In brief

A look at current financial reporting issues

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Proposed amendments to IFRS 17, 'Insurance contracts'

The IASB has issued proposed amendments to IFRS 17 for a 90-day comment period. These encompass amendments within eight areas of IFRS 17and a number of proposed clarifications.

At a glance

The IASB has concluded its review of the reported concerns and implementation challenges of IFRS 17. This has resulted in an Exposure Draft 'Amendments to IFRS 17' proposing narrow scope amendments in eight different areas of IFRS 17, in addition to several proposed clarifications that are classified as annual improvements. Included in the Exposure Draft (ED) is the proposal to defer the mandatory effective date of IFRS 17 by one year, under which entities will be required to apply IFRS 17 for annual periods beginning on or after the 1 January 2022. The ED also proposes to revise the fixed expiry date of the temporary exemption from IFRS 9 in IFRS 4, to allow entities to continue applying the temporary exemption from IFRS 9 until 1 January 2022. The ED proposes that the amendments should be applied at the same time that the Standard is applied.

The comment period for the Exposure Draft ends on 25 September 2019, with the IASB aiming to finalise the amendments in the second quarter of 2020.

What is the issue?

Following the issuance of IFRS 17, the IASB engaged in a variety of activities with stakeholders to follow its implementation. Many stakeholders have expressed concerns and noted implementation challenges. As a consequence, the IASB agreed in October 2018 to explore potential amendments to IFRS 17. The Board noted that any amendments suggested would need to be narrow in scope, and deliberated quickly to avoid significant delays in the effective date of the new Standard. The ED notes that any further issues would be unlikely to lead to further standard setting.

The ED and the related basis for conclusions of amendments to IFRS 17 include proposed amendments in eight areas of the Standard and several minor clarifications. The basis for conclusions includes a description of the reported concerns and implementation challenges where the Board agreed not to propose any changes in the standard.

What is the impact and for whom?

The proposed amendments will have an impact in all jurisdictions that apply IFRS 17. They will also impact entities outside the insurance industry that issue insurance contacts, including loans with embedded insurance and certain credit card contracts.

An overview of the proposed amendments is set out below.

Deferral of the effective date
The mandatory effective date of IFRS 17 is proposed to be deferred by one year, to annual periods beginning on or after 1 January 2022. The ED also proposes to similarly revise the fixed expiry date of the temporary exemption from IFRS 9 in IFRS 4, to allow entities to continue applying the temporary exemption from IFRS 9 until 1 January 2022. The ED proposes that the amendments should be applied when the Standard is applied.

Scope exemption for certain loans and credit cards
The ED proposes an election for providers of certain loans to apply IFRS 9 in its entirety rather than IFRS 17. The election would apply where the only insurance in the contract is for the settlement of some or all of the obligations created by the contract. Examples include mortgages with death waivers, equity release/reverse mortgages, and student loan contracts whose repayment is income-contingent. Entities would be required to elect to account for contracts under IFRS 9 at a portfolio of insurance contracts level.

In addition, an amendment is proposed to exclude, from the scope of IFRS 17, credit card contracts that provide insurance coverage if, in pricing the credit card contract, the entity does not assess the insurance risk associated with an individual customer. The proposed amendment would be a requirement rather than an option. The issuer would apply IFRS 9, whether or not the insurance cover within the credit card was required by law or regulation, or was contractual.

Measurement changes
A number of other changes to the measurement of insurance contracts are proposed:

- Allocation of insurance acquisition cash flows to anticipated future renewals, including a recoverability assessment for the recognised asset.
- Attribution of the contractual service margin (the deferred profit) to services relating to investment activities, for both contracts under the variable fee approach (VFA) and other contracts with an 'investment return service' under the general model.
- Recognition of a gain on proportionate reinsurance contracts held on initial recognition where underlying contracts are onerous (including a definition of what is considered proportionate reinsurance contract).
- Change in the level of balance sheet presentation, from groups of contracts to portfolios of insurance contracts.
- Extension of the risk mitigation option under the VFA to financial risks in reinsurance contracts held,
- Additional transition reliefs related to insurance contracts acquired and risk mitigation under the VFA.

Issues not being amended
The concerns and implementation challenges from stakeholders considered by the IASB, but for which no amendment is proposed included in the basis for conclusions, include: Level of aggregation, Cash flows in the boundary of a reinsurance contract held, other comprehensive income option for insurance finance income, accounting estimates in Interim financial statements and Mutual entities issuing insurance contracts.

When does it apply and what will happen next?

The ED has a shorter than normal comment period that ends on 25 September 2019. The proposed effective date is the revised effective date for IFRS 17, of accounting periods beginning on or after 1 January 2022. An entity that chooses to early adopt IFRS 17 would need to apply the amendments at the same time.

Where do I get more details?

The ED is available here, and the IASB has issued a 'Snapshot' that provides an overview of the process and the proposed amendments. For more information, please contact your local engagement team or Gail Tucker (gail.l.tucker@pwc.com), Mary Saslow (mary.saslow@pwc.com), Gerda Burger (gerda.b.burger@pwc.com) or Michael Marslin (michael.marslin@pwc.com).

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