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Insurance Accounting Alert

April 2019

Fourth meeting of the IASB's IFRS 17 Transition Resource Group (TRG)

What you need to know

- The TRG discussed one IASB staff paper addressing questions related to investment components. The staff will propose an amendment to IFRS 17 to clarify that an investment component is present when a contract requires an entity to repay an amount back to a policyholder **in all circumstances.**
- IASB staff responses to 37 further issues raised were summarised and reported to the TRG in a second paper.
- Whilst the IASB does not intend to disband the TRG at this time, no further meetings have been scheduled. The TRG submission process remains open for stakeholders to send in questions that they believe meet the TRG submission criteria.

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, case studies and/or 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 any 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 fourth TRG meeting held to discuss implementation issues occurred on 4 April 2019. The IASB has received 127 submissions, of which 46 were considered during this TRG meeting. The 46 submissions covered 38 separate issues.

- Three submissions related to investment components in insurance contracts. This topic was discussed in detail by the TRG
- 43 submissions, relating to 37 topics were considered by the IASB staff but not discussed in detail by the TRG as the IASB staff believe that these are matters which:
    - Can be answered by applying only the wording in IFRS 17

      Or
    - Do not meet the submission criteria

      Or
    - Are being considered through a process other than a TRG discussion (such as a proposed annual improvement)

During the meeting, the TRG chairman observed that the IASB had recently received narrow and detailed questions about the mechanics of applying IFRS 17 rather than matters of principle. He believed that responding to detailed questions with specific fact patterns is a matter best addressed by market practice and discussion between preparers and their auditors. As such, rather than helping preparers, a constant flow of detailed guidance from the TRG could disrupt ongoing implementation efforts. At the conclusion of the meeting, the TRG chairman informed members that, whilst the IASB does not intend to disband the TRG at this time, no further meetings have been scheduled. The TRG submission process remains open for stakeholders to send in questions that they believe meet the TRG submission criteria.

Questions discussed in the April 2019 TRG meeting:

1. Investment components within an insurance contract

The staff paper on investment components considers three main questions:

1. How to determine whether an insurance contract includes an investment component?
2. How to assess whether an investment component is distinct?
3. How to determine the amount of an investment component?

Determining whether an insurance contract includes an investment component

The staff will propose an amendment to IFRS 17 to include additional words in the definition of an investment component. This will clarify that an investment component is present when a contract requires an entity to repay an amount to a policyholder **in all circumstances.**

This principle is already noted in paragraph BC34 of the Basis for Conclusions to IFRS 17 and has been explained by the IASB staff in previous TRG meetings. Appendix A of the standard currently defines an investment component as, *"the amounts that an insurance contract requires the entity to repay a policyholder even if an insured event does not occur"*.

The staff noted that the TRG received several questions about whether contracts contain investment components and sought to clarify this by applying the definition to a number of examples. The examples covered include: a single premium endowment, a whole-life insurance contract, an immediate annuity contract with a guarantee payment period, a deferred annuity contract, and a protection contract.

The examples clarified that an entity would determine whether an investment component is present or not at the inception of the contract. The amount reflecting the investment component will, however, only be measured at the time insurance revenue and incurred claims are recognised.

When considering whether an investment component exists, an entity should ignore scenarios in which no repayment is made if those scenarios have no commercial substance (i.e., having no discernible effect on the economics of the transaction).

The net cash flow paid to a policyholder could be zero in some scenarios. However, this does not necessarily mean no investment component exists. For example, a policyholder may use a payment due from the entity to settle amounts it owes the entity (such as using a surrender amount to pay an equal or higher surrender charge) or a policyholder may have the option to use a surrender amount to buy new insurance coverage. Settling amounts on a net or gross basis should not affect the assessment of whether an entity is required to make repayments in all circumstances.

Amounts repaid to policyholders may reflect a premium refund for unused coverage rather than an investment component. A premium refund represents a repayment of premiums for unused coverage rather than an investment component. Both types of amounts would be excluded from revenue and insurance service expense. The staff will consider whether the requirement to disclose movements in the carrying amounts of insurance contracts — with separate identification of investment components — effectively requires a distinction between investment components and return of premiums.

Assessing whether an investment component is distinct

The IASB staff provided analysis on assessing whether an investment component is distinct and should be separated from the insurance contract and accounted for applying IFRS 9 Financial Instruments.

An investment component is distinct only if the investment component and the insurance component are not highly interrelated; and a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction either by entities that issue insurance contracts or by other parties. Investment and insurance components are highly interrelated if the entity is unable to measure one component without considering the other, or if the policyholder is unable to benefit from one component unless the other is present.

Regarding the example of a deferred annuity contract, the IASB staff observed that the holder of such a contract that includes a period of guaranteed payments at the beginning of the annuity period is not able to access the life-contingent annuity phase (the insurance component of the contract) unless the policyholder has benefited from the investment component of the contract during the guaranteed payment period. Therefore, the staff believe that the policyholder is not able to benefit from one component in the absence of the other component. Consequently, the investment component represented by the guaranteed annuity payments are not distinct.

Determining the amount of an investment component

The staff paper notes that IFRS 17 does not specify how to determine the amount of a non-distinct investment component that should be excluded from insurance revenue and insurance service expense.

When the amount of the investment component is not explicitly identified by the contractual terms, or can vary over time, a present value basis may be an appropriate way to determine the amount.

Points made during the meeting

There were mixed views amongst TRG members on the proposed amendment to the standard. Some think it is a helpful clarification and others think the change is unnecessary or even unwarranted.

Some TRG members were concerned about a potential requirement to break down surrender values of life insurance contracts between an investment component and part that is a return of premium for future coverage foregone when a contract lapses. IASB staff noted that IFRS 17 needs to recognise the existence of return of premiums because it is an integral part of the terms of many general insurance contracts and is clearly not an investment component. It is not the staff's intention to require entities to split surrender values in this way, particularly, as investment components and premium returns are both payments to policyholders that are excluded from revenue and expenses. One TRG member noted the requirement to separately disclose investment components in paragraph 103(c) of the standard and the implied need to separate investment components from a return of premiums. The IASB staff indicated that they had not intended preparers to perform additional analysis for disclosure purposes only and may propose an amendment to the disclosure requirements at a future meeting.

Some TRG members were concerned that they would need to calculate notional account balances — potentially on a present value basis as described in the paper. The staff explained that the suggestion of estimating the amount of an investment component by, for example, discounting an amount receivable on maturity of a contract was to provide an estimate if a contract did not specify a surrender value at the time of a claim; the example in the paper was not meant to supplant the use of an actual surrender value when one exists.

How we see it

The staff analysis implies that a two-step approach should be used to determine non-distinct investment components. The first step is to look across the entire coverage period to identify if there would a repayment to the policyholder **in all circumstances** (ignoring scenarios that lack commercial substance); if so, then the contract would contain an investment component. Next, and after having concluded the investment component is non-distinct, an entity needs to determine the amount of that investment component at the relevant measurement point. This approach may not have been understood by all previously and could raise some practical issues.

2. Issues submitted to the TRG but not discussed in detail

The second TRG paper contains IASB staff responses to 37 further topics raised by stakeholders, that were not discussed in detail. The staff classified these as follows:

- 22 topics that can be answered applying only the words in IFRS 17
- 8 topics that do not meet the submission criteria
- 7 topics that are being considered through a process other than a TRG discussion

Please refer to the table in the appendix for a full listing of the 22 topics that can be answered applying the words in IFRS 17, and the staff responses to the questions raised on these topics. The reference in the table is to the number of the question on the TRG submission log.

TRG members felt that Paper 02 contained several helpful clarifications and raised detailed questions on several of the submissions and the staff responses. Some of the questions that caused specific debate during the meeting or were noted as helpful clarifications by TRG members, related to the following topics:

S86: Definition of a portfolio when discussing the boundary of an insurance contract

The IASB staff confirmed in the TRG papers that when interpreting the meaning of the "**portfolio** of insurance contracts" in paragraph 34(b) of IFRS 17, entities should refer to Appendix A of the standard (i.e., insurance contracts subject to similar risks and managed together).

Paragraph 34(b) of IFRS 17 relates to the right to reprice at portfolio level when determining whether cash flows are within the contract boundary of an insurance contract. A substantive obligation ends when the entity has a practical ability to reassess the risks of **the portfolio** of insurance contracts and can set a price or level of benefits that fully reflects the risk of **the portfolio** if the pricing does not take into account the risks that relate to periods after reassessment date.

Points made during the meeting

Some insurers had interpreted "portfolio" in paragraph 34(b) as applying at a different level than the portfolio used to determine the level of aggregation under para 14. For example, they may reprice for sets of contracts in a certain region or over a certain time period at a different level to that proposed for defining portfolios for level of aggregation under para 14. There is concern that this clarification by the staff could require a rethink of current working assumptions of portfolios at a more granular level, or affect the determination of contract boundaries. However, others questioned whether contracts that cannot be repriced together should really be in the same portfolio in the first place.

S115: Definition of insurance contracts with direct participation features — applying paragraph B101(b).

Para B101(b) of IFRS 17 requires an entity to expect to pay to the policyholder an amount equal to a substantial share of the fair value returns on underlying items to qualify as an insurance contract with direct participation features. The staff response clarified that a deduction of a premium for mortality cover from the underlying items is, in effect, an amount paid out of the policyholder's share of the fair value returns, i.e., the policyholder's share of the returns includes that charge.

It was also noted that another condition for assessing eligibility for the VFA in paragraph B101(c) is that a substantial proportion of changes in amounts to be paid to policyholders should vary in accordance with the changes in fair value of underlying items, i.e., whether or not they are paid out of the underlying items.

S118: Consideration of reinsurance in the risk adjustment for non-financial risk

The staff response clarified that the risk adjustment for non-financial risk should reflect the cost and benefit of reinsurance held if an entity considers reinsurance when determining the compensation it requires for bearing non-financial risk related to underlying insurance contracts issued. This would be based on the cedant's view of what the reinsurer would charge and how this is considered in the pricing of the cedant's underlying contracts issued.

The staff also noted that the risk adjustment for non-financial risk for reinsurance contracts held represents the amount of risk being transferred to the reinsurer. An example in the staff paper indicated that this was unlikely to be the same amount as was taken into account in setting the risk adjustment on the insurance contracts issued.

S119: Risk of non-performance of the issuer of a reinsurance contract held

The staff response clarified that the risk adjustment for non-financial risk of a reinsurance contract held reflects only the risks that the cedant transfers to the reinsurer. Risk of non-performance of the reinsurer is not a risk transferred to the reinsurer and it does not reduce the risk transferred to it. Risk of non-performance should be reflected in the present value of future cash flows of the reinsurance contract held.

S122: Changes in fulfilment cashflows as a result of inflation

The IASB staff response clarified that cash flows that an entity expects to increase with an index are considered to be an assumption that relates to financial risks, even if they are not contractually linked to a specified index. Paragraph B128 requires that assumptions about inflation "based on" an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk. Whereas assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk.

Points made during the meeting

Some TRG members noted that they had expected to treat inflation assumptions as financial in cases where contractually tied to a specific index, but not when, for example, expectation of cost increases is "based on" an index of prices or rates. The staff clarification might result in further items being treated as relating to financial risks. One TRG member also expressed concern that for the reserving for non-life liabilities this should not result in separating out inflationary assumptions that are only a component part of the expected claims amount.

How we see it

The TRG has provided a useful forum for public discussion of interpretation queries relating to IFRS 17, and has helped to frame a structured debate amongst stakeholders. We are pleased the TRG has not been disbanded and could be called upon to help preparers, users and auditors of financial statements to form a common view on questions of accounting principle that could still emerge. However, it seems sensible to provide a period of stability for preparers to advance their implementation projects.

What's next?

As noted above, whilst the IASB does not intend to disband the TRG for the time being, no further meetings have been scheduled. The TRG submission process remains open for stakeholders to submit questions that they believe meet the TRG submission criteria.

At its April Board meeting, the IASB asked the staff to proceed with preparation of an Exposure Draft to amend IFRS 17 and to commence the formal balloting process. The staff plan to request a shortened comment period for the Exposure Draft of less than 120 days and the Board expects to decide the comment period at its meeting in May 2019.

Appendix: List of the 22 topics that can be answered applying the words in IFRS 17 and staff responses

The reference in the table is to the number of the question on the TRG submission log.

Questions that can be answered applying only the words in IFRS 17			
Log#	**Topic**	**Summary of question**	**Summary of response**
S82	Modification of an insurance contract	Can a new contract recognised as a result of a modification be accounted for similarly to contracts acquired in their settlement period, applying para B5 (i.e. is the insured event the determination of the ultimate cost of the claims)	If the terms of a contract are modified, an entity derecognises the original contract and recognises a new contract for the modified contract, if required conditions are satisfied. When an entity recognises new contracts in their settlement period, the insured event is the determination of the ultimate cost of claims.
S83	Disclosures and reporting frequency	How should the reconciliation of estimates of present value of future cashflows (para 101 and 104) be disclosed considering B137 relating to interim financial statements.	An entity should not change treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim reporting or annual reporting and the amounts disclosed in the reconciliations asset out in paragraph 101 and 104 should reflect amounts included in the measurement of insurance contracts. The staff observe for the specific example submitted, the description of the amount as relating to past or current service does not affect the measurement.
S86	Definition of a portfolio when determining the boundary of a contract	Is the reference to a "portfolio of insurance contracts" in para 34(b), for determining contract boundaries, the same as the "portfolio of insurance contracts" as defined in Appendix A of IFRS 17, or should it be interpreted at a more granular level for the purposes of para 34b (e.g. at a group of insurance contracts level)?	A portfolio of insurance contracts is a defined term in Appendix A, and there is no difference between the use of the term in para 14 of IFRS 17 and para 34.
S93	Weighted average discount rates	How should an entity account for a difference between future cashflows used for calculating a weighted average discount rate and the unwinding of those cashflows going forwards. Will this adjust the CSM or be recognised as insurance finance income or expense? (A difference may arise between the current discount rate used to measure fulfilment cashflows of contracts that join the group of contracts (per para B72(a), and the weighted average discount rates used at initial recognition of the group of contracts (para B72(b)-B72(e) applying para B73.)	Current discount rates should be used when measuring fulfilment cashflows applying para 36, The effect of financial risk or changes in financial risk should be recognised in insurance finance income or expense. applying para 36. When entities apply the OCI disaggregation option and also apply the general model, they should use a discount rate determined at initial recognition to determine amounts recognised in profit or loss using a systematic allocation. An entity is permitted to use a weighted average discount rate over the period the contracts are issued to determine the discount rate at the date of initial recognition. The weighted average discount rate used should achieve the outcome that the amounts recognised in OCI over the duration of the group of contracts is zero.

Questions that can be answered applying only the words in IFRS 17			
Log#	**Topic**	**Summary of question**	**Summary of response**
S96 & S109	Definition of an insurance contract and contract boundary	S96: Do the contract boundary requirements in para 33-35 of IFRS 17 apply to the assessment of whether a contract meets the definition of an insurance contract (or just to measuring those already determined to be insurance contracts?) S109: How should a contract that transfers insurance risk after a period of time (para B24) be classified?	Para B24 explains that contracts that transfer insurance risk only after an option is exercised to do so do not meet the definition of an insurance contract at inception. Entities should consider other IFRS standards to account for such contracts until they become insurance contracts. A contract that transfers insurance risk only after a period of time is different than an insurance contract that provides an option to add further insurance coverage (agenda paper 3 of May TRG)
S97 and S100	Payment to policyholders	S97: Does an insured event refer only to an event that gives rise to significant insurance risk? How should you treat payments to policyholders contingent on events other than those that give rise to significant insurance risk? The question asks if certain benefits are claims, premium refunds or investment components	Insured events are uncertain future events covered by an insurance contract that create insurance risk. Payments made because of the occurrence of insured events are claims except to the extent they include an investment component Whether a waiver transfers insurance risk was discussed in the September 2018 TRG meeting A payment to a policyholder can be a claim, a premium refund or an investment component. The staff referred to Paper 3 of the September 2018 TRG meeting and paper 1 of the April 2019 meeting
S98	Exercising an option included within the contract	How should the option to convert a contract to a different type of contract be treated? (For example, an insurance contract converted to an annuity contract, or a term life contract (similar to general model contracts) that can be converted to a permanent life contract (similar to the VFA)).	The staff referred to Paper 3 for the May 2018 TRG meeting which notes the exercise of a right included in the terms of a contract is not a contract modification, and to Paper 5 of the September 2018 TRG meeting which analyses when the exercise of an option is inside or outside the contract boundary. Assessment of whether a contract falls under general model or variable fee approach is made at inception.
S102	Accumulated OCI	For general model contracts for which an accounting policy has been made to disaggregate insurance finance income or expense between profit or loss and OCI, should accumulated OCI be reclassified to PL when experience does not unfold as expected and if so, how?	Applying para B130, if para 88(b) applies, the amount of insurance finance income or expense allocated to PL is determined by a systematic allocation of expected total finance income or expense over duration of groups, with amounts recognised in OCI totaling zero over the duration of the contract. The cumulative amount in OCI at any date is the difference between the carrying amount of the group and the amount the group would be measured at when applying the systematic allocation.
S105	Discretionary Cash flows	How to treat the payment of cashflows at amounts different to those based on commitments under the contract, applying different spreads on asset returns, without changing the commitments.	The staff response reiterated requirements set out in paragraphs B96 to B100.

Questions that can be answered applying only the words in IFRS 17			
Log#	**Topic**	**Summary of question**	**Summary of response**
S106	Reassessing portfolios	The question describes a situation where portfolios of insurance contracts change due to manner in which the entity manages its contracts and asks how this would impact the group unit of account or application of the option to disaggregate insurance finance income or expense between profit or loss and OCI.	An entity does not reassess the composition of a portfolio after initial recognition. It establishes groups of insurance contracts at initial recognition and does not reassess the composition of the groups subsequently (para 24) – i.e., The option to disaggregate insurance finance income and expense is a policy choice applied at portfolio level. An entity should select and apply its accounting policy for similar portfolios, under IAS 8 and follow IAS 8 requirements for changes in accounting policies.
S110	Uncertainty related to exercising discretion	Should the risk adjustment for non-financial risk take into account uncertainty related to how management will apply discretion?	The IASB staff refer to para B88, B89 and B98 of IFRS 17. The risk adjustment should not reflect risk that do not arise from the insurance contract, such as general operational risk. Para B98 indicates that uncertainty related to how management applies its discretion for a group of insurance contracts, if not considered a general operational risk, should be captured in the risk adjustment. To the extent management discretion reduces the amount it would charge for uncertainty, that discretion would reduce the risk adjustment. The risk adjustment should reflect favourable and unfavourable outcomes in a way that reflects the entity's degree of risk aversion.
S113	Consistency in disaggregating changes in the risk adjustment for non-financial risk	Is the choice in para 81 required to be applied consistently in an entity?	Para 81 states that an entity is not required to disaggregate the change in the risk adjustment between insurance service result and insurance finance income or expense. IAS 8 requires an entity to select and apply accounting policies consistently for similar transactions, events and conditions, unless an IFRS specifically requires or permits categorization of items for which different policies may be appropriate.
S114	Changes in the fair value of underlying items applying the VFA	A specific fact pattern for a contract applying the VFA where the entity shares returns with policyholders by paying dividends. Dividend scales vary based on market value returns for economic experience of the investments, but a statutory basis for the non-economic experience (such as expenses and reinsurance). The submission asks whether the measurement of the change in non-economic experience for the purposes of the VFA is determined on a statutory, IFRS or fair value measurement basis. The submission also asks whether the option to disaggregate insurance finance income or expenses is limited to financial income or expense on underlying items held or any income or expense arising from underlying items.	Under the VFA, an entity adjusts the CSM of a group of contracts based on changes in the fair value of underlying items. A statutory basis or an IFRS measure which are not fair value measurements cannot be used to determine the adjustment to the CSM (Para 45). Para 89 permits a policy choice to include in profit or loss an amount to eliminate accounting mismatches with income or expenses included in profit or loss on the underlying items held. Para B131 requires that, applying this choice, the amount of income or expense included in profit or loss should exactly match the income or expense included in profit or loss for the underlying items – resulting in the net of the two separately presented items being nil. Therefore– the income or expense on underlying items held is not limited to financial income or expense.

Questions that can be answered applying only the words in IFRS 17			
Log#	**Topic**	**Summary of question**	**Summary of response**
S115	Definition of insurance contracts with direct participation features applying para B101(b) of IFRS 17	The submission describes a unit linked contract with an asset management fee that is a percentage of the fair value of underlying items at the end of the period plus a premium for mortality cover that reduces the underlying items at the start of each period. First the submission asks how to determine the policyholder's share of the fair value returns on the underlying items ignoring the mortality cover for the purposes of assessing VFA eligibility. The submission proposes three alternatives. Secondly the submission asks how premiums for mortality cover deducted from the underlying items impact the calculation.	A condition in paragraph B101(b) for meeting the definition of an insurance contract with direct participation features, is that the policyholder should be paid an amount equal to a substantial share of the fair value returns on the underlying item. The staff analysis rejected any assessment that is not based on the policyholder's share of the fair value returns on underlying items. A deduction of premium for mortality cover from the underlying items is in effect an amount paid out of the policyholder's share. In other words, the policyholder's share includes that charge. The staff also note that another condition is that the entity expects a substantial proportion of any change in amounts to be paid to the policyholders vary with the change in fair value of the underlying items. An entity should consider changes in any amounts to be paid to the policyholder regardless of whether they have been paid from the underlying items or not. See e.g., 2 in Appendix A of the staff paper prepared for the meeting.
S116	Applying para 66(c) (ii) of IFRS 17 for reinsurance contracts held	How to determine the amount to be recognised in profit or loss for reinsurance contracts held (para 66 c ii) in specific fact patterns. 1. When only some of the contracts in a group of underlying contracts are covered by a proportional reinsurance contract. 2. The underlying insurance contracts (expected to be profitable) have not been recognised but cash flows related to them are included in measurement of the reinsurance contract held. After recognition of the reinsurance contracts held, the insurance contracts are issued as onerous contracts.	In the first fact pattern, paragraph 66 requires an adjustment to the CSM of a reinsurance contract held for changes in fulfilment cashflows related to future service. If they result from changes in fulfilment cashflows allocated to underlying contracts that do not adjust the CSM for the underlying contracts, these are recognised in profit or loss. Paragraph BC315 explains that a corresponding change in cash inflows from a group of reinsurance contracts held does not adjust the CSM of the group of reinsurance contracts held, and to the extent the change in fulfilment cash flows of the underlying contracts is matched with a change in fulfilment cash flows (FCF) of the group of reinsurance contracts held there is no net effect on profit and loss. The entity will need to apply judgment considering all relevant facts and circumstances in determining the amounts. IFRS 17 does not prescribe how to make such calculations. In the 2nd fact pattern, paragraph 66(c) is applicable to changes in fulfilment cash flows of reinsurance contracts related to future service. Para B96-B100 include relevant requirements related to experience adjustments. The topic of reinsurance contracts held for onerous underlying contracts is being considered through another process (proposed amendments to IFRS 17).
S117	Premium Waiver presentation in profit or loss	Should an entity exclude from revenue premiums that are waived as a result of an insured event, or should it account for them as part of insurance service expense (as an incurred claim).	To the extent that a premium waiver results from an insured event, it is a claim. IFRS 17 requires recognition of insurance service expenses for claims incurred in the period, regardless of whether they are settled net of premiums due.

Questions that can be answered applying only the words in IFRS 17			
Log#	**Topic**	**Summary of question**	**Summary of response**
S118	Consideration of reinsurance in the risk adjustment for non-financial risk	Should the effect of reinsurance be considered when calculating the risk adjustment for non-financial risk (risk adjustment) for contracts that have been reinsured?	If an entity considers reinsurance when determining the compensation it requires for bearing non-financial risk related to underlying insurance contracts, (paragraph B88) the cost and benefit effects of the reinsurance should be reflected in the risk adjustment. The risk adjustment for reinsurance contracts held (Paragraph B64) represents the amount of risk being transferred by the holder to the issuer of the group of reinsurance contracts. Therefore, the risk adjustment for reinsurance held could not be nil unless the entity considers reinsurance when determining the compensation it requires for bearing non-financial risk related to the underlying contracts and the cost of acquiring the reinsurance is equal or less than the expected recoveries. The IASB staff paper includes an example in Appendix A.
S119	Risk of non-performance of the issuer of a reinsurance contract held	Should non-performance risks of a reinsurer such as insolvency risk and risks related to disputes and further negotiations be treated as financial or non-financial risks when determining risk transferred to a reinsurer (applying paragraph 64).	Under paragraph 64 the risk adjustment for non-financial risk is the amount transferred by the holder to the issuer of the group of reinsurance contracts held. Non-performance risk is not a risk transferred to the reinsurer nor does it reduce the risk transferred to the reinsurer. The risk of non-performance by the issuer should be included in the present value of future cashflows of the reinsurance contract held (per Para 63), similar to financial risks. Changes in fulfilment cashflows related to non-performance risk do not adjust the CSM and are recognised in PL. This treatment is consistent with financial risks.
S121	Interest accretion on insurance acquisition cashflows	Does IFRS 17 require or permit an entity to accrete interest on insurance acquisition cashflows paid for determining insurance revenue and service expenses per paragraph B125. Ignoring interest accretion of acquisition cashflows could result in different revenue recognised for contracts with similar premiums if one incurred insurance acquisition cashflows and one does not.	Total insurance revenue for a group of insurance contracts is the consideration for the contracts i.e., the premiums paid adjusted for a financing effect and excluding investment components (paragraph B120. Insurance revenue related to insurance acquisition cashflows should be determined by allocating a portion of premiums related to recovering those cashflows to each reporting period in a systematic way on the basis of passage of time. The same amount is recognised in insurance service expenses). A systematic way to recognize insurance service expenses and insurance revenue related to insurance acquisition cashflows does not preclude considering interest accretion.

Questions that can be answered applying only the words in IFRS 17			
Log#	**Topic**	**Summary of question**	**Summary of response**
S122	Changes in fulfilment cashflows as a result of inflation	Under the general model, should changes in fulfilment cashflows as a result of inflation assumptions be treated as changes in non-financial risk (and adjust the CSM) or financial risk. An example of cashflows that change as a result of inflation assumption changes is claims cash flows that are contractually linked to a specified CPI index, and another example would be expense cashflows that are not contractually linked to an inflation index but may be expected to increase with inflation. (Practice of using nominal cashflows using implied inflation curve).	Cashflows that an entity expects to increase with an index are considered to be an assumption that relates to financial risks, even if they are not contractually linked to a specified index. Paragraph B128 requires that (a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk. (b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk.
S123	Reassessment of premium allocation approach eligibility and election	Is an entity required or permitted to reassess a contract's eligibility for the PAA and as result to revoke its election to apply the approach? How should such a transition from the PAA to general model be treated?	The standard does not permit or require reassessment of the eligibility criteria or the election to apply the PAA, as the eligibility criteria are assessed at inception. (Per paragraph 53, The PAA can be applied provided certain criteria are met at inception. The criteria are assessed for each group of contracts and the election made for each group meeting the criteria.
S125	Experience adjustments arising from premiums received for onerous groups of insurance contracts	What is the accounting sequence for reversing a loss component in a financial period with premium experience adjustments that relate to future service and a change in cashflows consequential to those adjustments? The example provided has a premium experience adjustment that on its own would increase the loss component and a change in fulfilment cashflows related to future service that on its own would decrease the loss component. Together they would decrease the loss component. Should a gross disclosure be provided applying paragraph 103(b) and 104(a) of IFRS 17?	An entity is required to provide disclosure of changes that relate to future service separately from those related to current or past service (Paragraph 103(b) and 104) a). In this example, all changes relate to future service.

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