AcSB Insurance Transition Resource Group

Report on the Private Meeting

March 26, 2019

The Accounting Standards Board (AcSB) established the AcSB Insurance Transition Resource Group to assist the implementation of IFRS 17 Insurance Contracts *in Canada. This document has been prepared by the staff of the AcSB and is based on discussions during the Group's meeting. The meeting notes do not necessarily represent the views of the AcSB and nothing in them constitutes authoritative guidance.*
The International Accounting Standards Board (IASB) staff papers referred to in the meeting notes were prepared by the IASB staff for discussion by the IASB® Transition Resource Group for IFRS 17 Insurance Contracts*, and do not represent the views of any individual member of the IASB or its staff. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards.*

Items discussed at the March 2019 meeting of the AcSB Insurance Transition Resource Group appear below. The IASB® Transition Resource Group for IFRS 17 *Insurance Contracts* met on April 4, 2019. The webcast and meeting report for that meeting can be found here.

Implementation issues (Canadian paper)

Summary of the Paper

This Canadian paper reviews the 25 implementation challenges and concerns that were initially raised during the October IASB Board meeting, the IASB tentative decisions on each of the issues and seeks preliminary feedback on the proposed amendments.

Summary of the Group's Discussion

The Group discussed the IASB's proposed amendments to IFRS 17. While there was general agreement regarding the amendments, the following comments were provided:

- Acquisition cash flows to be attributed to expected future renewals
  - Providing quantitative disclosure, in appropriate time bands, could be challenging and would require a lot of work as this information not currently tracked. Some members also questioned the value of the disclosures to the users.
- Contractual service margin amortization

    - The Group supported expanding the contractual service margin to include both insurance and investment services. However, some Group members cautioned that it will depend on how the IASB chooses to define investment return service as it introduces new terminology to IFRS 17.

- Reinsurance contracts held when underlying contracts are onerous
    - Group members support this proposed amendment.
- Grouping of insurance assets and liabilities
    - Group members thought that the proposed amendment to present insurance contract assets and insurance contract liabilities on the balance sheet determined using portfolios of insurance contracts rather than groups of insurance contracts was helpful.
    - However, the Group still questioned how this requirement would provide useful information to users of the financial statements.
- Modified retrospective transition
    - Group members remain concerned that the modified retrospective approach is rigid and would lead to many entities being forced to use the fair value approach.

Some Group members also continued to raise concerns over issues with IFRS 17 and IFRS 3 *Business Combinations.* The IASB is proposing an annual improvement to exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17. However, one Group member noted that the scope does not include portfolio transfers between entities under common control which may not meet the definition of a business. This Group member noted portfolio transfers can also be a big issue for some entities.

Another proposed annual improvement from the IASB is to amend IFRS 3 so that IFRS 17 amendment on the classification of insurance contracts applies prospectively. A few members noted that this solves the issue at transition. However, going forward, the issue still exists. These Group members questioned the usefulness of having a subsidiary that is fully owned maintain a separate set of books. A few other Group members noted that this concern is not an IFRS 17–specific concern and exists today for other industries applying IFRS 3.

System readiness

The Group noted that system readiness continues to be a concern for Canadian stakeholders. While some large entities have identified or are in the process of identifying their system provider, the systems have yet to be built and not production ready until the end of 2019 at the earliest. The issue is further highlighted by small and medium-sized entities that are waiting for an out-of-the-box solution, which is not available. Another concern was with vendor support given that the implementation would occur over the same period for many entities (within and outside Canada).

Investment components within an insurance contract (IASB agenda paper AP01)

Summary of the Paper

The IASB received several submissions about investment components as defined in IFRS 17. The submissions questions how to:

(a) determine whether an insurance contract includes an investment component;
(b) assess whether an investment component is distinct- IFRS 17 requires an entity to separate a distinct investment component from an insurance contract and to account for the distinct investment component applying IFRS 9 *Financial Instruments*; and
(c) determine the amount of the investment component.

The submissions include different views for each of the questions above, considering the fact patterns of each example. Some of the examples of insurance contracts provided by the submissions include:

- a life cover contract,
- a whole-life insurance contract,
- an immediate annuity contract with a guaranteed payment period,
- a deferred annuity contract; and
- a pure protection contract.

For more details on the submissions and the IASB staff analysis, please see agenda paper AP01.

Summary of the Group's Discussion

The Group did not agree with the IASB staff recommendation to propose an annual improvement to the definition of an investment component. Modifying the definition of an investment component to explicitly state that an amount be repaid to policyholders in all circumstances would unduly disrupt the current implementation efforts of entities. Another point raised was the principle in the standard is whether there is an insurance or investment component and the proposed change to the definition would introduce an additional criterion in determining an investment component.

Some Group members also referred to IASB staff papers that were written prior to the 2013 Exposure Draft that included many different examples of applying an investment component. The 2013 Exposure Draft contained the same definition that is currently in IFRS 17. However, the examples in AP01 lead to different conclusions than those in earlier IASB staff papers.

Some Group members thought this paper introduced a requirement to identify the investment component. They thought that based on the requirements of IFRS 17, an entity needs to identify premiums that are excluded from revenue and expenses. However, there is no requirement to show the investment component liability.

Reporting on other questions submitted to the IASB Transition Resource Group for IFRS 17 (IASB agenda paper AP02)

Summary of the Paper

This agenda paper summarizes other queries submitted to the IASB Transition Resource Group for IFRS 17. The submissions were categorized as queries that:

(a) can be answered applying only the words in IFRS 17;

(b) do not meet the submission criteria; or

(c) are being considered through a process other than a discussion by the IASB Transition Resource Group for IFRS 17 (such as a proposed annual improvement).

For more details on the submission and the IASB staff analysis, please see IASB agenda paper AP02.

Summary of the Group's Discussion

S82 Modification of an insurance contract

One Group member noted that paragraph 72 of IFRS 17 can create some problems in practice as it notes an option within a contract is not a modification. The example was an option within a contract to replace existing coverage with completely different coverage and the member questioned how that could not be a modification. The Group member thought the treatment of the election of options should be the same as modifications if there is a significant change. Otherwise, it should be treated as a change to the fulfillment cash flows.

S83 Disclosures and reporting frequency

One Group member noted that the IASB staff response was not clear and it should be made clearer that the disclosures should be the same.

S86 Definition of a portfolio when determining the boundary of the contract

Some Group members were confused with the IASB staff response and referred to the February IASB TRG discussion on this issue. In that discussion, one Group member noted that the definition of a portfolio was different in the appendix to IFRS 17 and paragraph 34(b) of IFRS 17. The example was a general repricing mechanism that would be updated from time to time without looking at experience and would not lead to repricing of the portfolio. However, when repricing reacts to a change in risk, when the portfolio experiences are more than expected, then an entity would reprice the portfolio to reflect the risk.

S97/100 Payments to policyholders

Similar to the discussion on AP01 above, some Group members were confused on why users need to identify whether the payment to policyholder is a claim, premium refund or can meet the definition of an investment component.

S105 Discretionary cash flows

Some Group members expressed concern on the lack of an answer to this issue. The example is an entity that expects to pay 100 basis points over the term of the contract. However, Group members questioned what would happen to the remaining 10 basis points if the entity uses its discretion and pays 90 in one period rather than 100.

Most Group members thought it would depend if the entity was changing its long-term expectations. If the entity still plans to pay 100 basis points over the long term, the 10 would go through the contractual service margin. If the expectations of the entity for the long-term change, that would go through finance expense.

One Group member noted that that applying the terms of the standard, the entity needs to come up with an actual expectation and not a range (i.e., the entity can expect to pay 100 basis points over the long term but not 90 to 110 basis points).

S117 Premium waiver presentation in profit or loss

Group members expressed varying views on this issue. One Group member thought that the entity should look at the general principle on what should be revenue, being the total consideration received that is settled net.

Other Group members noted that the difference between IFRS 15 *Revenue from Contracts with Customers* and IFRS 17 is that in IFRS 17 the insured event triggers the insurer providing the credit. The entity needs to look at the ultimate cash flows and adjustment for all periods, but it only happens once the insured event occurs.

S84/99 Investment management expenses

One Group member thought the IASB staff did not address this question for expenses incurred to manage the risk of the contract.

S101/120/124 Changes in the risk adjustment for non-financial risk due to time value of money and financial risk

One Group member questioned why the presentation choice should affect measurement.