all CSM measurements, re-measurements and movements. As such also the impact of changes in non-financial assumptions would be recognised in the CSM and not be split between the CSM and the income statement. All components of the liability would be measured consistently at the current interest rate when applying the FVPL model. It is noted that no change is proposed to the OCI model. This implies that in the OCI model the impact of changes in non-financial assumptions is partly absorbed in the CSM (the impact at the locked-in rate) and partly in OCI (the effect of the difference between the locked-in rate and the current rate).
Proposed amendments to IFRS 17 text to resolve issue:	**Use of locked-in discount rate** 44 For insurance contracts without direct participation features, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for: (a) the effect of any new contracts added to the group (see paragraph 28); (b) interest accreted on the carrying amount of the contractual service margin during the reporting period, measured: (i) where an entity applies paragraph 88(a), at the current discount rates applying paragraph 36; (ii) where an entity applies paragraph 88(b), at the discount rates specified in paragraph B72(b); (c) the changes in fulfilment cash flows relating to future service as specified in paragraphs B96–B100, except to the extent that: (i) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48(a)); or (ii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b). (d) where an entity applies paragraph 88(a), the effect of remeasuring the contractual service margin for the change in discount rate over the reporting period (see paragraph B96B); (~~d~~e) the effect of any currency exchange differences on the contractual service margin; and (~~e~~f) the amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service

margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph B119.

66 Instead of applying paragraph 44, an entity shall measure the contractual service margin at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) interest accreted on the carrying amount of the contractual service margin, measured:

(i) where an entity applies paragraph 88(a), at the current discount rates applying paragraph 36;
(ii) where an entity applies paragraph 88(b), at the discount rates specified in paragraph B72(b);

(c) changes in the fulfilment cash flows measured where an entity applies paragraph 88(a), at the current discount rates applying paragraph 36; or where an entity applies paragraph 88(b), at the discount rates specified in paragraph B72(b) , to the extent that the change:

(i) relates to future service; unless

(ii) the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts.

(d) where an entity applies paragraph 88(a), the effect of remeasuring the contractual service margin for the change in discount rate over the reporting period (see paragraph B96B)

(~~d~~e) the effect of any currency exchange differences arising on the contractual service margin; and

(~~e~~f) the amount recognised in profit or loss because of services received in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of reinsurance contracts held, applying paragraph B119.

B96 For insurance contracts without direct participation features paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

(a) experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rate specified in paragraph B96(e); ~~the discount rates specified in paragraph B72(c);~~

(b) changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph B97(a), measured at the discount rate specified in paragraph B96(e); ~~the discount rates specified in paragraph B72(c)~~

(c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, measured at the discount rates specified in paragraph B~~72(c)~~96(e); and

(d) changes in the risk adjustment for non-financial risk that relate to future service.

(e) in applying paragraph B96, the applicable discount rate to be utilised shall be:

i. where an entity applies paragraph 88(a), the current discount rates applying paragraph 36; or

	ii. where an entity applies paragraph 88(b), the discount rates specified in paragraph B72(c); B96B For insurance contracts without direct participation features where an entity applies paragraph 88(a), paragraph 44(d) and 66(d) require the contractual service margin to be remeasured for the change in discount rate over the reporting period. An entity shall apply paragraph B119 to determine a stream of notional cash flows whose discounted value at the reporting date using the discount rate applicable at the start of the reporting period applying paragraph 36 at that date equals the contractual service margin at the reporting date before this remeasurement. The effect of remeasuring the contractual service margin for the change in discount rate over the reporting period is then the difference between discounting these notional cash flows at the reporting date using the current discount rate applying paragraph 36 and discounting these notional cash flows at the reporting date using the current discount rate applicable at the start of the reporting period applying paragraph 36 at that date.

Topic name:	**Multi-component contracts**
Description of issue:	Certain contracts exposing the issuer to credit risk that are in substance loans (for example equity release mortgages in the UK) contain a small insurance element which causes the entire contract to be subject to insurance accounting under IFRS 17. Certain products change significantly in nature during their life due to the execution of an option by the policyholder. For example, a policy with a savings phase with profit sharing may become an annuity in payment or remain paid-up without any participation if elected by the policyholder. As the classification between General Model and VFA is done at inception and is irrevocable, certain products may have to be accounted for under the VFA whereas, after the execution of the option, the VFA model is not suitable and not comparable to similar products with a different 'history'.
Implications of issue	Including these contracts in the scope of IFRS 17 is inconsistent with the treatment of similar products in other industries.
Explanation of the proposed solution	In the proposed solution, a scope exclusion is proposed whereby the issuer may elect to treat contracts that are in substance loans that expose the issuer primarily to credit risk as a financial instrument (under IFRS 9) rather than as an insurance contract (under IFRS 17). In addition, a solution is proposed for contracts which significantly change in nature due to an election by the policyholder, to treat that change as a contract modification which would permit the "new" contract to be re-assessed and treated under the appropriate measurement model (VFA or GMM) for that "new" contract.
Proposed amendments to IFRS 17 text to resolve issue:	**A – Loan-type contracts** It is proposed a new scope exemption should be added to IFRS 17 for loan type contracts. It is proposed the following wording should be added to the standard as paragraph 8A: "Some contracts meet the definition of an insurance contract but are in substance loans that expose the issuer to credit risk. An entity may choose to apply IFRS 9 instead of IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are: a. The contract compensates the customer by reducing the customer's outstanding debt to the entity, rather than making cash payments to the customer; and b. The insurance risk transferred by the contract arises primarily from guarantees provided to the customer of the maximum amount of debt that is repayable if specified uncertain future events occur" **B – Contracts subject to significant change in nature** B24. For some contracts, the transfer of insurance risk to the issuer occurs after a period of time, and for some contracts, the nature of the contract changes significantly on the exercise of an option included in the terms of the contract. For example, consider a contract that provides a specified investment return and includes an option for the policyholder to use the proceeds of the investment on maturity to buy a life-contingent annuity at the same rates the entity charges other new annuitants at the time the policyholder exercises that option. Such a contract transfers insurance risk to the issuer only after the option is exercised, because the entity remains free to price the annuity on a basis that reflects the insurance risk that will be transferred to the entity at that time. Consequently, the cash flows that would occur on the exercise of the option fall outside the boundary of the contract, and before exercise there are no

	insurance cash flows within the boundary of the contract. However, if the contract specifies the annuity rates (or a basis other than market rates for setting the annuity rates), the contract transfers insurance risk to the issuer because the issuer is exposed to the risk that the annuity rates will be unfavourable to the issuer when the policyholder exercises the option. In that case, the cash flows that would occur when the option is exercised are within the boundary of the contract. The exception to this is where the conditions in B102A will be met on the exercise of the option included in the terms of the contract, in which case only the cost of providing the guaranteed option would be within the boundary of the original contract that is recognised before the option is exercised. B102. An entity shall assess whether the conditions in paragraph B101 are met using its expectations at inception of the contract and shall not reassess the conditions afterwards, unless: ~~the contract is modified, applying paragraph 72.~~ (a) the contract is modified, applying paragraph 72; or (b) the exercise of an option included in the terms of the contract leads to a significant and permanent change in the nature of the whole contract. An example of a significant and permanent change in the nature of a contract is when the exercised option results in the contract no longer having any direct participation features for the remainder of its term, or vice versa. B102A If an entity applies paragraph B102(b) it shall derecognise the original contract and recognise a contract including the exercised option as a new contract, applying IFRS 17. B129…. It may be appropriate to apply a different accounting policy choice in the different stages of a contract (e.g, before and after a significant change in the nature of the contract) to ensure that similar portfolios are accounted for on a consistent basis.

<table>
<tr><td>Topic name:</td><td>Reinsurance</td></tr>
<tr><td>Description of issue:</td><td>The approach to reinsurance gives rise to several accounting mismatches. Examples include;
1. For an onerous contract a cedant has to recognise a loss component though P/L whereas the relief from an corresponding reinsurance contract held has to be deferred over the coverage period
2. Reinsurance held cannot be accounted for under the VFA model, even if the VFA model is applied to the underlying insurance contracts
3. Contract boundaries for reinsurance are inconsistent with those of the underlying insurance contracts, meaning that the reinsurance accounting requires including an estimate of underlying insurance business that is not yet written/recognised</td></tr>
<tr><td>Implications of issue</td><td>The inconsistencies between insurance and reinsurance accounting create a number of accounting mismatches, meaning that the financial statements do not appropriately reflect the net risk position after reinsurance and, as a consequence, a distorted profit recognition pattern.</td></tr>
<tr><td>Explanation of the proposed solution</td><td>The proposed solutions would:

1. For proportionate reinsurance, permit the insurer to recognise a portion of the reinsurance benefit to offset the loss on the underlying contract. This ensures that the income statement reflects the economic mitigation of the reinsurance contract;
2. Permit the VFA model for reinsurance contracts when the underlying contracts are measured under the VFA model; and
3. Ensure that reinsurance would not be recognised until the underlying insurance contracts being reinsured are recognised.</td></tr>
<tr><td>Proposed amendments to IFRS 17 text to resolve issue:</td><td><u>Mismatch at initial recognition</u>

Amend IFRS 17.65 as follows:

<u>IFRS 17.65c: Only for groups of insurance contracts being reinsured on a proportionate basis, at inception of the reinsurance contract:</u>

(i) <u>a proportionate share of the loss component for the group of underlying insurance contracts (IFRS 17.47) shall be replaced by a negative contractual service margin representing the reinsurer’s share in the underlying contracts. This shall only apply if the reinsurance contract held is recognised prior to or at the same time as the underlying insurance contracts.</u>
(ii) <u>a proportionate share of the contractual service margin for the group of underlying insurance contracts (IFRS 17.38) shall be released representing the reinsurer’s share in the underlying contracts, after deducting net costs (IFRS 17.65b) resulting from these reinsurance contracts held.</u>

Regarding subsequent measurement of the underlying direct contracts reinsured in accordance with IFRS 17.65c, IFRS 17.66 needs to be extended as follows:

<u>IFRS 17.66A: For insurance contracts reinsured according to IFRS 17.65c(i) the following applies.</u>

(i) <u>The carrying amount of the negative contractual service margin shall be adjusted for any changes in fulfilment cash flows relating to future service, notwithstanding IFRS 17.66.</u>
(ii) <u>The amount recognised in profit or loss because of the transfer of services in the period determined by the allocation of the contractual service margin remaining at the end of the reporting period shall be presented in accordance with IFRS 17.84 and shall not change insurance revenue.</u></td></tr>
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(iii) If the conditions of IFRS 17.65c cease to exist as either the reinsurance contracts held or the underlying insurance contracts are derecognised, IFRS 17.76 shall be applied accordingly.

Similarly, IFRS 17.69 needs to be extended as follows:

IFRS 17.69A: For insurance contracts under the scope of IFRS 17.65c, IFRS 17.65c and IFRS17.66A are applied consistently leading to an adjustment of the liability for remaining coverage when the entity expects not to differ materially from a comparable adjustment of the contractual service margin.

Mismatch in projected fulfilment cash flows of underlying contracts and reinsurance held

IFRS 17.62(a) should read:

if the reinsurance contracts held provide proportionate coverage—at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of ~~any underlying contract~~the underlying contracts, whichever is the later; and

Furthermore, IFRS 17.BC305(a) should read:

when the group of reinsurance contracts held covers the loss of a group of insurance contracts on a proportionate basis, the group of reinsurance contracts held is recognised at the later of the beginning of the coverage period of the group of reinsurance contracts held or the initial recognition of ~~any~~ the underlying contracts. This means that the entity will ~~not recognise the group of reinsurance contracts until it has recognised at least one of the underlying contracts~~only recognise the group of reinsurance contracts held to the extent that the underlying direct contracts are already recognised.

Retroactive reinsurance

IFRS 13.BC312 should be amended as follows:

The Board also decided that the net expense of purchasing reinsurance should be recognised over the coverage period as services are received unless the reinsurance covers events that have already occurred. For such reinsurance contracts held, the Board concluded that entities should recognise the whole of the net expense at initial recognition, to be consistent with the treatment of the net expense of purchasing reinsurance before an insured event has occurred. If, and only if, the insured event that triggers future cash outflows has already occurred, the corresponding net costs shall be recognised at initial recognition. The Board acknowledged that this approach does not treat the coverage period of the reinsurance contract consistently with the view that for some insurance contracts the insured event is the discovery of a loss during the term of the contract, if that loss arises from an event that had occurred before the inception of the contract. However, the Board concluded that consistency of the treatment of the net expense across all reinsurance contracts held would result in more relevant information

Reinsurance of financial risk where underlying contracts are measured by the variable fee approach

IFRS 17.B109 should be amended as follows:

~~Reinsurance contracts issued and reinsurance contracts held cannot be insurance contracts with direct participation features for the purpose of IFRS 17.~~ If and only if reinsurance contracts meet the criteria in B101 (a) to (c) and the underlying insurance contracts are contracts with direct participation features, entities may choose to account for reinsurance contracts as contracts with direct participation features. For

	reinsurance contracts issued this principle also applies to transactions under common control.

Topic name:	**Scope of hedging adjustment**
Description of issue:	Whilst IFRS 17 includes a specific hedging adjustment, its use is limited to specific circumstances: • It is only available for contracts in scope of the VFA • It cannot be applied retrospectively on from the date of initial application • It can only be used when derivatives are used as hedging instrument This was highlighted as part of the testing for a material book of business with guarantees that are hedged.
Implications of issue	The inability to use the hedge adjustment outside the narrowly defined scope will result in accounting mismatches if the fair value changes on hedging instruments are not recognised in the same category (P&L, OCI or CSM) as the changes on the hedged items). This will significantly distort the net result and create misalignment between accounting results and risk management. Paradoxically, a perfect hedge would cause a comparatively higher income statement volatility than a partial hedge.
Explanation of the proposed solution	The proposed solution would broaden the scope of the hedging adjustment to include contracts not measured under the VFA model. Furthermore, if the hedging existed at the time of adopting IFRS 17 then it would be allowed to be recognised retroactively. Hedging instruments would also be allowed to include instruments other than derivatives (including other financial instruments and reinsurance contracts).
Proposed amendments to IFRS 17 text to resolve issue:	**Contractual service margin (paragraphs B96—B119)** 44 For *insurance contracts without direct participation features*, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for: (a) the effect of any new contracts added to the group (see paragraph 28); (b) interest accreted on the carrying amount of the contractual service margin during the reporting period, measured at the discount rates specified in paragraph B72(b); (c) the changes in fulfilment cash flows relating to future service as specified in paragraphs B96–B100, except to the extent that: (i) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48(a)); ~~or~~ (ii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b); or (iii) paragraph B115A (on risk mitigation) applies in relation to the contractual service margin. (d) the effect of any currency exchange differences on the contractual service margin; and (e) the amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph B119. B97 An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service: (a) the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk, (being the effect, if any, on estimated future cash flows and the effect of a change in discount rate), except to the extent paragraph B115A applies; (b) changes in estimates of fulfilment cash flows in the liability for incurred claims; and (c) experience adjustments, except those described in paragraph B96(a). **Risk mitigation** B115 For insurance contracts with direct participation features, ~~T~~to the extent that an entity meets the conditions in paragraphs B116 and /or B116A, it may choose not to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of financial risk on the entity's share of the underlying

items (see paragraph B112) or the fulfilment cash flows set out in paragraph B113(b).

B115A For insurance contracts without direct participation features, to the extent that the entity meets the conditions in paragraph B116, it may choose not to recognise in other comprehensive income (where an entity applies paragraph 88(b)) or in the contractual service margin some or all of the effect of changes in the time value of money and financial risks arising from insurance contracts for the period.

B116 In respect to financial risk, ~~T~~to apply paragraphs B115 or B115A, an entity must have a previously documented risk-management objective and strategy ~~for using derivatives~~ to mitigate financial risk arising from the insurance contracts and, in applying that objective and strategy:
(a) the entity uses a ~~derivative~~ financial instrument to mitigate the financial risk arising from the insurance contracts.
(b) an economic offset exists between the insurance contracts and the financial instrument ~~derivative~~, ie the values of the insurance contracts and the financial instrument ~~derivative~~ generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity shall not consider accounting measurement differences in assessing the economic offset.
(c) credit risk does not dominate the economic offset.

B116A In respect of non-financial risk, to apply paragraph B115, an entity must have reinsurance contracts held to mitigate non-financial risk arising from the insurance contracts with direct participating features, and:
(a) an economic offset exists between the non-financial risk on the insurance contracts and the reinsurance contract held, ie the values of the insurance contracts and the reinsurance contract held generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity shall not consider accounting measurement differences in assessing the economic offset.
(b) credit risk does not dominate the economic offset.

B117 The entity shall determine the fulfilment cash flows in a group to which paragraphs B115 and B115A applies in a consistent manner in each reporting period.

B118 For insurance contracts with direct participation features, ~~I~~if any of the conditions in paragraphs B116 and B116A ceases to be met, an entity shall:
(a) cease to apply paragraph B115 from that date; and
(b) not make any adjustment for changes previously recognised in profit or loss.

B118A For insurance contracts without direct participation features, if any of the conditions in paragraph B116 ceases to be met, an entity shall:
(a) cease to apply paragraph B115A from that date; and
(b) not make any adjustment for changes previously recognised in profit or loss.

Insurance finance income or expenses (see paragraphs B128–B136)

88 Unless paragraph 89 applies, an entity shall make an accounting policy choice between:
(a) including insurance finance income or expenses for the period in profit or loss; or
(b) disaggregating insurance finance income or expenses for the period to include in profit or loss an amount determined by the total insurance finance income or expenses on the carrying amount of the group of insurance contracts to the extent that paragraph B115A applies (to remove accounting mismatches with income and expenses included in profit or loss on financial instrument to mitigate the financial risk arising from the insurance contracts) and a systematic allocation of the remaining expected total insurance finance income or expenses over the duration of the group of contracts, applying paragraphs B130–B133.

Insurance finance income or expenses (see paragraphs 87–92)

	B130 If paragraph 88(b) applies, after consideration of the impacts of paragraph B115A, an entity shall include in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of insurance contracts. In this context, a systematic allocation is an allocation of the total expected finance income or expenses of a group of insurance contracts (after consideration of paragraph B115A) over the duration of the group that: (a) is based on characteristics of the contracts, without reference to factors that do not affect the cash flows expected to arise under the contracts. For example, the allocation of the finance income or expenses shall not be based on expected recognised returns on assets if those expected recognised returns do not affect the cash flows of the contracts in the group. (b) results in the amounts recognised in other comprehensive income over the duration of the group of contracts totalling zero. The cumulative amount recognised in other comprehensive income at any date is the difference between the carrying amount of the group of contracts and the amount that the group would be measured at when applying the systematic allocation. **Transition** C3 An entity shall apply IFRS 17 retrospectively unless impracticable, except that: (a) an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and (b) an entity shall not apply the option~~s~~ in paragraph B115 and B115A for periods before the date of initial application of IFRS 17 unless it can do so without the use of hindsight, for example where documentation exists that describes the hedging strategy and the hedge objective targets prior to the date of initial application of IFRS 17 and where the entity can compute the cumulative risk mitigation impact in other comprehensive income or on the contractual service margin using reasonable methods that will result in reliable and relevant financial results.

Topic name:	**Transition**
Description of issue:	Applying the fully retrospective approach to transition is expected to be impossible in many cases due to the need for detailed historical data for long historic periods. The modified retrospective approach is very restrictive and will not provide the simplifications that make retrospective application possible in practice. The option to set OCI to nil under the fair value approach is not available to assets accounted at fair value through OCI.
Implications of issue	If the modified retrospective method is not improved, insurers will be forced into the fair value approach for many portfolios. Whilst the fair value approach is a helpful practical expedient in some cases, it may not provide an appropriate profit recognition pattern in all cases. Depending on the final interpretation of the fair value, this could be the case for portfolios with significant in-force and significant new business. Setting OCI on the liabilities to nil at transition, whilst maintaining the historical OCI on related assets will distort equity at transition and results going forward significantly.
Explanation of the proposed solution	The proposed solution would provide a more principles based approach to the modified retrospective approach to transition, by replacing specific prescribed modifications by a more general principle to allow reasonable approximations. The proposed solutions would also address the distortion to equity at transition and P&L after transition that arises under the option to set OCI on liabilities to nil at transition. The proposed solutions permits setting OCI on liabilities equal to OCI on assets, also for the GMM. Finally, the proposed solution extends the transition relief on annual cohorts to all transition approaches.
Proposed amendments to IFRS 17 text to resolve issue:	**Issue 1** C5A Regardless of the transition approach applied, an entity is not required to apply paragraphs 15- 24, and may include in a group: (i) contracts issued more than one year apart; and (ii) contracts which would otherwise be divided by applying paragraph 16. C7 Paragraphs C9–C19 set out ~~permitted~~ modifications to retrospective application in the following areas: (a) assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition; (b) amounts related to the contractual service margin or loss component for insurance contracts without direct participation features; (c) amounts related to the contractual service margin or loss component for insurance contracts with direct participation features; and (d) insurance finance income or expenses. C8 To achieve the objective of the modified retrospective approach, an entity is permitted to make ~~use each~~ modifications, including but not limited to those set out in paragraphs C11~~9~~–C19, only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach. C9 In applying the modified retrospective approach, an entity may apply paragraph C10 to determine: ~~To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date~~ (a) how to identify groups of insurance contracts, applying paragraphs 14–24; (b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; and (c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100.

C10 An entity may choose to determine the matters in paragraph C9 using:
(a) reasonable and supportable information for what the entity would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate; or
(b) reasonable and supportable information available at the transition date.

C11 To the extent permitted by paragraph C8~~, for contracts without direct participation features,~~ an entity ~~shall~~ may determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs C12–C16.

C17 To the extent permitted by paragraph C8, for contracts with direct participation features an entity ~~shall~~ may choose to make specific modifications (for example, by applying paragraphs C12-C16) or may determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:

(a) the total fair value of the underlying items at that date; minus

(b) the fulfilment cash flows at that date; plus or minus

(c) an adjustment relating to service provided before that date. The entity shall estimate this amount taking into account distributions to the entity from the underlying items before that date and by comparing the remaining coverage units with the total coverage units of the group of contracts ~~for~~

(i) This adjustment can be determined as:

- amounts charged by the entity to the policyholders (including amounts deducted from the underlying items) before that date.
- amounts paid before that date that would not have varied based on the underlying items.
- the change in the risk adjustment for non-financial risk caused by the release from risk before that date. The entity shall estimate this amount by reference to the release of risk for similar insurance contracts that the entity issues at the transition date

(ii~~d~~) if (a), (b) and (c)(i)~~(c)~~ result in a contractual service margin—minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts, ie before any amounts that would have been recognised in profit or loss for services provided. The entity shall estimate the amounts that would have been recognised in profit or loss for services provided by comparing the remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or

(iii~~e~~) if (a), (b) and (c)(i)~~(c)~~ result in a loss component—adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

Issue 2

IFRS 17.C18 "For groups of insurance contracts that, applying paragraph C10, include contracts issued more than one year apart:
….
(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity is permitted to determine that cumulative difference either by applying paragraph C19(b) or:

	(i) as nil, unless (ii) applies; and (ii) ~~for insurance contracts with direct participation features to which paragraph B134 applies,~~ as equal to the cumulative amount recognised in other comprehensive income on the underlying ~~items~~ assets." … … IFRS 17.C19 "For groups of insurance contracts that do not include contracts issued more than one year apart: … (b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income, applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative difference: (i) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B131—if the entity applies paragraph C13 to estimate the discount rates at initial recognition—using the discount rates that applied at the date of initial recognition, also applying paragraph C13; (ii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B132—on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, i.e. as nil unless paragraph C19(b)(iv) applies; (iii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B133—if the entity applies paragraph C13 to estimate the discount rates at initial recognition (or subsequently)—using the discount rates that applied at the date of the incurred claim, also applying paragraph C13; and (iv) ~~for insurance contracts with direct participation features to which paragraph B134 applies,~~—as equal to the cumulative amount recognised in other comprehensive income on the underlying ~~items~~ assets." C24 In applying the fair value approach … (c) ~~for insurance contracts with direct participation features to which paragraph B134 applies,~~ — as equal to the cumulative amount recognised in other comprehensive income from the underlying ~~items~~ assets.

Topic name:	**Business combinations**
Description of issue:	There are several elements in accounting for insurance business combinations that add significantly to complexity, including: • the requirement to assess classification at the acquisition date instead of the original inception date • the treatment of claims in payment at the acquisition date
Implications of issue	This will result in a significantly different accounting treatment between the group and subsidiary financial statements. This adds significant unnecessary complexity and costs, particularly for GI business which may require GMM capability only if a future acquisition takes place.
Explanation of the proposed solution	Under the proposed solution the acquiring insurer would not be required to reassess the classification into accounting models and the determination of the insured event at acquisition date.
Proposed amendments to IFRS 17 text to resolve issue:	To remove the deletion in the consequential amendment to IFRS 3.17(b) and amend the IFRS 3.17(b) and B93 as follows: IFRS 3.17 This IFRS provides two exceptions to the principle in paragraph 15: (a)… (b) classification of ~~a~~ insurance contracts ~~as an insurance contract~~ and the determination of the insured event in accordance with IFRS 17 Insurance Contracts. The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract […]. IFRS 17.B93 When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or in a business combination, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction. When an entity acquires insurance contracts issued or reinsurance contracts held in a business combination, the entity is allowed to identify the groups of contracts acquired on the basis of the contractual terms and other factors at the inception of the contract, if the acquired business already applies IFRS 17 before the business combination.

Topic name:	**Level of aggregation**
Description of issue:	The prohibition to aggregate contracts that are issued more than one year apart is unduly complex. We believe that it should be replaced by a principle according to which the insurer determines based on its internal business and risk management the way it defines its cohorts. This determination should reflect mutualisation effects when they exist. In addition, the second profitability bucket (no significant possibility of becoming onerous) is highly subjective and adds to the complexity.
Implications of issue	The standard's requirements on level of aggregation, including the annual cohorts, are too prescriptive and detailed, leading to an excessive level of granularity, major implementation challenges, as well as undue costs.
Explanation of the proposed solution	The proposed solution would remove the requirement to group contracts by annual cohorts, under the condition that contracts issued in different years would be in the same profitability group.
Proposed amendments to IFRS 17 text to resolve issue:	IFRS 17 para 22 is amended as follows: An entity shall not include contracts issued more than one year apart in the same group. The annual cohort application is not required when the entity has reasonable and supportable evidence to conclude that contracts issued more than 12 months apart would be classified into the same profitability group as defined in paragraph 16. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16-21

Topic name:	**Presentation issues**
Description of issue:	• The standard requires that groups of contracts be presented as asset or liability based on its entirety. In reality, different components, such as claims liabilities to be settled, unearned premiums, receivables/payables, etc are managed separately and administered in different systems. Groups of contracts may frequently switch from an asset to liability position. • The standard requires premiums and claims to be included in the insurance provision on a cash paid/received basis. In reality, these are reflected on an accrual basis and payments/receipts are managed and administered separately. • The standard requires, for presentation of revenue only, segregation of non-distinct investment components, even for contract that do not have a specified account balance or component. • There are several elements in the accounting which lead to different accounting treatment between the group and subsidiary financial statements. One of these is the interpretation that the CSM must be "locked-in" at interim reporting means that that any differences in external reporting frequency between group and subsidiary entities would result in different CSMs.
Implications of issue	These requirements, that impact only presentation, would require major system changes compared to the current approach, which is a well-established industry practice. These changes will also lead to insurance receivables no longer being separately visible in the balance sheet, which is a deterioration in relevance of the financial statements for both life and general insurance insurers. Companies have considered the implications for implementation and maintenance of systems for these requirements and found that the complexity and costs will very significant
Explanation of the proposed solution	The proposed solution would ensure that all amounts due (e.g. premiums receivable and claims payable) continue to be accounted for separately from the insurance liability under IFRS 9. The proposed solutions would also remove the requirement to separately report components of groups of contracts that are entirety in an asset position from those in a liability position. The definition of 'non-distinct investment components' is proposed to be changed to only include components that have the characteristics of a deposit. Furthermore, the difference between consolidated and subsidiary reporting due to different reporting frequencies is proposed to be resolved by aligning the accounting in the subsidiary to the consolidated group.
Proposed amendments to IFRS 17 text to resolve issue:	**Receivables/Payables** IFRS 17.33 should be amended as follows: ***An entity shall include in the measurement of a group of insurance contracts all the future cash flows <u>that are not due</u> within the boundary of each contract in the group […]*** For clarification, IFRS 17.B66 should be amended as follows: ***[…]*** <u>cash flows that are already due to be paid or received. Any rights or obligations to receive or to pay cash flows that are unconditional and due shall be accounted for in accordance with IFRS 9.</u> **Assets/liabilities** IFRS 17.78 should be amended as follows: ***An entity shall present separately in the statement of financial position the carrying amount of ~~groups of:~~***

	(a) the liability for remaining coverage and the liability for incurred claims for insurance contracts issued ***(b) the expected recovery for remaining coverage and the recovery for incurred claims for reinsurance contracts held.*** ***~~insurance contracts issued that are assets;~~*** ***~~insurance contracts issued that are liabilities;~~*** ***~~reinsurance contracts held that are assets; and~~*** ***~~reinsurance contracts held that are liabilities~~*** **Investment components** Amend Appendix A, Defined terms for "investment component" as follows: "The amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur and has the characteristics of a deposit, such as a specified account balance and the requirement to repay the amounts with interest." **Dual Accounting** **Interim financial statements** B137 Notwithstanding the requirement in IAS 34 *Interim Financial Reporting* that the frequency of an entity's reporting shall not affect the measurement of its annual results, an entity ~~shall not~~ is not required to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period.