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Insurance Accounting Alert

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Third technical discussion of the IASB's IFRS 17 Transition Resource Group (TRG)

What you need to know

- The third technical discussion of the IASB's TRG took place on 26 and 27 September 2018.
- The TRG discussed ten IASB staff papers on specific issues submitted to the Board; many of these provided helpful clarification regarding areas of uncertainty encountered by preparers.
- IASB staff responses to 17 further issues raised were summarised and reported to the TRG.
- The TRG chairman observed that several of the papers discussed at this meeting relate to the mechanics of applying IFRS 17, rather than interpretation of the words in the standard.
- The next TRG meeting, scheduled for 4 December 2018, could be deferred until Q1 2019 if an insufficient number of submissions regarding matters of principle are received. The TRG chairman asked organisations planning to make submissions to do so early in order for the next meeting to be scheduled and communicated to TRG members in a timely manner.
- The IASB will hold an education session on IFRS 17 at its in October 2018 meeting to discuss the results of its outreach activities, as well as recent letters received from industry groups and other constituents.

Background

IFRS 17 *Insurance Contracts* (IFRS 17 or the standard) represents a fundamental change to accounting practice for most entities issuing insurance contracts and is expected to require significant implementation effort. Therefore, as one of the activities to support implementation of IFRS 17, the International Accounting Standards Board (IASB or the Board) has set up a Transition Resource Group (TRG).

The purpose of the TRG is to:

- Provide a public forum for stakeholders to follow the discussion of questions raised on implementation.
- Inform the Board in order to help it determine what, if any, action will be needed to address the questions raised. Possible actions include providing supporting materials such as webinars and case studies, and referral to the Board or Interpretations Committee.

The TRG comprises experts directly involved in the implementation of IFRS 17: nine members are preparers of financial statements and six are audit practitioners. Three further members with observer status represent international securities regulators, insurance supervisors and actuarial organisations. The TRG does not issue authoritative guidance, but the IFRS Foundation publishes summaries and recordings from the meetings on the IASB's website. The comments from the TRG discussion presented in this publication do not reflect formal interpretations or authoritative guidance.

The third TRG meeting held to discuss implementation issues occurred on 26 and 27 September 2018.

- Ten issues were discussed in detail by the TRG.
- Seventeen issues were considered by the IASB staff, but not discussed in detail by the TRG as the IASB staff believed that these were matters which:
  - Can be answered by applying only the wording in IFRS 17
    Or
  - Did not meet the submission criteria
    Or
  - Are being considered in a process other than a TRG discussion (such as a proposed annual improvement)

The 10 issues discussed in detail by the TRG

The IASB staff prepared papers on each of the submissions which were published before the meeting.

1. Insurance risk consequent to an incurred claim

The question

When an incurred claim creates insurance risk for the entity that would not exist if no claim were made, should the entity's obligation to pay these amounts (that are subject to insurance risk) be treated as a liability for incurred claims (LFIC) or a liability for remaining coverage (LFRC)?

The IASB staff paper outlines arguments for both treatments, using two examples. The answer to this question matters, because if the amount is recognised in the LFRC, it will affect the timing of amortisation of the contractual service margin (CSM) as well as the pattern of recognition of revenue.

The first example considers disability cover in which an entity pays an annuity when a policyholder becomes disabled. The annuity is provided as long as the policyholder remains disabled and this introduces uncertainty over the length of time that pay-outs will have to be made.

One view is that the insured event is the uncertain event that a policyholder becomes disabled. In this approach, the LFIC is taken to be the entity's obligation to pay for a policyholder's claim (on becoming disabled). Whilst the amount of the claim is uncertain and subject to insurance risk, it is included in the LFIC. The uncertainty has been envisaged under IFRS 17 with the inclusion of a risk adjustment for non-financial risk in the LFIC. This approach views the LFRC as the obligation to pay claims relating to events (i.e., becoming disabled) that have not yet occurred.

The alternative view considers the insured event as both the uncertain event of a policyholder becoming disabled in the period specified in the contract and the uncertain event of the policyholder remaining disabled and eligible to claim. In this approach, the LFIC is taken to be the entity's obligation to settle a claim that has already been made by a policyholder for a period of disability where the amount is relatively certain and not subject to insurance risk. This approach views the LFRC as the obligation to pay claims relating to future events that have not yet occurred (i.e., for future periods of disability for policyholders who are already disabled and for those not yet disabled). This approach is consistent with the treatment of such insurance contracts acquired after a disability event in a business combination or portfolio transfer (paragraph B5 and B93 of IFRS 17).

Similar arguments are presented for the second example of a fire insurance contract that provides compensation for the cost of rebuilding a house after a fire and that has uncertainty over how much the rebuilding work will cost. If the insured event is the occurrence of the fire, the LFIC is an obligation to pay for a policyholder's claim (upon a fire occurring), the expected cost of rebuild is included in the LFIC. Alternatively, if the insured events are viewed as claims for the cost of a house damaged by a fire that occurred in the period specified by the contract, the LFIC is viewed as an obligation to settle a claim that has already been made by a policyholder. The LFRC is the entity's obligation to pay claims relating to fire events that have not yet occurred and to pay claims for the cost of buildings already damaged by a qualifying fire event.

The staff think both approaches represent valid interpretations of IFRS 17 and, therefore, are a matter of judgment for the entity regarding which interpretation provides the most useful information about the service provided to the policyholder under the contract. This judgement may be influenced by the relative complexity of the two approaches and comparability with other products available on the market. The staff consider the application of the two viewpoints as an accounting policy under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), which should be applied consistently for similar transactions over time.

Points made during TRG discussion

Most TRG members agreed with the staff analysis and conclusions in this paper. Some TRG members were surprised that an obligation to settle an uncertain amount arising from a fire could be considered as an LFRC. Several TRG members expressed concern about complexity arising from determining coverage units relating to two types of coverage, and the potential for diversity in practice arising from the implied choice to set an accounting policy. IASB staff noted there is always a possibility of diversity when there are accounting choices, although the risk of different approaches being applied within a single entity would be mitigated by the requirements of IAS 8 for determining and applying accounting policies consistently.

Several TRG members also expressed concern about the possibility of the IASB subsequently removing or reducing the level of choice that is available because of operational difficulty and expense that could arise if an entity needed to change its accounting policies after it has implemented its IFRS 17 accounting processes and systems.

How we see it

Leaving the decision open to the entity doing the reporting would allow preparers to determine which approach provides more useful information given the facts and circumstances around their products. However, this is a significant point to be an accounting policy choice as it creates the possibility of identical contracts being accounted for differently in the financial statements of different insurers. The paper also indicates that the Board may step in if practice were to start to diverge too much.

2. Determining discount rates using a top-down approach

The question

When using a top-down approach to determine the discount rates to discount cash flows that do not vary based on the returns of underlying items:

- **Could an entity use the assets it holds as a reference portfolio?**
- **Could it ignore the liquidity characteristics of the group of contracts being measured?**
- **Should it reflect in the discount rates any changes occurring during the reporting period in the assets it holds when the entity uses those assets as a reference portfolio of assets and does not adjust the yield curve for differences in liquidity between the group of insurance contracts being measured and the reference portfolio of assets?**

The IASB staff paper reiterates the following points:

Paragraph B81 of IFRS 17 permits an entity to determine the appropriate discount rates for a group of insurance contracts based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets (the top-down approach).

IFRS 17 does not restrict or define what should be used as the reference portfolio of assets, and an entity may use a portfolio of assets it actually holds as the reference portfolio – as long as adjustments are made so that the discount rate reflects the characteristics of the insurance contracts and are consistent with observable current market prices.

Although paragraph 36 of IFRS 17 requires discount rates to reflect the characteristics of the insurance contracts, there is a simplification allowed in the top-down approach in paragraph B81. This simplification allows an entity not to adjust the yield curve derived from the reference portfolio of assets for differences in liquidity characteristics between the insurance contract and the reference portfolio, even though adjustments must be made for credit risk. The staff paper also highlights BC196(b) of IFRS 17, in which the Board noted that it expected a reference portfolio to have liquidity characteristics closer to those of the insurance contracts (than would be the case for very liquid assets used in the bottom-up approach) so it was envisaged that the reference portfolio would have required little adjustment for liquidity differences.

An entity may use the assets it holds as the reference portfolio. If it does this and the return on these assets changes, for example, because the entity invests in more illiquid assets, it should adjust the yield curve of the reference portfolio for the effect of changes in credit risk (which is not a characteristic of insurance contracts). However, when using the top-down approach, differences between the liquidity of the reference portfolio and the insurance contracts do not need to be adjusted for. This could result in fluctuations in liquidity of the reference portfolio being 'mirrored' in changes in discount rates for the insurance contracts, even though the liquidity characteristics of the liabilities themselves have not changed.

The IASB staff paper highlights that IFRS 17 contains disclosure requirements for qualitative and quantitative information about the significant judgements and changes in those judgements. If the effect of illiquidity were to be significant, entities would be expected to disclose such information in their financial statements.

Points made during TRG discussion

The TRG agrees with the staff analysis and conclusion in this paper that an entity can use the assets it holds as a reference portfolio when determining a top-down discount rate to measure its insurance liabilities. In principle, the liquidity of insurance liabilities should be reflected in the discount rate used to measure them. The effect of a change in liquidity in the assets an entity holds which form the reference portfolio might not reflect a change in the liquidity of insurance contract liabilities. However, the standard does not require the discount rate to be adjusted for this in the top-down approach. Clearly, the IASB staff would expect any material effects of this to be disclosed. TRG members noted that a small change in discount rates used to measure long duration liabilities can have a large effect on the amount of the present value of those liabilities.

How we see it

The discussion was helpful as it confirmed the top-down approach in the standard, particularly regarding the simplification in paragraph B81 which does not require an adjustment to the top-down discount rate for differences in the liquidity characteristics of the insurance contracts and the reference portfolio.

A robust process to determining the appropriate discount rate will be important and disclosures supporting the judgements made will be key.

3. Commissions and reinstatement premiums in reinsurance contracts issued

The question

How should a reinsurer account for common types of commissions due to the cedant and reinstatement premiums charged to the cedant following an insured event?

Ceding commissions

The IASB staff paper considers commissions that are not contingent on claims and those that are contingent on claims.

Commissions that are not contingent on claims are sometimes settled net with the premium charged to the cedant (or paid up front). Exchanges between the reinsurer and cedant need to be identified either as part of claims or as part of premiums for the reinsurer, and either recognised within claims incurred as insurance service expense or as insurance revenue.

Under IFRS 17 paragraph 86, the presentation of income or expenses from reinsurance contracts held is required to be based on the economic effect of exchanges. The staff consider that an assessment of the economic effect of exchanges would be appropriate for reinsurance contracts issued as well.

The economic effect of charging ceding commissions that are not contingent on claims is equivalent to charging a lower premium. Therefore, the ceding commission is a reduction of the premium (and therefore revenue).

The staff observe that the ceding commission reflects a reduction in the transaction price, and is not an insurance acquisition cash flow of the reinsurer unless the cedant provides a distinct service to the reinsurer that results in a cost to the reinsurer for selling, underwriting and starting a group of reinsurance contracts that it issues. The commission may compensate the cedant for acquisition costs it incurs for underlying insurance contracts, but this does not make it an acquisition cost of the reinsurer. The staff observe that, unlike insurance acquisition costs that are usually paid, for example, to a third-party intermediary, ceding commissions are paid by the reinsurer to the cedant who is the policyholder in the contract.

The staff also consider whether ceding commission in this example could be treated as an investment component, defined by IFRS 17 as an amount that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur and to be excluded from both insurance services expenses and insurance revenue.

The staff observe that ceding commissions may meet the definition of investment components if they are repaid to the cedant in all circumstances. However, an investment component is an amount that is repaid to the policyholder at a date later than the date that the contract is entered into. Amounts that are deducted from the initial premium up front are therefore not investment components. However, the impact on revenue will be the same — neither ceding commissions paid up front, nor investment components result in the recognition of insurance revenue and related insurance service expenses. Additional disclosures related to investment components are required by the standard.

The staff paper also considers commissions that are contingent on claims. It uses the example of a sliding scale commission and provides further examples in Appendix B to the paper. Considering the economic effect of the ceding commission, the IASB staff note that the sliding scale has the effect of creating an amount that the policyholder will always receive back. This is because the amount will either be received as a commission, or partly as a commission and partly as reimbursement for claims incurred. This amount that the policyholder will always receive is deducted from premiums when calculating the total amount of revenue to be recognised. Whether this is an investment component or simply an amount excluded from the LFRC depends on whether the commission is paid to the cedant up front or at a later stage during the contract period.

The paper also states that, when determining whether or not a contract contains an investment component , it is important to identify any amount that will be paid back to the policyholder in all circumstances, including when the contract is cancelled. This amount is the investment component.

Reinstatement premiums

The IASB staff paper also considers reinstatement premiums (amounts charged to the cedant following an insured event in order to continue coverage), and provides separate analysis for mandatory and voluntary reinstatement premiums. The staff paper considers an example of a mandatory reinstatement premium charged to the cedant which is predetermined and compulsory. The paper observes that the economic effect of the reinstatement premium is equivalent to the effect of reimbursing a different amount of claims to the cedant and should be recognised as part of insurance service expenses when incurred.

The staff paper also considers an example of a voluntary reinstatement premium charged to the cedant in which the cedant can decide not to pay the premium and the contract terminates, but the reinsurer is required to accept reinstatement premiums and provide the related coverage. The staff observe that the economic effect of a voluntary reinstatement premium is equivalent to the effect of charging a higher premium to extend the contract coverage to an additional period or higher level of exposure (which would be treated as insurance revenue).

The staff observed that, applying paragraph 34 of IFRS 17, the reinstatement premium and related cash flows are within the boundary of the initial reinsurance contract in the fact pattern provided. In that fact pattern, the reinsurer has no right to exit the contract and has no right to reprice the contract (the reinstatement premium is at predetermined rates). The expected cash flows related to the reinsurance premium are therefore within the boundary of the initial reinsurance contract.

Points made during TRG discussion

Based on the specific fact patterns discussed, TRG members agreed with the analysis in the paper. Several thought the paper included useful clarifications, for example:

- The principles relating to the presentation of exchanges of cash between cedants and reinsurers that apply to reinsurance contracts held also apply to contracts issued by reinsurers.
- Investment components are amounts that are repaid to policyholders (cedants) in all circumstances.

TRG members agreed that the accounting should reflect the economics of exchanges of cash between cedants and reinsurers and not necessarily the titles given to those cash flows. There were comments from TRG members about the fact that the line between reinstatement premiums that are claims contingent and those that are not may be less clear in practice than the examples on voluntary and mandatory reinstatement premiums in the staff paper suggest.

Several TRG members noted operational challenges arising from a need to decompose commission expenses between amounts that reduce revenue or claims expense. They also noted that netting exchanges of cash between cedants and reinsurers, as described in the paper is different from existing accounting and market practice, and that an insurer might need to keep separate records for IFRS 17 purposes and other purposes. One TRG member felt that netting sliding scale profit commissions that could be payable in unlikely circumstances, e.g., very low or even nil claims, could overwhelm claims expense and misrepresent claims information. Others questioned whether the words in the standard and Basis for Conclusions supported the staff's conclusion, although they accepted the logic of the staff's analysis.

How we see it

In terms of the presentation in the income statement for commissions not contingent on claims, the paper is useful in clarifying that an investment component is an amount which is paid to the reinsurer by the policyholder and returned to the policyholder at a later date. Commissions paid up front are therefore not investment components, although both are to be excluded from insurance revenue and insurance service expense.

4. Premium experience adjustments related to current or past service

The question

Should differences between expected premiums and actual premiums (i.e., premium experience adjustments) which relate to current or past service adjust the CSM or be recognised in the statement of profit or loss (P&L) immediately as part of insurance revenue or insurance service expenses?

The IASB staff paper prepared for the meeting considers two examples of premium experience adjustments related to current or past service in which coverage in a prior period was based on an estimate and adjusted in the current period based on actual risk exposure. The examples are workers' compensation (where a premium rate is applied to estimated headcount and salaries, then adjusted at a later date based on actuals) and reinsurance (where coverage in a prior period was based on the expected amount of underlying insurance contracts and adjusted in the current period by the actual amount). Detailed examples are provided in Appendix A to the paper.

The paper covers accounting requirements under both the general model and the Premium Allocation Approach (PAA) in IFRS 17.

Under the general model, paragraph B96(a) of IFRS 17 states that experience adjustments arising from premiums received in the period that relate to future service, adjust the CSM. Applying paragraph B97(c) of IFRS 17, all other experience adjustments do not relate to future service and therefore do not adjust the CSM. Accordingly, premium experience adjustments that relate to current or past service (that have already been provided) are recognised immediately in the P&L. Applying the requirements in paragraphs B120 and B123 of IFRS 17, the staff observe that premium experience adjustments related to current or past service should be recognised as part of insurance revenue because total insurance revenue should reflect the total amount of premiums paid to the entity, adjusted for the time value of money as necessary.

Under the PAA approach, the mechanism for recognising insurance revenue is different. Applying paragraph B126(a), an entity allocates expected premium receipts to each coverage period on the basis of the passage of time. Since premium experience adjustments are part of the expected premium receipts, they are allocated on the basis of passage of time as well.

Points made during TRG discussion

TRG members agreed with the analysis in the staff paper. Several felt it would be necessary to include an additional line in the analysis of revenue that is currently missing from paragraph 106 of IFRS 17, and they asked for the standard to be amended accordingly. One TRG member noted there can be a practical challenge in deciding whether some or all of a premium experience variance relates to future service or not. Some noted there is an additional step, after processing premium experience adjustments, to allocate the adjusted CSM between current and remaining coverage units.

How we see it

Preparers will need to consider potential operational challenges in situations when premium adjustments include a mixture of adjustment to current and past year, and to future years. The examples provided in the paper are based on situations where the coverage ends at the end of the presented period with no future services left. In practice, many contracts will show remaining future services and distinguishing premium variances that relate to current or past services from premium variance relating to future services in such situations may not be as straight forward as the examples included in the paper suggest.

5. Cash flows that are outside the contract boundary at initial recognition

The question

How to account for cash flows of an insurance contract issued or of a reinsurance contract held that, at initial recognition, are outside the boundary of the contract when facts or circumstances change over time?

The staff paper for this meeting refers to observations from previous TRG meetings on this topic. It discusses the example of a contract where an entity considers at initial recognition that the cash flows related to a renewal premium are outside the contract boundary since, at renewal date, the entity has the practical ability to reprice the contract to reflect reassessed risks of the policyholder, whereas at a subsequent reporting date, these cash flows are considered to be within the contract boundary because the entity no longer has the practical ability to reprice the contract to reflect reassessed risks of the policyholder due to constraints on pricing (e.g., a cap on premiums) that gain commercial substance after initial recognition of a contract.

The paper also refers to an example of a reinsurance contract held in which the cedant and reinsurer both have the unilateral right to terminate the coverage for new business ceded at any time with a 90-day notice period. The entity considers that, at initial recognition, the cash flows related to premiums from underlying contracts issued and ceded after the 90-day period are outside the contract boundary, and as each day passes without notice of termination, additional cash flows are included within in the contract boundary.

The staff paper considers the requirements in paragraph 35 of IFRS 17 and paragraph B64 of IFRS 17 and the interaction between the two seemingly conflicting requirements.

Paragraph 35 of IFRS 17 states that cash flows outside the boundary of the contract relate to future contracts. Applying this requirement, cash flows outside of the boundary of a contract at initial recognition are cash flows of a new contract that is recognised and measured separately from the initial contract.

The final sentence of paragraph B64 of IFRS 17 states that the boundary of the contract is reassessed at each reporting date to include the effect of changes in circumstances on the entity's substantive rights and obligations and, therefore, may change over time. Applying this requirement, cash flows that were outside the boundary of a contract at initial recognition can be reassessed as being within the boundary at a later reporting date. Consequently, extending the boundary for cash flows that relate to future service adjusts the carrying amount of the CSM of the group of contracts to which the contract belongs.

The staff observed that the requirements in paragraphs 35 and B64 of IFRS 17 are different and address different circumstances. Paragraph B64 of IFRS 17 discusses the assessment of the *practical ability* of an entity to reprice a contract considering constraints that might limit that ability. Paragraph BC164 of the Basis for Conclusions on IFRS 17 explains that a contract boundary reassessment may occur when, in one reporting period, repricing restrictions have no commercial substance but in the next reporting period, facts and circumstances come to light that would have led to a different conclusion at inception if known then. The changes in circumstances envisaged in that paragraph do not include merely the passage of time.

The staff paper states that paragraph B64 of IFRS 17 does not apply to contracts in which cash flows related to future periods are outside the contract boundary applying paragraph 34, but occur at a later date because of an option to renew the contract being exercised or an option to terminate the contract not being exercised. These circumstances are not considered to require a reassessment of the contract boundary of the existing contract, since the likelihood of the renewal or termination options being exercised was not assessed in determining the contract boundary on initial recognition. The additional cash flows therefore do not reflect cash flows arising from the substantive rights and obligations of the existing contract, but rather relate to rights and obligations of a new contract.

Paragraph 35 of IFRS 17 applies in these circumstances and these additional cash flows are to be recognised as a new contract only when the recognition criteria of the new group of insurance contracts are met. Paragraph 35 of IFRS 17 should not be read as if cash flows outside the contract boundary could be within the boundary at a later reporting date, other than in the circumstances to which paragraph B64 of IFRS 17 applies.

Appendix A to the staff paper includes examples of how to apply these IFRS 17 requirements to specific fact patterns.

Points made during TRG discussion

TRG members noted the apparent conflict between paragraph 35 and the final sentence of paragraph B64 stems from confusion about the meaning of paragraph B64. IASB staff agreed that the words in the final sentence of B64 are not as clear as they would wish. The words were transferred into the standard from the Basis for Conclusions late in the drafting process. The IASB staff said that the meaning of the sentence needs to be considered in the context of paragraphs B61 to B63, the preceding sentences in B64 and the explanation in BC164. Paragraph B64 is concerned with the practical ability of an entity to set a price at a future date that fully reflects the risks in a contract at that date — and that facts and circumstances that affect that practical ability can change over time.

One TRG member noted that the contract boundary was not the endpoint of cash flows to be included in the valuation of an insurance liability or asset. Reinsurance contracts may cover any direct underlying contracts written within a specified period and, in this case, the cash flows relating to those underlying direct contracts could extend well beyond the contract boundary of the reinsurance contract. Contract boundary, coverage period, and the period to which cash flows included in expected future cash flows end, could all be different.

Another TRG member highlighted a helpful clarification in the staff paper that an entity would not recognise a new contract (or group of contracts) for every day that a right to terminate a reinsurance contract is not exercised, but would recognise a new contract (or group of contracts) only when it meets the recognition criteria of paragraph 25 of IFRS 17.

How we see it

With the paper, the IASB staff clarifies the principle relating to contract boundaries and whether cash flows should be considered to relate to new or existing contracts. Nevertheless, consideration of practical application is still needed, particularly in cases where the fact patterns are more complex than those in the paper and significant judgement might be needed around specific factors like substantive rights and obligations and commercial substance.

6. Recovery of insurance acquisition cash flows

The question

Should insurance acquisition cash flows and the related revenue be recognised in the statement(s) of financial performance if those cash flows cannot be recovered from the cash flows of the portfolio of contracts to which they relate? How are changes in insurance acquisition cash flows accounted for?

The IASB staff paper prepared for the meeting reviews the relevant accounting requirements in IFRS 17 and provides several illustrative examples.

The staff paper notes that insurance acquisition cash flows are included in the determination of the CSM or loss component for a group of insurance contracts on initial recognition. They are treated in the same way as other cash flows incurred in fulfilling the insurance contracts and an entity is therefore not required to identify whether it will recover the acquisition cash flows at each reporting date, since the measurement model captures any lack of recoverability automatically. It does this by limiting the CSM from becoming negative. When expected cash inflows are less than the total of expected cash outflows (including acquisition costs) and the risk adjustment, a loss component is recognised along with a charge to the statement of P&L.

Insurance revenue is the total consideration received for the contracts (premiums paid to the entity) adjusted for the effect of time value of money, and excluding any investment components. The amount of insurance revenue recognised in a period is equal to the amount related to the provision of services plus amortisation of the insurance acquisition cash flows. The amount related to the provision of services is determined by expected insurance service expenses in the period plus the release of the risk adjustment and the CSM period. Total revenue recognised is always limited to the total consideration received. The amount included in insurance revenue related to acquisition costs in the period is equal to the amount recognised in insurance service expense as amortisation of acquisition costs.

The paper provides a number of numerical examples to illustrate the application of the principles in IFRS 17 for the recognition of revenue.

Changes in acquisition cash flows incurred will not impact overall revenue recognised from a group of contracts as they do not affect the total premiums in the period. However, the examples highlight the fact that the actual amounts of insurance acquisition cash flows incurred are recognised as an insurance service expense, with a corresponding amount recognised as insurance revenue, over the coverage period.

Points made during TRG discussion

The TRG agreed with the staff analysis and conclusions in this paper. One TRG member noted that Example 6 in Appendix C to the paper illustrates that actual insurance acquisition cash flows lead to the recognition of revenue via the 'gross-up' required by paragraph B125, whereas it is amounts that are expected to be incurred in a period for other insurance service expenses that form part of revenue in accordance with paragraphs B123 and B124.

Another TRG member referred to paragraph 23 of the paper that noted that policy administration and maintenance costs (which are considered future cash flows rather than acquisition costs) include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay premiums. The paper clarified that these costs were only treated as policy administration and maintenance costs if they did not meet the definition of acquisition costs. Acquisition costs can be paid either in full or in part after the date of commencement of the group of contracts. The TRG member who raised this point felt that payments to an agent in return for the agent providing a service, such as premium collection, would be a maintenance expense but, where the agent is not providing additional service beyond selling, the contract would be an acquisition cash flow. The IASB staff said that it is important to focus on the economic substance of the cash flows and not the label they might be given.

How we see it

The examples in the paper deal with a number of fact patterns which illustrate that the treatment of acquisition costs does not differ between profitable and onerous contracts, and that following the mechanics of the measurement model will provide the correct outcome in all cases. The paper is also helpful in explaining how the gross-up of acquisition costs in insurance revenue and insurance service expenses should be applied in various situations.

7. Premium waivers

The question

Is a contract that contains a provision that waives the payment of a premium under certain circumstances an insurance contract? Is the risk related to a premium waver a pre-existing risk of the policyholder transferred to the entity by the contract and, as such, an insurance risk, or is it a new risk created by the contract?

The IASB staff paper prepared for the meeting considers insurance contracts which may have terms that allow a policyholder to avoid paying premiums in specified circumstances, where they continue to receive the benefits originally promised under the insurance contract. In these cases, the main insured event in the contract differs from the event triggering a premium waiver (for example, the primary coverage may be a term life contract covering mortality risk, and premiums are waived if the policyholder cannot work due to a disability).

Appendix A of IFRS 17 defines insurance risk as risk, other than financial risk, transferred from the holder of a contract to the issuer. Paragraph B11 of IFRS 17 states that insurance risk is risk that the entity accepts from the policyholder, a risk to which the policyholder was already exposed. Any new risk created by the contract for the entity or the policyholder is not insurance risk.

The staff note that the definition of insurance risk in IFRS 17 has not changed from that in IFRS 4 *Insurance Contracts (IFRS 4),* so it does not expect a change in practice in determining when insurance risk is present. The staff concluded that an undertaking to waive premiums if a specified event occurs does create insurance risk. The risk of the events giving rise to the waiver exists before the contract is issued. It is not a risk that is created by the contract, and the contract does not increase the potential adverse effects. Also, the events that trigger a waiver are contractual preconditions without which the entity can deny the waiver.

This means that the inclusion of such a waiver in an investment contract makes the investment contract an insurance contract in the scope of IFRS 17. The inclusion of a waiver in an insurance contract may affect the quantity of benefits provided and the coverage period, which could affect the recognition of the CSM.

Points made during TRG discussion

The TRG agreed with the staff analysis and conclusions in this paper. Some TRG members noted that entities that issue investment contract hosts, and other non-insurance contract hosts that contain a waiver of contributions in certain circumstances, are generally able to separate the insurance component from the remainder of the contract under IFRS 4, but they may not be able to do so under IFRS 17.

How we see it

The fact that the definition of insurance risk has not changed significantly from IFRS 4 does not change the fact that meeting the definition of an insurance contract has very different consequences under IFRS 17. In particular, the requirements for separating an insurance component from a host contract and accounting for it separately are very different in IFRS 17. Investment contracts containing components that transfer significant insurance risk are generally expected be accounted for under IFRS 17 in their entirety.

Paper 11 for this TRG meeting contains a number of additional examples of when an entity might be required to account for loans and other forms of credit that include a relatively small insurance component entirely as insurance contracts. A waiver of premium included in an investment contract may represent a similar circumstance.

8. Group insurance policies

The question

The question considers group insurance policy arrangements where an entity provides insurance coverage to members of an association or customers of a bank (certificate holders), and the entity can terminate the policy at any time with a 90-days' notice period. In such arrangements, are the cash flows related to periods after the notice period of 90 days within the boundary of an insurance contract, and is the policyholder the bank or association or is it the individual certificate holders?

The IASB staff paper considers two different types of group insurance policies: a group association policy and a group creditor policy under which coverage is provided to individual certificate holders related to the bank or association. In both cases, it is assumed that the insurer is not able to compel the individual certificate holders to pay premiums, but has the right to terminate the contract on behalf of all certificate holders.

In the case of group association policies, the insurance entity has a policy with an association (such as an automobile association) or a bank to sell insurance coverage to individual members or customers. Although the legal contract is between the entity and the association or bank, the insurance coverage for each certificate holder is priced as if it were an individual contract.

In the case of group creditor policies with a bank, the entity can sell insurance coverage to individual customers of the bank. These policies have the same facts and circumstances as the group association policy, other than insurance cover being linked to the remaining outstanding balance of a loan or mortgage issued by the bank to the certificate holder. The entity pays the remaining outstanding loan balance to the bank when an insured event occurs (rather than the certificate holder or their beneficiaries who are liable for paying the outstanding balance).

The staff paper considers the accounting requirements in IFRS 17 and concludes for both types of contracts that the certificate holder is deemed to be the policyholder. IFRS 17 defines a policyholder by its right to compensation if it is adversely affected by an insured event, whether or not compensation is received directly or received indirectly by paying amounts on its behalf.

The IASB staff note that a judgement has to be made about whether the single group insurance policy is the contract for the purposes of applying IFRS 17, or whether each individual certificate is the contract. Determining whether to separate a single policy into components for applying IFRS 17 involves significant judgment and careful consideration of all facts and circumstances. For both types of policy described in the paper, the staff conclude that the insurance contracts held with each certificate holder are the contracts for applying IFRS 17 rather than a single contract with the bank or association. The reasons for this conclusion include the facts that:

- The insurance coverage is priced and sold separately
- The individuals are not related to each other (other than being members of the association or customers of the bank)
- Purchasing the insurance coverage is optional for each individual

The right of the entity and association or bank to terminate the group insurance policy does not, in itself, indicate the arrangement is a single contract under IFRS 17.

The staff observe that paragraph BC160(a) of the Basis for Conclusions explains the outer limit of a contract is the point at which the entity is no longer required to provide coverage and, in line with paragraph 34 of IFRS 17, the entity's substantive obligation to provide services under a contract ends when the entity can terminate the contract. So, for these examples, the substantive obligation ends after 90 days and cash flows within the boundary are those related to the obligation to provide services over the 90-day period.

Points made during TRG discussion

The TRG agreed with the analysis and conclusion of this paper, including the steps an entity should perform in its analysis, notably:

i. Identify the policyholder

ii. Determine the number of contracts that should be recognised

iii. Determine the contract boundary or boundaries of the contract(s)

Several TRG members emphasised that the conclusion is specific to the fact patterns of the examples in the paper and that the criteria the IASB staff noted in paragraph 20 of the paper that indicate there are multiple contracts (coverage is priced separately, members are not related, and purchasing insurance is at the option of the policyholder) are indicative criteria – not determinative, and are subject to judgement. One TRG member noted that the individual pricing is quite often restricted in group contracts because of the existence of the group of policyholders and might indicate there is a single contract rather than multiple contracts. Another noted there could only be a single contract if an entity decided there was a single policyholder.

How we see it

The staff analysis provides a useful example of a case where the legal form of a contract does not align with the substance of the contract in applying the requirements of IFRS 17. There was discussion during previous TRG meetings about how to apply judgement in determining whether a single legal contract should be accounted for as a whole or as separate individual components. The analysis provided by the staff in this example should be useful to entities in making the judgement based on the specific facts and circumstances that apply to their contracts.

9. Industry pools managed by an association

The question

Should the risk adjustment for non-financial risk for insurance contracts within industry pools managed by an association be determined at the association level or at the individual member entity level?

The IASB staff paper considers situations where there are legal requirements for entities issuing automobile insurance contracts to be members of associations that provide, via industry pools, insurance coverage to policyholders who cannot obtain insurance in a voluntary market. The paper refers to pools where members are appointed to issue contracts on behalf of all members, and to those where members can choose to transfer some of the insurance contracts they have issued to the pool. The results of the pools are allocated to all members on a sharing formula, generally based on market share, and members tend to account for their share as direct business under current accounting policies.

The IASB staff paper notes that it is necessary to first identify the issuer of the contract and determine whether IFRS 17 applies to the arrangement. This requires consideration of the terms of the contract and whether the issuer is the individual member entity that writes the contract, or whether each member entity is the issuer for its share of each contract in the pool, or the issuer is the collective of all the members.

If the issuer is the individual member entity that writes the contract, IFRS 17 applies since it applies to insurance contracts issued by an entity. IFRS 17 does not have specific requirements for insurance contracts issued by more than one entity. Such contracts may need to be considered joint arrangements in the scope of IFRS 11 *Joint Arrangements* (IFRS 11), or may be accounted for in accordance with that guidance.[1]

[1] Under IFRS 11, if the arrangement is a joint venture, each party would need to account for its interest using the equity method in line with IAS 28 *Investments in Associates and Joint Ventures*. If the arrangement is a joint operation, each party would recognise its assets, liabilities, and share of those jointly shared, and its share of revenue and expenses. The staff paper notes that such arrangements may not meet the definition of joint control as required by paragraph 7 of IFRS 11, but also that, in the absence of another IFRS standard that specifically applies, management must use judgement in developing a relevant and reliable accounting policy under IAS 8, and it may be appropriate to consider the requirements in IFRS 11 if the arrangements share similar characteristics to joint arrangements.

In cases where an individual member entity writes the contract and transfers it to the industry pool, and is the issuer of the contract, it would need to consider if the contract meets the definition of a reinsurance contract under IFRS 17, or whether the transfer extinguishes the member's obligations to the policyholder (under paragraph 74 of IFRS 17). The analysis and resulting accounting may differ depending on whether the party receiving the contract is each member entity in the pool for its share of each contract, or the collective of all members.

The issuer of insurance contracts, as defined in Appendix A of IFRS 17, is the party that recognises revenue from the contract, a component of which is the amounts related to the risk adjustment for non-financial risk. The staff paper therefore observes that if the issuer is the individual member entity writing the contracts, that member should determine the risk adjustment, but if the contracts are issued by more than one entity, the risk adjustment should be determined by all member entities together, and the issuer needs to consider the degree of diversification benefit it includes when determining the compensation it requires for bearing non-financial risk.

Points made during TRG discussion

The TRG agreed with the analysis in the paper regarding the steps required in order to identify:

- The entity that issued the contract
- If the issuer is not an individual member entity, whether it is required to apply IFRS 11
- The facts and circumstances of the transaction to determine the appropriate accounting by the group and its members

However, as in the discussion at the May TRG on how to determine the risk adjustment for non-financial risk in a group of entities, some TRG members disagreed with the IASB staff's view that there is one single risk adjustment for a group of insurance contracts that reflects the degree of diversification that the issuer of the contract considers in determining the compensation required for bearing non-financial risk.

Many TRG members believe that the risk adjustment should be determined at the reporting-entity level and, therefore, reflect the degree of diversification considered by the reporting entity when determining the compensation it requires for accepting non-financial risk. This would mean that the risk adjustment in this example would not necessarily be determined by the entity that issued the contract, e.g., the pool or individual member of the pool that accepted and priced a particular risk on behalf of the pool. TRG members appeared to accept that the entity that issues a pooled contract would consider diversification arising from the existence of the pool, but thought this is not necessarily the same as the diversification effect on the compensation required that each entity reports in its financial statements.

One TRG member noted that it appeared odd to limit the risk adjustment in the financial statements of the members to the pool to the amount of compensation required by the entity that issued the contract when other aspects of the risk adjustment (including the method used to set it) were principles-based. The requirements in IFRS 17 to disclose significant information about the risk adjustment seemed to make this limitation unnecessary. Other TRG members pointed out situations where it would not be practically possible for an entity applying IFRS 17 to determine the compensation required for risk by the issuer of the contract. These included contracts written by insurance syndicates, where the lead underwriter sets the premium for risk while other syndicates accept a smaller percentage of the risk, at the same or sometimes a different premium rate.

One TRG member questioned whether the contract in the example was subject to IFRS 17 if the parties to the contract were compelled to participate by law or regulation, i.e., they were not willing parties. The IASB staff confirmed that the example assumed the contract was in the scope of IFRS 17.

How we see it

This paper and discussion provided some helpful clarification of accounting for industry pools. However, the staff were clear that the analysis provided related to the facts in the example and that different facts could lead to different conclusions. Due to the large number of different pools in operation in different countries globally, the example in the paper may not be applicable to many of those pools and participants will therefore have to apply judgement based on their specific circumstances.

These differing views about the risk adjustment reflect the different opinions expressed at the May TRG about whether the risk adjustment is set at the reporting entity level or by the entity that issues the insurance contract. It is not clear whether the IASB will seek to resolve this difference of opinion

10. Annual cohorts for contracts that share in the return of a specified pool of underlying items

The question

For groups of contracts that share in the return of a specified pool of underlying items with other groups (for example, due to guarantees, or the proportionate sharing of returns), in what circumstances does measuring the CSM at a higher level than an annual cohort level (e.g. portfolio level) achieve the same accounting outcome as measuring the CSM at an annual cohort, applying paragraph 22 of IFRS 17?

Paragraph 22 of IFRS 17 states that an entity must not include contracts issued more than one year apart in the same group, whilst paragraph BC138 explains that the requirements specify the amounts to be reported, not the methodology to be used to arrive at those amounts. Therefore, it may not be necessary for an entity to restrict groups in this way to achieve the same accounting outcome in some circumstances.

Paragraph B67 of IFRS 17 states that contracts that affect the cash flows to policyholders of other contracts require the policyholders to share the returns on the same specified pool of underlying items. In addition, the policyholder must bear a reduction in their share of returns on the underlying items due to payments to policyholders of the other contracts, or the policyholders of the other contracts must bear a reduction in their share due to payments to the policyholder. (Paragraph B67). Such payments include payments from guarantees made to other policyholders.

These conditions are met when the specified pool of underlying items consists of the insurance contracts issued to the policyholders that share in the returns of that pool, since the payments reduce the ultimate return on the pool, whether or not the policyholders share in 100% of the return or part of the return. The conditions are also met where the underlying items do not include the insurance contracts issued but, for example, include financial assets, if the contracts require policyholders to bear a reduction in their share of the returns due to payments to policyholders of other contracts sharing in the pool.

Paragraph B68 of IFRS 17 requires fulfilment cash flows of each group of insurance contracts to reflect the extent to which the contracts in that group cause the entity to be affected by expected cash flows (whether to policyholders in that group or another group).

The staff paper includes an example of an instance where the requirements of paragraph BC 138 are met and the CSM determined at a higher level than the annual cohort is no different than if it was determined at the annual cohort level. If policyholders fully share all risks, sharing in 100% of the returns of pools of underlying item including insurance contracts issued, these do not cause the entity to be affected by the expected cash flows, so the CSM will be nil, and measuring the CSM at a higher level than annual cohort level would achieve the same outcome as measuring it at an annual cohort level.

The example goes on to show an instance where policyholders do not fully share the risk, and therefore the entity is still affected by the expected cash flows of contracts issued, and the CSM of the groups of contracts at annual cohort level may differ from a CSM measured at a higher level such as a portfolio level (suggesting this higher-level measurement would not meet the requirements).

Points made during TRG discussion

This was the most controversial of the papers discussed at this TRG meeting. TRG members agreed that an entity does not need to determine the CSM at the level of a group (annual cohort) if it would reach the same answer by measuring the CSM at a higher level in practice.

However, many members raised significant concerns with the application of this principle in the examples contained in the staff paper. TRG members were concerned that the examples in the paper imply that the only situation in which measurement at a higher level than the group and measurement at the group level would give the same result, is when the CSM is nil.

TRG members questioned whether example 2 in the staff paper illustrating an instance when the requirements of BC138 were not met, applies the logic of the words in paragraph B68 correctly. A Board member noted that in the example the entity is 'worse off' because of the existence of an onerous group by an amount equal to the entity's share (10%) of the excess of claims over premiums experienced by that group. In response, some TRG members mentioned that, in their view, the entity has not incurred a loss of 300, but merely a reduction in the total profit and that risk sharing between policyholders meant that the insurer did not suffer the consequences of the onerous group.

One TRG member thought that the paper illustrated the limitations of examples and noted the risk that the paper and TRG discussions would be interpreted as setting a hard requirement for allocating the CSM, which was not necessarily the only reading of the standard. An example in which an entity cannot identify cash flows by group would arrive at a different outcome. Another member noted that the cash flows are sometimes only available at a higher level of aggregation. A Board member responded that the staff had prepared the paper in response to a submission from a constituent and invited others to submit further examples.

How we see it

This paper may cause challenges for issuers of many types of participating contracts which do not allocate 100% of the returns from underlying items to policyholders, but where risk sharing between policyholders applies. Preparers may have been planning to perform a higher-level measurement of the CSM for these contracts and allocate it to annual cohorts. Consideration will be needed of exactly how risk sharing (also referred to as 'mutualisation') works in each case and how the requirements of IFRS 17 apply to each specific fact pattern.

The IASB staff paper implies that only when the CSM for a group of contracts is nil, because the entity itself does not share in any returns from underlying items, would the circumstance to apply paragraph BC 138 in the standard be met. This seemed too restrictive to some TRG members.

Issues submitted to the TRG but not discussed in detail

Below are the questions with the preliminary views of the IASB staff in italics. The reference at the beginning of each paper is to the number of the question on the TRG submission log.

Questions that the IASB staff believe can be answered applying only the words in IFRS 17

S33: Are the following contracts (with specific fact patterns) in the scope of IFRS 17?

i. **A loan repaid via low instalments over the loan term with either a final balloon payment at maturity, or the choice to return the non-financial asset.**

ii. **Loan contracts which combine a loan with an agreement from the entity to waive some or all payments due under the contract on death.**

iii. **Credit card contracts, where the card provider must refund the customer for some claims against a supplier (for example, if goods are defective) and where the entity is entitled to be indemnified by the supplier for any loss it suffers in satisfying its liability with its customer, where the entity and supplier are jointly and severally liable.**

iv. **A guarantee from an entity providing hotel management services to the hotel owner of a specified level of EBITDA. If EBITDA falls below the specified level, the entity has to make payments to the owner. This may exceed the amount of service fee receivable — which is a percentage of hotel revenue.**

Staff response:

The staff note that contracts should be assessed against the definition of insurance contracts and scope of IFRS 17 and whether or not the contract transfers significant insurance risk. These are the same in IFRS 17 as in IFRS 4.

In case ii above, example 1.24 within paragraph IG2 of the Guidance on implementing IFRS 4 notes that a loan contract that waives repayment of the entire loan balance if the borrower dies contains an insurance component equivalent to a cash death benefit. In case iii, paragraph B26 of IFRS 17 provides examples of contracts that are insurance contracts if the transfer of insurance risk is significant, and these include contracts that compensate the holder if another party fails to perform a contractual obligation. In case iv, IFRS 17 includes a scope exclusion for warranties in connection with the sale of services to a customer, and excludes contractual obligations contingent on the future use of a non-financial payment (such as contingent payments) in paragraph 7.

S33: Could non-insurance components embedded in an insurance contract be accounted for separately applying IFRS 17?

Staff response:

Paragraphs 10–12 of IFRS 17 require an entity to account separately for non-insurance components only if specified criteria are met, otherwise the contract is accounted for as an insurance contract in its entirety. Therefore, an entity may be required to account for loans and other forms of credit that have a relatively small insurance component entirely as insurance contracts. The staff plan to bring this to the attention of the IASB. (This will be of interest to entities that have equity release products).

How we see it

It was clear from the discussion about these contracts meeting the requirements of IFRS 17 that the IASB staff did not intend to provide a full analysis because the existing requirements of IFRS should have been applied by preparers correctly. However, considering the different consequences that now flow from meeting the definition of an insurance contract under IFRS 17, the subject looks likely to be raised at a future IASB Board meeting.

S56 & S67: When the reporting frequency of an entity differs from the reporting frequency of a subsidiary, should the contracts issued by the subsidiary be measured at the same value in both the consolidated financial statements and the subsidiary's financial statements? Can the requirements of B137 of IFRS 17 (that prohibit an entity from changing the treatment of accounting estimates made in a previous interim reporting period in a subsequent reporting period) be extended to apply to monthly internal management reporting and external regulatory reporting?

Staff response:

Paragraph B137 is an exception to the requirements of IAS 34 *Interim Financial Reporting* (IAS 34) that only apply to interim reports that apply IAS 34. (The interim period is treated as a discrete period and assumptions made in that period cannot be changed for subsequent reporting periods). Therefore, there may be different measurements of insurance contracts in the subsidiary's financial statements and the group's consolidated financial statements.

How we see it

This item gave rise to much discussion at the TRG. Members appeared to accept that the interpretation of the standard was correct, but highlighted the significant operational challenges of applying it in practice. Nonetheless, the response provides a clarification of an implementation question that has been raised by many.

S57: Should changes in the crediting rate applied to policyholder accounts (in contracts without direct participation features) be included in finance income or expense or adjust the CSM (applying paragraph B96(c) of IFRS 17)?

Staff response:

In the fact pattern provided, the account balance is not expected to (and does not) become payable in the period, and therefore paragraph B96(c) is not applicable. (It is applicable only for differences between investment components that are expected to become payable in the period and the actual amount that becomes payable in the period).

S60: For insurance contracts that transfer most of the risks and benefits linked to asset-management to policyholders, can an entity disaggregate line items in the statement of financial position to present a single asset line for financial instruments that premiums received from policyholders have been invested in, and a separate liability line item for the portion of the insurance contract liability that is equal to the value of the single asset line?

Staff response:

The staff refer to paragraph 54 of IAS 1 *Presentation of financial statements* (IAS 1), which, for example, requires cash to be presented separately from other financial instruments, and to the requirements to present additional line items when such presentation is relevant to an understanding of the entity's financial position. Paragraph 78 of IFRS 17 also requires separate presentation of groups of insurance contracts that are assets and those that are liabilities.

S62: In the specific case of entities where parties become members by purchasing an insurance contract, and are then provided with free additional insurance coverage which can be cancelled by the entity at any time, are the cash flows related to the additional coverage within the contract boundary?

Staff response:

The expected cash flows related to free additional insurance coverage are not included in the contract boundary or LFRC as the entity does not have a substantive obligation to provide future services related to the free additional coverage. (Items such as unpaid claims related to the free coverage already provided are within the contract boundary and included in LFIC).

S64: Under the PAA approach, an entity does not have to adjust future cash flows in the LFIC for the time value of money and effect of financial risk if the cash flows are expected to be paid and received within a year. Why is this option limited to the PAA approach and not allowed in the general model?

Staff response:

The option under the PAA is a practical expedient provided as a simplification under the PAA approach only as it is a simplified approach as explained in paragraph BC294 of the Basis for Conclusions on IFRS 17.

S75: Which cash flows are in the boundary of a reinsurance contract issued if the reinsurer can compel the cedant to pay contractually agreed premiums for 12 months and can reprice the contract at 90 days' notice, and at which point can the cedant accept the new terms or terminate the contract?

This question is similar to paper 4 at the May TRG from the perspective of the cedant and asks if there is consistent treatment between the cedant and the reinsurer.

Staff response:

The IASB staff confirm that the contract boundary is the same from each perspective because when the cedant has a right to receive services, the reinsurer has an obligation to provide services and when the cedant has an obligation to pay premiums, the reinsurer has a right to compel premiums.

How we see it

This was another important clarification from the IASB staff. The contract boundary for such a reinsurance contract ends at the later of (i) the point at which the reinsurer can no longer compel the cedant to pay premiums, and (ii) the point at which the reinsurer can set a price that fully reflects the risk, or it cancels the contract. The staff also confirmed that the contract boundary for a reinsurance contract is the same whether considered from the perspective of the reinsurer or the cedant.

S79: For contracts with direct participation features, are cash flows relating to periods when insurance coverage is no longer provided (and the policyholder bears all risks related to investment related services) within the contract boundary and, if so, does this extend the coverage period of the contract to include the period in which the investment component exists but no insurance coverage is provided?

Staff response:

The IASB staff state that coverage period is defined in IFRS 17 and that paragraph 34 should be applied in determining whether cash flows are in the contract boundary. Cash flows in the contract boundary may relate to periods when coverage is no longer provided (e.g., if claims are expected to be settled in the future relating to premiums in the contract boundary, and coverage periods may be outside the contract boundary if, for example, an entity can fully reprice premium).

Questions that the IASB staff believe did not meet the TRG submission criteria and questions that are being considered through a process other than by TRG discussion

The staff paper refers to three further questions that the IASB staff believe did not meet the TRG submission criteria. The paper also refers to two questions that are being considered through a process other than TRG discussion. The first question relates to accounting for insurance contracts by mutual insurers. In this case, the staff have prepared separate educational material, and the second question asks for further clarification on coverage periods for contracts with cash flows that vary based on the returns from underlying items. In this case, the Board tentatively decided in June 2018 to clarify that the definition of the coverage periods for insurance contracts with direct participation features includes periods in which the entity provides investment-related services. Further details are outlined on pages 11–13 of the staff paper.

Comments from TRG members on other questions submitted

TRG members asked questions relating to several of the submissions noted in paper 11 and others on the submission log. The questions that caused the most debate related to the following:

- Reporting frequency [S56 and S67]
- The scope of IFRS 17 [S33]
- Mutual entities [S21 and S45]

Several TRG members raised concerns about the operational burden of maintaining separate CSMs for groups that prepare IAS 34 interim financial statements and their insurance subsidiaries that do not. The IASB staff noted that the requirement in paragraph B137 not to change the treatment of estimates made in previous interim financial statements in subsequent interim financial statements and annual financial statements was a relief granted in response to requests from the insurance industry because, otherwise, an entity would need to maintain separate CSM records for interim and annual reporting. The words in the standard are clear and so any further relief in respect of the separate financial statements of insurance subsidiaries in a group is not a matter for the TRG. TRG members asked for their concerns about the operational consequences to be passed onto the IASB.

The staff response to submissions regarding the scope of IFRS 17 lists several products typically issued by banks, for example, credit cards providing holders with coverage for supplier failure, that may fall within the scope of IFRS 17. The staff noted that, if these products are insurance contracts within the scope of IFRS 17, they would also be in the scope of IFRS 4. TRG members confirmed that this is true, but that the consequences of being in the scope of IFRS 17 have more significant accounting implications than IFRS 4. The chairman of the TRG noted that the TRG is not the appropriate forum for questioning the application of IFRS 4, although another IASB Board member mentioned that the IASB is aware of the importance of this issue.

TRG members noted the staff's response to submissions regarding the application of IFRS 17 to mutual entities that issue insurance contracts is to refer to educational material that IASB published in July 2018. Some felt that the TRG could usefully discuss the interpretation issues that mutual insurers face in applying IFRS 17. The IASB staff noted that the TRG could address submissions on specific questions on the application of IFRS 17 by mutual insurers.

What's next?

The next meeting of the TRG is scheduled for 4 December 2018. The IASB staff will decide at a later date whether the meeting will be deferred to the first quarter of 2019. This will be the case if insufficient submissions are received by the final submission date for the December TRG meeting.

The chairman of the TRG also mentioned that the IASB would hold an education session on IFRS 17 at its Board meeting during October 2018 to discuss the results of its outreach activities as well as letters recently received from industry groups and from the European Financial Reporting Advisory Group (EFRAG).

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