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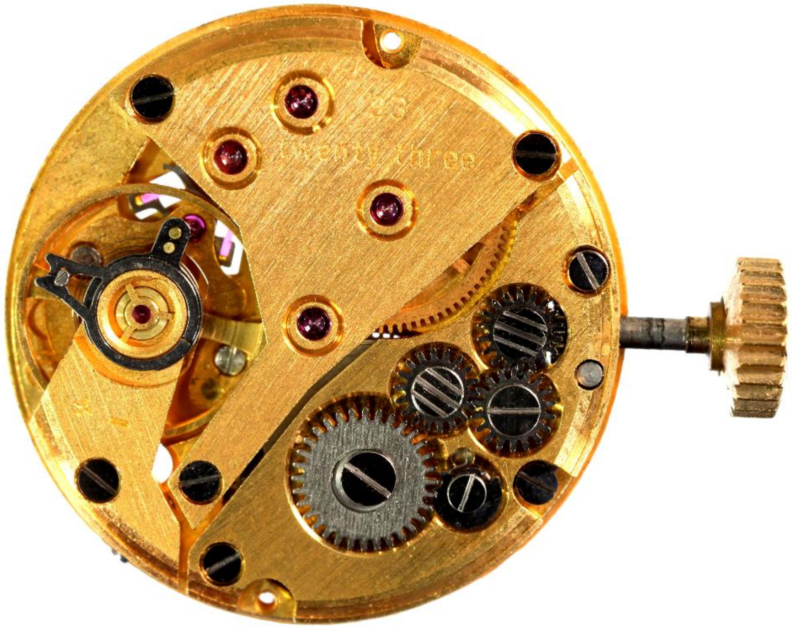

IASB meeting – 24 October

The Board prepares for "quick fix" amendments to IFRS 17 but takes no decision on the effective date

Francesco Nagari, Deloitte Global IFRS Insurance Leader | 1 November 2018

Agenda

- Highlights of the IASB meeting on 24 October 2018
- Detailed analysis of the IASB discussion and of the decisions reached
- Next steps

Highlights of the IASB meeting on 24 October 2018

- The Board had previously indicated that it would consider whether additional action is needed to address matters arising during IFRS 17 implementation.
- This meeting was a first step in this assessment process.
- The Staff provided an update on the TRG activities after the TRG meeting on 26-27 September 2018 to highlight that 81 submissions have been received thus far, out of which 32 have been dealt with.
- The next TRG meeting on 4 December 2018 might be postponed depending on the volume and the nature of the submissions received.
- IASB approved unanimously the criteria to amend IFRS 17 from Agenda Paper 2C. These criteria are sufficient to identify amendments but they do not determine if the amendment is necessary.
- IASB had a Q&A with IASB Staff on the 25 issues brought to the IASB for consideration. There was no vote on this Agenda Paper 2D.

IASB amendment criteria (Agenda Paper 2C)

The Staff proposed four criteria to assess that any amendment would not result in significant loss of useful information relative to that which would be provided by IFRS 17 for users of financial statements:

(a) Significant loss of useful information			(b) Undue disruption of current implementation processes or cause delay in the effective date of IFRS 17
(i) Reduction of relevance and faithful representation	(ii) Reduction of comparability or creation of internal inconsistency among IFRSs	(iii) Increased complexity for users	

The Staff noted that even if the Board agrees to any potential amendment to IFRS 17 that meets the criteria, it does not mean that all amendments meeting these criteria are necessary.

The Board voted unanimously for the criteria developed by the Staff.

Before the vote, Board members expressed reluctance to make amendments but acknowledged that there are issues in implementation and there is a need for more time for implementation.

However, they also observed that many stakeholders wished IFRS 17 to become effective as scheduled.

Reopening IFRS 17 would impact those who have already begun implementing it. The whole process of amending IFRS 17 is challenging because the IASB needs to consider its interaction with IFRS 9 *Financial Instruments.*

IASB amendment criteria (Agenda Paper 2C) (cont.)

Board discussion

The Board in general considered:

- The criteria are very helpful as they set a high hurdle for a change. Amendments might be necessary, if the benefit of changes exceed the costs in order to meet the key objective of the investor — greater comparability, consistency and more transparency.
- Agreed that any changes/amendments should be narrow in scope and should be resolved efficiently and timely by the Board.
- Were strongly in favour of criterion (a)(iii) as loss of information to users is a key aspect which keeps focus on investor usefulness as an important factor.
- The impact of an amendment should be quite limited such that a delay to the effective date is avoided if possible.

The Chairman concluded the discussion by stating that the Board should:

- Strive to make IFRS 17 functional before the next financial crisis.
- Risking the delay of IFRS 17 or disrupting its implementation is very high. Therefore, changes to IFRS 17 should be fine-tuning the current core principles of IFRS 17 and legitimised by an expectation of lower implementation costs .

Concerns and implementation challenges (Agenda Paper 2D)

Likely amendments

The Staff suggested an amendment for 6 issues out of 25. In one additional case the amendment would clarify rather than change IFRS 17.

It is therefore likely that those amendments or clarifications will be approved at a later Board meeting.

- **Scope, credit cards – Issue 1**
  No Board discussion, there will be a new scope exemption paragraph from IFRS 17 to IFRS 9 for these banking products.
- **Acquisition cash flows – Issue 3**
  No Board discussion. The Staff considered that an amendment could introduce complexity but did not argue against the change from the criteria perspective.
- **Measurement of the RA at group and subsidiary level – Issue 6**
  This is the clarification amendment. The IASB might clarify the view that there is one RA at both subsidiary and group levels.

  Members would like to understand the implementation issue and why its clarification may disrupt the implementation for some preparers.

  One perspective was that some constituents would be in favour of this change and others would not, which complicates the consideration of this concern.

Concerns and implementation challenges (Agenda Paper 2D) (cont.)

Likely amendments (cont.)

- **CSM coverage units – Issue 7**

  Board members noted that this was one of the most difficult issues to address. It has previously been considered as an Annual Improvement.

  Several constituents said that the clarification introduced by the Annual Improvement may disrupt preparation unless it also addresses the general model.

  It was noted that an amendment could be avoided by proceeding with this topic in the Annual Improvements' process.

  Some thought that separating the analysis into two aspects is critical—variable fee and general model because the VFA changes the measurement and this is not just an attribution change.

  The Staff indicated that they have some ideas for a future paper. Some members welcomed this and were hoping for an efficient solution that would not disrupt implementation, for example through a change as part of the Annual Improvements' process.

Concerns and implementation challenges (Agenda Paper 2D) (cont.)

Likely amendments (cont.)

- **Measurement of Reinsurance held at initial recognition– Issue 12**
  The Staff considered that a change could be possible without loss of useful info and disruption of implementation but the Board wanted to have the analysis performed at a more granular level to reach a further view.

- **Presentation of insurance contract asset/liabilities at the level of groups of insurance contracts – Issue 15**
  This issue was raised previously at the time of standard-setting.

  One member asked for targeted outreach, while others questioned the results of the previous field testing.

  However, one of the Board members said that the Staff's preliminary analysis seems to be more open to offsetting here than the Board has been in the approach to offsetting in other Standards in the past.

  If it relates to a particular product, the Board needs more detail as otherwise, it seems to be a potential fundamental inconsistency across other IFRS.

- **Modified retrospective approach restrictions – Issue 24**
  Practical solutions must come forward, there is no conceptual resistance to change.

Concerns and implementation challenges (Agenda Paper 2D) (cont.)

Unlikely to be amended

The Staff did not describe any rationale or positive assessment of the amendment criteria in favour of amending 17 issues out of 25. It is therefore likely that those concerns might not lead to an amendment at a later Board meeting.

- **Level of aggregation / Annual cohorts – Issue 2**
  Some members agreed with the Staff's preliminary thoughts on this. The Board was sympathetic to the topic being an ongoing industry concern but requested a fuller analysis to consider the nature of new information as this topic had been deliberated previously.

  Members debated how to apply the criteria and discussed the concern about the costs of implementation against the criterion of the usefulness of information of evolution of profitability over time. However, the cost argument is a piece of information considered previously by the Board.

  The Board requested a further assessment of the second criteria against this topic as this was not assessed yet.

- **Locked-in discount rates – Issue 4**
  No Board discussion.

Concerns and implementation challenges (Agenda Paper 2D) (cont.)

Unlikely to be amended (cont.)

- **Measurement: Principle based approach to discount rates and RA – Issue 5**
  Some of the members agreed with the Staff's preliminary thoughts about principles and disclosure.

  One Board member said it would be helpful in the analysis to amplify some of the thoughts about avoiding to use rules-based approaches.

  The analysis could be more specific as to what the consequences/implications would be.

- **Business Combinations: classification & settlement period – Issue 10/11**
  An assessment of the usefulness of the IFRS 3 information was requested.

  The usefulness of the loss of information against criterion (a)(iii) was another marker for the analysis at a future Board meeting.

Concerns and implementation challenges (Agenda Paper 2D) (cont.)

Unlikely to be amended (cont.)

- **R/I held eligibility for VFA – Issue 13**

  One member commented that reinsurance does not capture the risk of the investments and therefore the nature of the reinsurance contract should be assessed as to whether the contract relates to insurance risk or also the investment risk, which is the predominant element.

  One of the Board members mentioned that this is a fundamental issue, as IFRS 17 does not cover policyholder accounting and some accounting treatment is prescribed for reinsurance contract held.

  The matching concept here is ideal but is not as easy as with hedge accounting. Hence, it was decided not to address this issue at the time of standard-setting.

  In assessing the criterion of loss of information, it would be useful to understand what information may be lost to users regarding onerous contracts, change of CSM and separate presentation of reinsurance contacts.

  Some members welcomed the Staff's preliminary thoughts.

- **R/I held CFs future contracts – Issue 14**

  One view was provided that relevance is the most predominant factor to be considered.

- **Presentation of Premiums receivable – Issue 16**

  No Board discussion.

Concerns and implementation challenges (Agenda Paper 2D) (cont.)

Unlikely to be amended (cont.)

- **OCI treatment as an option – Issue 17**
  One of the Board member mentioned that he hears about this issue consistently as a feedback from users who do not like this option.

  The Board appreciates that addressing the issue would be disruptive but there is a history as to why the option exists.

- **Scope of VFA too narrow – Issue 18**
  No Board discussion.

- **Accounting estimates reset at each interim date – Issue 19**
  No Board discussion.

- **Transition Optionality – Issue 23**
  No Board discussion.

- **Fair value approach – Issue 25**
  No Board discussion.

Effective date – Issues 20-22

There are 3 issues regarding the effective date:

- **Effective date of IFRS 17 – Issue 20**
- **Comparative information needs – Issue 21**
- **Effective date of IFRS 9 – Issue 22**

IASB Staff preliminary thinking was not to amend IFRS for Issues 21 and 22.

Board discussion

One member commented that one of the constituents view on removing the comparative period could reduce the implementation effort with 1 year, whereas other feedback does not support this notion.

Another Board member observed that because the elimination of the comparative is equivalent to a delay of 1 year it would be better to drop Issue 21 and discuss the merit of Issue 20 only, where the possibility of a delayed effective date and the discussion of how long the delay could be is pertinent.

A comment on the need for comparative information asked for further outreach from the investors to understand the extent of the loss of information.

Effective date – Issues 20-22 (cont.)

Board discussion (cont.)

Another Board member said that a two-tier model (listed and unlisted companies) might help/would take pressure off the market.

Others suggested that having different effective dates for the parent and its subsidiaries in the group creates ongoing complexities, and the experience of IFRS 1 *First-time adoption of International Financial Reporting Standards* is relevant.

The effective date is problematic as some constituents want IFRS 17 sooner rather then later, whereas others are requesting delays for various reasons.

There was a request to keep track of the different reasons.

Regarding IFRS 9 the Board considered that there is already a very long delay.

Investors could not wait longer to see insurers′ assets under IFRS 9.

Next steps

- The next TRG meeting may be held on 4 December 2018 in the IASB office in London or it might be postponed depending on the volume and the nature of the submissions received.
- If rescheduled, the new date is likely to be early in 2019 to accommodate a longer period for submissions to be made.
- It is expected that November and potentially also December IASB meetings will stage the discussion on the concerns and implementation challenges identified when Staff paper will allow each concern to be analysed further to justify whether an amendment is needed.
- This includes the issue of the effective date.

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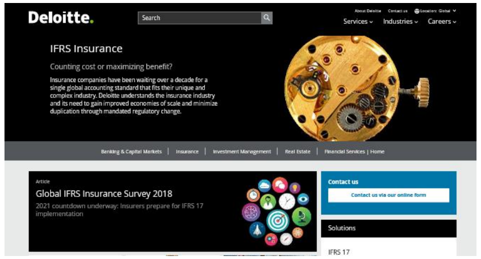

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