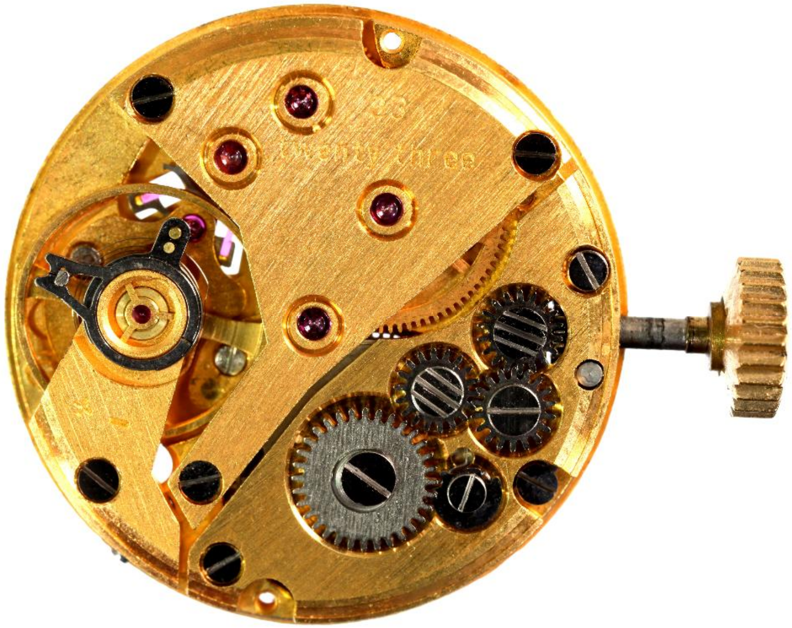

New effective date for IFRS 17: 1 January 2023

Deferral of insurers′ mandatory application of IFRS 9 shifts forward to the same date

Francesco Nagari, Deloitte Global IFRS Insurance Leader | 24 March 2020

Agenda

- Highlights of the IASB meeting on 17 March 2020
- Detailed analysis of the IASB discussion and decisions reached
- An overview of the amendments to IFRS 17 and their implications for insurers
- Next steps

Highlights of the IASB meeting on 17 March 2020

- With a majority vote of 12 against 1 (one Board member was absent due to lost connection but later stated he would also have voted in favour), the IASB approved the deferral of the effective date of IFRS 17 (incorporating the amendments) for an additional year (compared to the proposal in the exposure draft) to 1 January 2023.
- With a majority vote of 12 against 2, the IASB approved to extend the expiry date of the IFRS 9 temporary exemption for qualifying entities as set out in IFRS 4 to 1 January 2023.
- The IASB also voted unanimously not to re-expose the amendments to IFRS 17, with no Board member intending to dissent from the issuance of the final amendments.
- The IASB gave permission to start the balloting process for the Staff to draft the amendments to IFRS 17 and raise any issues identified during the balloting of amendments for discussion at a future meeting. The amendments are expected to be issued in the second quarter of 2020, in line with the original plan.

Effective date of IFRS 17

Feedback from respondents

- **Almost all respondents supported the Board's proposal to defer the effective date of IFRS 17 from its original effective date of 1 January 2021. Three main themes were observed in the feedback received:**

1. Concerns expressed about any further deferral of the effective date

- **All regulators and some respondents (users of financial statements) either opposed or expressed concerns about any further delay to the effective date beyond 1 January 2022 as this would cause further delay to much-needed improvements to existing accounting practices for insurance contracts.**

- **A small number of insurers from Asia, Africa and Europe opposed any further deferral of the effective date of IFRS 17. For these insurers, any further delay would risk a loss of momentum in implementation projects and increase implementation costs, for example, the need to maintain two systems (existing vs. IFRS 17-compliant systems) especially for insurers who are ready for a 2022 effective date. A date that has been known since November 2018.**

2. More time required for implementation

- **Some insurers, or their representative bodies, and some national standard-setters support a further deferral of more than one year for reasons such as:**
  a) challenges in developing IFRS 17-compliant IT systems;
  b) developing appropriate application of IFRS 17 requirements and resolving technical accounting implementation questions; and
  c) the impact of the amendments on existing implementation projects, such as those relating to the treatment of insurance acquisition costs and recovery of losses from reinsurance contracts held with onerous underlying contracts.

Effective date of IFRS 17

Feedback from respondents

3. Consistent effective date around the world

- **Some insurers or their representative bodies from all regions, and some national standard-setters, highlighted the need to align the initial application of IFRS 17 in major markets around the world. The uncertainties and delays surrounding endorsements in some jurisdictions might put pressure on other jurisdictions to defer the effective date.**

- **Some insurers highlighted the risk that if IFRS 17 is not applied at the same time in major jurisdictions, the market might not appropriately distinguish the effects of IFRS 17 on insurers from the effects of changes in their underlying financial positions and performance.**

Effective date of IFRS 17
Staff conclusions and recommendation

- Implementation by 2022 would be demanding for some insurers.
- Any further deferral of the effective date might cause some insurers to incur more implementation costs and, therefore, could appear to penalise those that started implementation as soon as IFRS 17 was issued and reward those that have been slower to implement.
- The desire for insurers in some of major jurisdictions around the world to be able to initially apply IFRS 17 at the same time given the significance and extent of the changes IFRS 17 introduces.
- The benefits of a global adoption date outweigh the costs of further delaying the implementation of IFRS 17—particularly for users of financial statements. On that basis the Staff recommend that the Board defer the effective date of IFRS 17 by two years to annual reporting periods beginning on or after 1 January 2023.

Expiry date of the IFRS 9 temporary exemption in IFRS 4

Feedback from respondents

- **Overall, respondents supported the Board's proposal to further delay the implementation of IFRS 9 for some insurers to continue to enable them to initially apply IFRS 17 and IFRS 9 at the same time. There were also three main themes observed in the feedback received, which are discussed below.**

1. Need for IFRS 9

- **A European national standard-setter and a securities regulator representing Europe emphasised the importance of not further delaying the application of IFRS 9, i.e. enhanced credit risk information, comparability across financial instruments held by insurers to one another and to other entities.**

2. Benefits of maintaining alignment of initial application of IFRS 17 and IFRS 9

- **Some respondents, mainly in Europe, commented that it is important that the effective dates of IFRS 17 and IFRS 9 for insurers are aligned because:**
  - **a) insurers will otherwise experience two sets of major accounting changes in a short period of time; and**
  - **b) alignment leads to improved information and avoids the potential for accounting mismatches across implementation periods.**

3. Additional disclosures

- **A European representative body suggested that the Board introduce additional disclosures to reduce the gap in information between insurers applying IAS 39 and other financial institutions applying IFRS 9.**

Expiry date of IFRS 9 temporary exemption in IFRS 4

Staff conclusions and recommendation

- Considering any further extension to the temporary exemption from applying IFRS 9 is a question of balancing the need for improved information resulting from IFRS 9 against the benefit for entities of being able to initially apply IFRS 17 and IFRS 9 at the same time.
- The benefits of extending the relief by a further year to maintain the alignment of the initial application of IFRS 17 and IFRS 9 for specified insurers, outweigh the disadvantage of a further delay to the implementation of IFRS 9 by those insurers.
- The Staff recommend that the Board extend the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

An overview of the amendments and their implications for insurers

- At its October 2018 meeting, the Board identified 25 concerns raised by various stakeholders for potential amendments to IFRS 17. We discuss in the following slides those concerns that resulted in amendments to IFRS 17.

- During meetings held between December 2018 and March 2019, the Board analysed the 25 concerns against the criteria for evaluating possible amendments to IFRS 17. The 12 concerns listed below are those that the Board identified as not meeting the criteria for potential amendments.

  #(4) Use of locked-in discount rates to adjust the contractual service margin (CSM) for non-participating contracts
  #(5) Subjectivity in discount rates and risk adjustment
  #(6) Risk adjustment in a group of entities: interpretations of the requirement may lead to diversity in practice
  #(9) Premium allocation approach: need to identify premium received for each group of contracts
  #(10) Business combination: assessing classification of acquired contracts based on information as at the acquisition date instead of the original inception date
  #(14) Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued
  #(16) Presentation in the statement of financial position: Premiums receivable
  #(17) Presentation in the statement of financial performance: OCI option for insurance finance income or expenses (optionality vs. requirement)
  #(18) Defined terms: Insurance contract with direct participation features
  #(21) Effective date: Comparative information
  #(23) Transition: Optionality
  #(25) Transition: Fair value approach (FVA) relating to OCI on related financial assets

An overview of the amendments and their implications for insurers

- **3 concerns were originally identified by the Board as not valid for potential amendments, but were subsequently reconsidered following feedback received on the Exposure Draft *Amendments to IFRS 17.* These are:**

  #(2) Level of aggregation

  #(11) Business combination: contracts acquired during the settlement period

  #(19) Interim financial statements: treatment of accounting estimates

An overview of the amendments and their implications for insurers

Scope of IFRS 17

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(1) Loans and other forms of credit that transfer insurance risk being within the scope of IFRS 17	a) Credit cards and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract are scoped out of IFRS 17.	• Supportive. • This amendment effectively introduces a "reverse unbundling" concept in which the associated insurance component in a scoped out credit card is brought back within the scope and accounted for accordingly under IFRS 17.	• No significant impact on insurers. • Major relief for banks. These types of contracts are typically issued by other financial institutions, such as banks and credit card companies. They would involve a simple IFRS 17 implementation plus apply IFRS 9 to the "pure" credit card contracts.

An overview of the amendments and their implications for insurers

Scope of IFRS 17

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(1) Loans and other forms of credit that transfer insurance risk being within the scope of IFRS 17	b) Loans that transfer significant insurance risk are accounted for either applying IFRS 17 or IFRS 9 *Financial Instruments*. The accounting policy choice is applied at the portfolio level and is irrevocable.	• Supportive. • This is a welcome change. The amendment will result in financial institutions issuing such loan contracts but having no other IFRS 17 contracts being able to align the accounting treatment for these loan contracts with the accounting treatment for the majority of their financial assets and liabilities currently accounted for under IFRS 9.	• No significant impact on insurers. • Major relief for banks. These types of contracts are typically issued by financial institutions other than insurers.

An overview of the amendments and their implications for insurers

Level of aggregation

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(2) Level of aggregation requirements are too prescriptive, do not reflect the way risks are managed and might result in excessive granularity, undue costs and complexity.	• **No change**.	***Annual cohort requirement for contracts with intergenerational sharing of risks between policyholders (mutualised contracts)*** • Deloitte included in its comment letter a solution to address this inconsistency that would require the entity to **adjust the CSM at a level of a single combined risk-sharing portfolio**. However, such proposal was not accepted by the Board.	• Without the exemption for annual cohort requirement, existing guidance for mutualised contracts **does not result in a consistent** accounting treatment when an entity adjusts the CSM for changes in fulfilment cash flows that relate to future services. • Accounting for CSM without considering annual cohorts remains possible in a narrow range of cases such as the one illustrated by the Staff in the February 2020 paper.

An overview of the amendments and their implications for insurers
Level of aggregation

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(2) Level of aggregation requirements are too prescriptive, do not reflect the way risks are managed and might result in excessive granularity, undue costs and complexity.	• No change.	***Determining annual cohort based on contract issuance date*** • Deloitte highlighted in its comment letter that retaining the current wording of IFRS 17:22 which requires the identification of annual cohorts on the basis of contract issue dates will result in more operational complexities on the application of the level of aggregation than had the Board decided to amend IFRS 17:22 in a similar and consistent way with the amendment to IFRS 17:28.	• The operational complexities relating to applying IFRS 17:22 (as currently worded in IFRS 17) include: § groups that include profitable contracts with forward-starting coverages will remain open until such time as these contracts met the recognition criteria set out in IFRS 17:25. § the determination of day one locked-in discount rate for the group for the subsequent measurement of the contractual service margin (CSM) where the entity elects the calculation of a weighted-average rate.

An overview of the amendments and their implications for insurers
Measurement

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(3) Insurance acquisition cash flows (IACF) for renewals outside the contract boundary	• Additional guidance on the accounting for pre-coverage IACF assets, including impairment tests, and related disclosures required to provide users with useful information on IACF. • IACF is recognised across coverage periods i.e. initial contract + expected renewals.	Supportive, but there are still certain aspects of IACF accounting that could be improved to provide more precise guidance and enable consistent application. In particular: • the need to take into account the time value of money when assessing IACF for impairment; • when applying premium allocation approach (PAA), permitting insurers to expense immediately any IACF relating to multi-group contracts when incurred does not reflect the true economics of IACF given it also relates to groups of contracts not yet issued; and • the term "renewal" remains an undefined term in IFRS 17 and will result in some diversity in interpreting the term, especially between life and general insurance segments.	• With this amendment, insurers are not forced to recognise a group of insurance contracts as onerous only because the IACF cannot be allocated to contract renewals, even though they are paid on the basis that the entity expects some policyholders will renew their contracts.

An overview of the amendments and their implications for insurers

Measurement

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(7) Contractual service margin: coverage units in the general model	• Contractual service margin (CSM) for insurance contracts not accounted for under the variable fee approach will include investment-return services when identifying coverage units. • Costs related to investment activities enhancing policyholder benefits will be included as part of fulfilment cash flows.	• Supportive. • The amendments will only be able to address some of the issues raised by the insurers as highlighted by their implementation work for CSM allocation. • The requirement, being principle-based, will allow insurers to develop an industry practice for CSM allocation when applied to different combinations of contract features.	• Expected to change the pattern of profit recognition to better align with the provision of different services in a contract. • Might cause disruption to the implementation processes already underway, particularly for entities that are at an advanced stage of IFRS 17 implementation, if this amendment has not been incorporated in the relevant activities.

An overview of the amendments and their implications for insurers

Measurement

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(8) Contractual service margin: limited applicability of risk mitigation option exception	• Prospective application from transition date (instead of initial application date) for risk mitigation option applied to direct participating contracts. • The applicability of the risk mitigation option is extended to permit the use of reinsurance contracts held and non-derivative financial instruments measured at fair value through profit or loss as hedging instruments.	• This is a welcome change for insurers that utilise such financial instruments to mitigate financial risks arising from direct participating contracts as they will be able to reduce substantially an accounting mismatch that could arise had the Board not permitted the extension in the applicability of the risk mitigation option.	• Accounting mismatch reduced substantially.

An overview of the amendments and their implications for insurers

Measurement

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(11) Business combination: contracts acquired during settlement period #(24) Transition: Modified retrospective approach (MRA) – further modifications	• When applying a modified retrospective approach (MRA) or fair value approach (FVA), insurers will be permitted to classify the settlement of claims incurred before acquiring a contract either through a business combination or through a portfolio transfer as a liability for incurred claims (LIC).	• Deloitte indicated in its comment letter its concern regarding comparability because the amendment will result in insurance contracts acquired in their claims settlement phase being treated differently depending on whether such contracts were acquired before or after the point of restatement impracticability. • A proposal was made by Deloitte in its comment letter to address the comparability issue by treating the release of CSM as a gain in the insurance service expense line item instead of insurance revenue.	• Treats liabilities acquired in a manner inconsistent with the underlying acquired subsidiaries for a portion of acquired LIC's, while other LIC's will be treated in the same way. • Does not give rise to revenue and expenses, thereby reducing the revenue and expenses reported by insurers relating to such contracts.

An overview of the amendments and their implications for insurers
Measurement

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(12) Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous	• Calculation basis for the reinsurance recovery in P&L has been simplified and made applicable to all reinsurance contracts held. The calculation is based on the percentage of recovery from the reinsurance contracts held.	• The amendment has improved the reinsurance accounting for cedants. There are still certain areas, however, that need to be addressed such as the accounting mismatch that would result from the use of a locked-in discount rate to the two portions of CSM in a reinsurance contracts held caused by the different nature of the underlying contracts (existing vs. expected). • Deloitte proposed in its comment letter a solution that could address such accounting mismatch – requiring CSM related to expected future issuances to be measured always using the current rate.	• Expected to improve consistency. • Might disrupt implementations that are underway, thereby increasing costs for entities that have started processes.

An overview of the amendments and their implications for insurers

Measurement

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(13) Reinsurance contracts held (RI) ineligible for the variable fee approach (VFA)	• The applicability of the risk mitigation option is extended to permit the use of reinsurance contracts held as hedging instruments.	• Deloitte, in its comment letter, said a better solution is to extend the scope of VFA to reinsurance contracts held, which would result in the application of consistent principles and criteria to all insurance contracts and eliminate any accounting mismatch more effectively when the underlying contracts are also accounted for under VFA.	• The amendment is expected to reduce accounting mismatch to some extent. • The ineligibility to apply VFA to reinsurance contracts held may give rise to accounting mismatches, thereby not reflecting the true economics of an RI arrangement being a net risk position.

An overview of the amendments and their implications for insurers

Measurement

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(15) Presentation in the statement of financial position: Need to allocate cash flows to each group of insurance contracts for separate presentation of groups of contracts in an asset and in a liability position.	• Presentation in the statement of financial position of insurance contracts in an asset and in a liability position at the portfolio level.	• Supportive, for reasons indicated in the Basis for Conclusions of the ED.	• Provides practical relief to insurers without diminishing the usefulness of information provided.

An overview of the amendments and their implications for insurers

Interim Financial Statements

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(19) Interim financial statements (FS): Treatment of accounting estimates	• An accounting policy choice at the reporting entity level is provided as to whether to change the treatment of accounting estimates made in previous interim FS. • Transition relief has been provided for entities that apply the modified retrospective approach and the accounting policy choice above, to determine CSM, loss component and amounts related to IFIE* at the transition date as if the entity had not prepared any interim FS before the transition date.	• Supportive	• Expected to reduce implementation costs, as entities are given the ability to adopt a choice that will be less burdensome from a practical perspective, especially for entities within a consolidated group with different reporting periods.

*IFIE – Insurance finance income or expenses

An overview of the amendments and their implications for insurers

Effective date

Original concerns raised by stakeholders	Amendments to IFRS 17	Deloitte's views	Implications for insurers
#(20) Effective date: Date of initial application of IFRS 17 #(22) Effective date: Temporary exemption from applying IFRS 9	• Deferral of effective date of IFRS 17 to 1 January 2023. • The expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 is also extended to 1 January 2023.	• Deloitte indicated support for the one year deferral of the IFRS 17 effective date and delayed application of IFRS 9 for qualifying entities. Deloitte noted that 2022 will likely remain a challenging deadline for many insurers.	• The implications for insurers of the further deferral of IFRS 17 effective date can be seen as favourable by some insurers who are still in the early stages of their implementation projects or those that require more time due to challenges arising from implementing IFRS 17, such as systems, data, technical accounting issues. For insurers who are in the advanced stages of implementation projects, the delay can be seen as unfavourable given the need to retain existing IFRS 17 resources and maintain two systems, i.e. existing systems and IFRS 17-compliant systems. Similar implications for the delay in the application of IFRS 9 can be observed.

Next steps

- **The Staff announced that they expect the publication of final amendments in the second quarter of 2020.**

- **Deloitte will publish a recorded Insurance webcast once the *Amendments to IFRS 17* has been published to highlight any issues arising from the balloting process that will have implications for how the final amendments (as approved by the Board) are set out in the text of the amended IFRS 17.**

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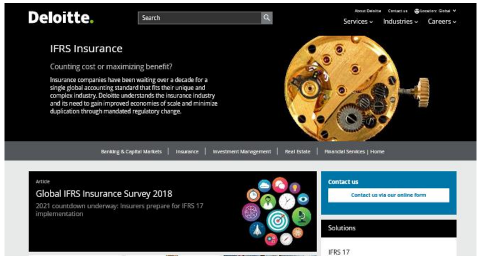

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