International Financial Reporting Standard

Amendments to IFRS 17 and IFRS 4
Insurance Contracts

June 2020

BASES FOR CONCLUSIONS – AMENDMENTS

[IFRS 4 & IFRS 17]

[Related to AASB 2020-5]

Amendments to the Basis for Conclusions on IFRS 4 *Insurance Contracts*

A footnote is added to the end of paragraphs BC267, BC275 and BC276 as follows. For ease of reading new text is not underlined.

Fixed expiry date for the temporary exemption

* In June 2020, the Board extended the expiry date for the temporary exemption from IFRS 9 to annual periods beginning on or after 1 January 2023 (see paragraphs BC277A–BC277C).

Paragraphs BC277A–BC277C are added. For ease of reading new text is not underlined.

...

Amendments to IFRS 17 Insurance Contracts

BC277A In June 2020, the Board extended the expiry date for the temporary exemption from IFRS 9 by two years to annual periods beginning on or after 1 January 2023. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4. In June 2020, the Board deferred the effective date of IFRS 17 by two years to annual periods beginning on or after 1 January 2023.

BC277B The Board was reluctant to extend the temporary exemption beyond 1 January 2021 because doing so results in some entities (including entities with significant holdings of financial assets) first applying IFRS 9 up to five years after other entities. However, the Board noted that in originally introducing a temporary exemption from IFRS 9 for some insurers, it had concluded that, for this limited population of entities, the benefit of the relief provided by the temporary exemption outweighed the disadvantages of delaying the improved information resulting from applying IFRS 9 (see paragraph BC249). For similar reasons, the Board concluded that, on balance, the benefit of extending the availability of the relief to continue to enable some insurers to first apply IFRS 17 and IFRS 9 at the same time outweighs the disadvantages of the additional delay to the application of IFRS 9.

BC277C The Board considered whether it should specify additional disclosures as a consequence of extending the expiry date of the temporary exemption. Such disclosures would require insurers applying the temporary exemption to provide additional information about expected credit losses. The Board concluded that adding such disclosures to the requirements in IFRS 4 would be disruptive when many insurers were at a late stage of IFRS 9 and IFRS 17 implementation.

Amendments to Basis for Conclusions on IFRS 17

Paragraphs BC6A–BC6C and the heading above paragraph BC6A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17

BC6A After IFRS 17 was issued in May 2017, the Board undertook activities to support entities and monitor their progress in implementing the Standard. These activities included establishing a Transition Resource Group for IFRS 17 to discuss implementation questions, and meeting with stakeholders affected by the changes introduced by IFRS 17, including preparers and users of financial statements, auditors and regulators. These activities helped the Board to understand the concerns and challenges that arose for some entities while implementing the Standard. In the light of these activities, the Board concluded that the costs of proposing targeted amendments to IFRS 17 to address concerns and challenges could be justified if those amendments would not change the fundamental principles of the Standard. The Board considered suggestions to amend the Standard in relation to 25 topics.

BC6B To maintain the benefits of IFRS 17, the Board decided that any amendments to IFRS 17 must not:

(a) result in a significant loss of useful information for users of financial statements compared with the information that would have resulted from applying IFRS 17 as issued in May 2017; or

(b) unduly disrupt implementation already under way.

BC6C The 2019 Exposure Draft *Amendments to IFRS 17* set out the targeted amendments that the Board proposed, considering the criteria described in paragraph BC6B. The Board received 123 comment letters about the proposed amendments. Having considered the feedback on the 2019 Exposure Draft, the Board issued *Amendments to IFRS 17* in June 2020.

Paragraph BC10 is amended. New text is underlined and deleted text is struck through.

Applying generally applicable IFRS Standards

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BC10 If the Board extended the scope of existing IFRS Standards to include insurance contracts, an entity would need to:

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(d) apply the financial instruments Standards to the investment component. If an entity accounted for the investment components of an insurance contract in the same way it accounts for other financial liabilities, it would, consistent with IFRS 17, not recognise principal deposited as revenue and would account separately for embedded options and guarantees when so required by IFRS 9. However, it would also:

...

(iii) recognise, for investment components measured at fair value through profit or loss, the costs of originating contracts as an expense when incurred, with no corresponding gain at inception. For investment components measured at amortised cost, incremental transaction costs relating to the investment component would reduce the initial carrying amount of that liability. The treatment of insurance acquisition cash flows applying IFRS 17 is discussed in paragraphs BC175–BC184K~~BC184~~.

Paragraph BC19 is amended. New text is underlined and deleted text is struck through.

Fulfilment cash flows (paragraphs 33–37 of IFRS 17)

BC19 The current value of the fulfilment cash flows allocated to a group of insurance contracts includes:

(a) a current, unbiased estimate of the future cash flows expected to fulfil the insurance contracts. The estimate of future cash flows reflects the perspective of the entity, provided that the estimates of any relevant market variables are consistent with the observable market prices for those variables (see paragraphs BC147–BC184N~~BC184~~).

(b) an adjustment for the time value of money and the financial risks associated with the future cash flows, to the extent that the financial risks are not included in the estimate of the future cash flows. For example, if the cash flows being discounted are an estimate of the probability-weighted average (the mean), that mean itself does not include an adjustment for risk, and any financial risk (ie uncertainty relating to financial risk on whether the ultimate cash flows will equal the mean) will be included in the discount rate (a risk-adjusted rate). If, in contrast, the cash flows being discounted are an estimate of the mean with an adjustment to reflect uncertainty related to financial risk, the discount rate will be a rate that reflects only the time value of money (ie not adjusted for risk). The discount rates are consistent with observable current market prices for instruments whose cash flow characteristics are consistent with the estimates of the cash flows of the insurance contracts. The discount rates also exclude the effects of any factors that influence observable market prices but are not relevant to the estimates of the cash flows of the insurance contracts (see paragraphs BC185–BC205B~~BC205~~).

...

A footnote is added to paragraph BC21 after 'It depicts the profit that the entity expects to earn by providing the services promised under the contracts in the group over the duration of the coverage of the group.' For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to recognise an amount of the contractual service margin in profit or loss in each period to reflect the insurance contract services provided in that period (see paragraphs BC283A–BC283J).

Paragraph BC23 is amended. New text is underlined and deleted text is struck through.

Subsequent measurement and recognition of profit (paragraphs 40–46 of IFRS 17)

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BC23 After initial recognition, IFRS 17 also requires an entity to recognise specified changes in the contractual service margin for a group of insurance contracts. These changes depict changes in the future profit to be earned from providing services under the contracts, and include:

(a) changes in the estimates of the fulfilment cash flows that relate to future service (see paragraphs BC222–BC269C~~BC269~~);

(b) the effect of the time value of money on the contractual service margin (see paragraphs BC270–BC276E~~BC276~~) and, for insurance contracts with direct participation features, changes in the entity's share of the underlying items (see paragraphs BC238–BC263);

(c) ...

(d) the profit earned in the period from providing services (see paragraphs BC279–BC283J~~BC283~~).

...

A footnote is added to the end of paragraph BC25(a). For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a liability for remaining coverage to include amounts for which an entity will provide investment-return service or investment-related service (see paragraphs BC283A–BC283J).

A footnote is added to the end of the first sentence of paragraph BC33. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of an investment component to clarify that an investment component is the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs (see paragraph BC34A).

A footnote is added to the end of paragraph BC33. For ease of reading new text is not underlined.

* In June 2020, the Board amended paragraph B123 of IFRS 17 to clarify that changes caused by cash flows from loans to policyholders do not give rise to insurance revenue. This treatment is similar to the treatment of investment components.

Paragraph BC34A and the heading above that paragraph are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—definition of an investment component

BC34A In June 2020, the Board amended the definition of an investment component to clarify that an investment component is the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs (see paragraph BC34). A discussion at a meeting of the Transition Resource Group for IFRS 17 suggested that the wording of the definition before the amendment did not capture fully the explanation in paragraph BC34.

Paragraph BC45 is amended. New text is underlined and deleted text is struck through.

Presentation of insurance finance income or expenses (paragraphs 87–92 and B128–B136 of IFRS 17)

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BC45 Alternative approaches to the presentation of insurance finance income or expenses considered but rejected by the Board are discussed in paragraphs BC340–BC342C~~BC342~~.

Paragraph BC52 is amended. New text is underlined and deleted text is struck through.

The level of aggregation

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BC52 In reaching a decision on the level of aggregation, the Board balanced the loss of information inevitably caused by the aggregation of contracts with the usefulness of the resulting information in depicting the financial performance of an entity's insurance activities and with the operational burden of collecting the information (see paragraphs BC115–BC139T~~BC139~~).

Paragraphs BC55–BC56 are amended. New text is underlined and deleted text is struck through.

Accounting mismatches

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BC55 The Board's decisions on risk mitigation techniques related to insurance contracts with direct participation features reduce the accounting mismatches that were introduced by the variable fee approach by providing an option to align the overall effect of the variable fee approach more closely to the model for other insurance contracts (see paragraphs BC250–BC256H~~BC256~~). However, the Board concluded that it would not be appropriate to develop a bespoke solution for all hedging activities for insurance contracts, noting that such a solution should form part of a broader project. The Board did not want to delay the publication of IFRS 17 pending finalisation of that broader project. The Board also concluded that a prospective basis was necessary for the application of the risk mitigation requirements on transition, for the reasons set out in paragraph BC393.

BC56 Insurance contracts with direct participation features are measured by reference to the fair value of the underlying items (see paragraphs BC238–BC249D~~BC249~~). This measurement reflects the investment-related nature of the contracts. Applying IFRS Standards, many underlying items will also be measured at fair value. The Board also decided to amend some IFRS Standards to enable additional underlying items to be measured at fair value (see paragraph BC65(c)). However, there could still be underlying items that cannot be measured at fair value applying IFRS Standards; for example, other insurance contracts or net assets of a subsidiary. The Board noted that all such mismatches would be eliminated only if all assets and liabilities were recognised and measured at fair value.

The heading above paragraph BC63 is amended. New text is underlined and deleted text is struck through.

Scope of the Standard and definition of insurance contracts (paragraphs 3–8A~~8~~ and B2–B30 of IFRS 17)

...

Paragraphs BC87–BC88 and the heading above paragraph BC87 are amended. New text is underlined and deleted text is struck through.

Scope exclusions (paragraphs 7–8A~~8~~ of IFRS 17)

BC87 The scope of IFRS 17 excludes various items that may meet the definition of insurance contracts, such as:

...

(h) some credit card contracts and similar contracts that provide credit or payment arrangements (see paragraphs BC94A–BC94C).

BC88 IFRS 17 also allows an entity a choice of applying IFRS 17 or another IFRS Standard to some contracts, specifically:

(a) applying IFRS 17 or IFRS 15 to some fixed-fee service contracts (see paragraphs BC95–BC97); and~~.~~

(b) applying IFRS 17 or IFRS 9 to specified contracts such as loan contracts with death waivers (see paragraphs BC94D–BC94F).

Paragraphs BC94A–BC94F and the headings above paragraphs BC94A and BC94D are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—scope exclusions

Credit card contracts and similar contracts that provide credit or payment arrangements (paragraph 7(h) of IFRS 17)

BC94A Some contracts that provide credit or payment arrangements meet the definition of an insurance contract—for example, some credit card contracts, charge card contracts, consumer financing contracts or bank account contracts. In June 2020, the Board amended IFRS 17 to exclude from the scope of the Standard such contracts if, and only if, an entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. When the entity does not reflect such an assessment in the price of the contract, the Board concluded that IFRS 9 would provide more useful information about those contracts than would IFRS 17.

BC94B The Board was aware that, applying IFRS 4, most entities separated the components of such contracts. For example, an entity applying IFRS 4 might have accounted for the credit card component applying IFRS 9, the insurance component applying IFRS 4 and any other service components applying IFRS 15. IFRS 17 has different criteria from IFRS 4 for separating components of an insurance contract. However, the Board acknowledged that entities had already identified methods to separate the components of the contracts described in paragraph BC94A, and concluded that prohibiting such separation would impose costs and disruption for no significant benefit.

BC94C The Board instead decided to specify that an entity's rights and obligations that are financial instruments arising under such contracts are within the scope of IFRS 9. However, an entity is required to separate and apply IFRS 17 to an insurance coverage component if, and only if, that component is a contractual term of that financial instrument. In the Board's view, applying IFRS 17 to those insurance coverage components will result in the most useful information for users of financial statements. Applying IFRS 17 to those components will also increase comparability between insurance coverage provided as part of the contractual terms of a credit card contract and insurance coverage provided as a separate stand-alone contract. Other IFRS Standards, such as IFRS 15 or IAS 37, might apply to other components of the contract, such as other service components or insurance components required by law or regulation.

Specified contracts such as loan contracts with death waivers (paragraph 8A of IFRS 17)

BC94D In June 2020, the Board amended IFRS 17 to allow entities to apply either IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loan contracts with death waivers).

BC94E The Board noted that an entity would provide useful information about such contracts whether it applied IFRS 17 or IFRS 9. Hence, the Board concluded that requiring an entity to apply IFRS 17 to those contracts when the entity had previously been applying an accounting policy consistent with IFRS 9 or IAS 39 could impose costs and disruption for no significant benefit.

BC94F An entity is required to choose whether to apply IFRS 17 or IFRS 9 for each portfolio of insurance contracts described in paragraph BC94D, and this choice is irrevocable. The Board concluded that such restrictions would mitigate the lack of comparability that might otherwise arise between similar contracts issued by the same entity.

Separating components from an insurance contract (paragraphs 10–13 and B31–B35 of IFRS 17)

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A footnote is added to the end of paragraph BC102, to the end of the heading above paragraph BC110, to paragraph BC110 after 'non-insurance services', and to paragraph BC111 after 'non-insurance service,'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 and replaced 'non-insurance services' with 'services other than insurance contract services' (see paragraphs BC283A–BC283J).

A footnote is added to the end of the first sentence in paragraph BC108. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of an investment component to clarify that an investment component is the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs (see paragraph BC34A).

A footnote is added to the end of paragraph BC109. For ease of reading new text is not underlined.

* In June 2020, the Board amended paragraph 11(b) of IFRS 17 to clarify that an entity applies IFRS 17 to a separated investment component if that component meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17.

A footnote is added to paragraph BC110 after 'insurance coverage,'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require entities to separate only goods and services that are distinct from the provision of insurance contract services (see paragraphs BC283A–BC283J).

A footnote is added to paragraph BC122 after 'profit relating to the coverage'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to recognise an amount of the contractual service margin in profit or loss in each period to reflect insurance contract services provided in that period (see paragraphs BC283A–BC283J).

Paragraphs BC139A–BC139T and the headings above paragraphs BC139A, BC139F, BC139I and BC139T are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on the level of aggregation

BC139A Entities implementing IFRS 17 raised concerns relating to the level of aggregation requirements. The Board therefore considered whether to amend the requirements, and if so, how (see paragraph BC139B). Having considered a number of possible amendments, the Board reaffirmed its view that the benefits of the level of aggregation requirements significantly outweigh the costs. The Board therefore decided to retain the requirements unchanged.

BC139B The Board considered suggestions to:

(a) replace all level of aggregation requirements in paragraphs 14–24 of IFRS 17 with approaches that reflect an entity's internal management (see paragraph BC139C);

(b) reduce the minimum number of groups required by paragraph 16 of IFRS 17 (profitability groups) from three to two—contracts that are onerous at initial recognition and contracts that are not onerous at initial recognition (see paragraph BC139D); and

(c) remove or exempt some groups of insurance contracts from the annual cohort requirement in paragraph 22 of IFRS 17 (see paragraph BC139E).

BC139C The Board considered but rejected suggestions to replace all level of aggregation requirements with approaches that reflect an entity's internal management, for example approaches based on an entity's asset and liability management strategy or risk management strategy. The objective of the level of aggregation requirements in IFRS 17 is to provide useful information for users of financial statements. Aspects of internal management such as asset and liability management strategy or risk management strategy have different objectives. Hence an approach based on those aspects would not necessarily achieve the Board's objective.

BC139D The Board considered but rejected the suggestion to reduce the minimum number of profitability groups from three to two (see paragraph BC127) for the reason set out in paragraph BC130. This suggestion would have removed the requirement to group separately insurance contracts that at initial recognition have no significant possibility of becoming onerous from other insurance contracts that are not onerous at initial recognition. The Board noted that an entity will generally issue contracts expecting them to be profitable, and losses will arise subsequently as a result of changes in expectations. Including all contracts that are profitable at initial recognition in a single group could significantly delay loss recognition or increase the risk of losses for onerous contracts never being recognised.

BC139E Some suggestions to remove or exempt some groups of insurance contracts from the annual cohort requirement related to all insurance contracts issued (see paragraphs BC139F–BC139H). Other suggestions related to specific types of insurance contracts—those with intergenerational sharing of risks between policyholders (see paragraphs BC139I–BC139S).

Annual cohort requirement—all insurance contracts

BC139F The Board considered but rejected a suggestion to exempt contracts from the annual cohort requirement if an entity has reasonable and supportable information to conclude that contracts issued more than one year apart would be classified in the same profitability group. Such an exemption could result in a portfolio consisting of only the three groups of contracts described in paragraph BC127, that would each last for the entire life of the portfolio, which may be indefinite. The contractual service margin of each group would average the profitability of all contracts in the group over the life of the portfolio, resulting in the loss of useful information about trends in profitability. The contracts placed in any of the three profitability groups could be significantly more or less profitable than other contracts in the group. The effect of averaging profits of the contracts in the group could therefore be substantially increased, leading to a greater likelihood that:

(a) the contractual service margin of a contract would outlast the coverage period of that contract; and

(b) the continuing profitability of some contracts would absorb the subsequent adverse changes in expectations that make some contracts onerous.

BC139G Some stakeholders said that in some circumstances they could achieve at much less cost the same or a similar outcome without applying the annual cohort requirement as would be achieved applying that requirement. The Board concluded that it is unnecessary to amend IFRS 17 to reflect such circumstances. The Board reaffirmed its view that the requirements specify the amounts to be reported, not the methodology to be used to arrive at those amounts (see paragraph BC138). An entity is required to apply judgement and to consider all possible scenarios for future changes in expectations to conclude whether it could achieve the same accounting outcome without applying the annual cohort requirement.

BC139H The Board recognised that entities will incur costs to identify the contractual service margin for each group of insurance contracts that is an annual cohort. However, the Board concluded that information about higher or lower profits earned by an entity from different generations of contracts is sufficiently useful to justify such costs.

Annual cohort requirement—insurance contracts with intergenerational sharing of risks between policyholders

BC139I The Board considered but rejected a suggestion to exempt from the annual cohort requirement insurance contracts with intergenerational sharing of risks between policyholders. Some stakeholders commented that:

(a) applying the requirement to such contracts requires arbitrary allocations, and the resulting information is therefore not useful; and

(b) implementing the requirement is particularly costly and complex for such contracts, and the cost exceeds the resulting benefit.

BC139J Intergenerational sharing of risks between policyholders is reflected in the fulfilment cash flows and therefore in the contractual service margin of each generation of contracts applying paragraphs B67–B71 of IFRS 17 (see paragraph BC171). However, each generation of contracts may be more or less profitable for an entity than other generations. Applying the variable fee approach (see paragraphs BC238–BC249) the profit for a group of insurance contracts reflects the entity's share in the fair value returns on underlying items. The entity's share in the fair value returns on underlying items is unaffected by the way the policyholders' share is distributed among generations of policyholders. For example, even if all generations of policyholders share equally in the fair value returns on the same pool of underlying items, the amount of the entity's share in those fair value returns created by each generation may differ. The entity's share in the fair value returns depends on the contractual terms of each annual cohort and the economic conditions during the coverage period of each annual cohort. For example, a 20 per cent share in fair value returns created by an annual cohort for which the fair value returns during the coverage period are 5 per cent is more profitable for an entity than a 20 per cent share in fair value returns created by an annual cohort for which the fair value returns during the coverage period are 1 per cent. Removing the annual cohort requirement for groups of insurance contracts with intergenerational sharing of risks between policyholders would average higher or lower profits from each generation of contracts, resulting in a loss of information about changes in profitability over time.

BC139K Nonetheless, the Board identified two aspects of applying the annual cohort requirement to some contracts with intergenerational sharing of risks between policyholders that could increase the costs of applying the requirement and reduce the benefits of the resulting information:

(a) distinguishing between the effect of risk sharing and the effect of discretion (paragraph BC139L); and

(b) allocating changes in the amount of the entity's share of the fair value of underlying items between annual cohorts that share in the same pool of underlying items (paragraph BC139M).

BC139L The aspect set out in paragraph BC139K(a) relates to circumstances in which an entity has discretion over the portion of the fair value returns on underlying items that the entity pays to policyholders and the portion that the entity retains. For example, an entity may be required under the terms of the insurance contracts to pay policyholders a minimum of 90 per cent of the total fair value returns on a specified pool of underlying items, but have discretion to pay more. The Board acknowledged that an entity with such discretion is required to apply additional judgement compared to an entity without such discretion to allocate changes in fulfilment cash flows between groups in a way that appropriately reflects the effect of risk sharing and the effect of the discretion. However, that judgement is required to measure new contracts recognised in a period, so would be needed even without the annual cohort requirement.

BC139M The aspect set out in paragraph BC139K(b) relates to insurance contracts with direct participation features. For such contracts, an entity adjusts the contractual service margin for changes in the amount of the entity's share of the fair value of underlying items. IFRS 17 does not include specific requirements for allocating those changes between annual cohorts that share in the same pool of underlying items. The Board acknowledged that an entity needs to apply judgement to choose an allocation approach that provides useful information about the participation of each annual cohort in the underlying items.

BC139N Nonetheless, in the Board's view, the information that results from the judgements an entity makes in determining the allocation approaches discussed in paragraphs BC139L–BC139M will provide users of financial statements with useful information about how management expects the performance of insurance contracts to develop.

BC139O Further, the Board identified specific insurance contracts with intergenerational sharing of risks for which the information provided by the annual cohort requirement is particularly useful. Those contracts:

(a) include features such as financial guarantees on the returns on underlying items or other cash flows that do not vary with returns on underlying items (for example, insurance claims); and

(b) do not share the changes in the effect of the features in (a) between the entity and policyholders, or share the changes in the effect between the entity and policyholders in a way that results in the entity bearing more than a small share.

BC139P The Board acknowledged that for some insurance contracts with substantial intergenerational sharing of risks, the effect of financial guarantees and other cash flows that do not vary with returns on underlying items would rarely cause an annual cohort to become onerous. However, the Board disagreed with stakeholders who said that the rarity of such an event makes less useful the information that results from applying the annual cohort requirement to such insurance contracts. The Board instead observed the rarity makes the information particularly useful to users of financial statements when such an event occurs. The Board identified such information about the effect of financial guarantees as being particularly important when interest rates are low.

BC139Q Consequently, the Board concluded the costs of the annual cohort requirement might exceed the benefits of the resulting information for only a very limited population of contracts. The population is much smaller than some stakeholders had suggested.

BC139R Nonetheless, the Board considered whether it could create an exemption from the annual cohort requirement that would capture only that very limited population of contracts, without the risk of capturing a wider population. However:

(a) any focused exemption would be complex because of the interaction between contract features that increase the costs and reduce the benefits. An exemption would therefore result in difficulties for entities and auditors in identifying which contracts would be exempted, and for users of financial statements in understanding which contracts had been exempted. A significant difference in outcomes could arise in some circumstances depending on whether the annual cohort requirement has been applied, and thus it would be essential that the scope of an exemption from that requirement is clear to understand.

(b) the purpose of any exemption would be to balance the costs and benefits. However, there is no way to specify the scope of the exemption other than by using arbitrary thresholds because the balance of costs and benefits for different contracts vary across a range and there is no clearly identifiable point at which the costs exceed the benefits. Entities would be able to avoid applying the annual cohort requirement by structuring contracts to meet those thresholds. The Board concluded there was a high risk that contracts for which the benefits of the annual cohort requirement heavily outweigh the costs would be included in the exemption, resulting in a loss of information critical for users of financial statements.

BC139S The Board concluded that for all but a very limited population of contracts there is no question that the benefits of the annual cohort requirement significantly outweigh the costs. For a very limited population of contracts the costs and benefits of the requirement are more finely balanced. However, it is not possible to define that population in a way that does not risk it becoming too broad. The Board therefore decided to retain the annual cohort requirement unchanged.

Annual cohort requirement—group based on issue date

BC139T In June 2020, the Board amended paragraph 28 of IFRS 17 to clarify that an entity is required to add an insurance contract to a group of insurance contracts at the date the contract is recognised, instead of the date the contract is issued (see paragraph BC145A). The Board considered but rejected a suggestion to also amend the annual cohort requirement in paragraph 22 of IFRS 17 to base it on the date contracts are recognised, instead of the date they are issued. The objective of the annual cohort requirement is to facilitate timely recognition of profits, losses and trends in profitability. The profitability of a contract is initially set when the contract is issued, based on facts and circumstances at that date—for example, interest rates, underwriting expectations and pricing. Hence, the Board concluded that determining annual cohorts based on the date that contracts are issued is necessary to provide useful information about trends in profitability.

The heading above paragraph BC140 is amended. New text is underlined and deleted text is struck through.

Recognition (paragraphs 25–28F~~28~~ of IFRS 17)

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A footnote is added to the end of the first sentence of paragraph BC144. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a coverage period to be the period during which the entity provides insurance contract services (see paragraphs BC283A–BC283I).

A footnote is added to the end of paragraph BC145. For ease of reading new text is not underlined.

* In June 2020, the Board amended the requirements relating to assets for insurance acquisition cash flows (see paragraphs BC184A–BC184K). The Board also specified that an entity recognises an asset for insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) (see paragraphs BC184L–BC184N).

Paragraph BC145A and the heading above that paragraph are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—recognition

BC145A In June 2020, the Board amended paragraph 28 of IFRS 17 to clarify that an entity is required to add an insurance contract to a group of insurance contracts (that is, to recognise an insurance contract) at the date the insurance contract meets any one of the recognition criteria in paragraph 25 of IFRS 17 (see paragraph BC142). That date may differ from the date on which the insurance contract is issued—for example, it may be the date that premiums become due.

Paragraph BC146 is amended. New text is underlined and deleted text is struck through.

Measurement of fulfilment cash flows (paragraphs 29–37 and B36–B92 of IFRS 17)

BC146 As explained in paragraphs BC19–BC20, IFRS 17 requires an entity to measure the fulfilment cash flows at a risk-adjusted present value. The sections below discuss the measurement of the fulfilment cash flows, in particular:

(a) ...

(b) which cash flows should be included in the expected value of cash flows (see paragraphs BC158–<u>BC184N</u>~~BC184~~);

(c) how the cash flows are adjusted to reflect the time value of money and the financial risks, to the extent that the financial risks are not included in the estimates of future cash flows (see paragraphs BC185–<u>BC205B</u>~~BC205~~); and

(d) ...

Paragraph BC150 is amended. New text is underlined and deleted text is struck through.

Unbiased use of all reasonable and supportable information available without undue cost or effort (paragraphs 33(a) and B37–B41 of IFRS 17)

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BC150 In principle, determining an expected present value involves the following steps:

(a) ...

(b) measuring the present value of the cash flows in that scenario—paragraphs BC185–<u>BC205B</u>~~BC205~~ discuss the discount rate; and

...

Paragraph BC158 is amended. New text is underlined and deleted text is stuck through.

The cash flows used to measure insurance contracts (paragraphs 34–35 and B61–B71 of IFRS 17)

BC158 This section discusses which cash flows should be included in the expected value of cash flows, including:

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<u>(ca) cash flows relating to policyholder taxes (see paragraph BC170A);</u>

(d) cash flows that affect or are affected by cash flows to policyholders of other contracts (see paragraphs BC171–BC174);~~ and~~

(e) insurance acquisition cash flows (see paragraphs BC175–<u>BC184K</u>~~BC184~~)~~.~~<u>; and</u>

(f) pre-recognition cash flows other than insurance acquisition cash flows (see paragraphs BC184L–BC184N).

A footnote is added to the end of paragraphs BC160(a), BC162(a), BC162(b) and BC163. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a coverage period to be the period during which the entity provides insurance contract services (see paragraphs BC283A–BC283J).

Paragraph BC170A and the heading above paragraph BC170A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—cash flows relating to policyholder taxes (paragraphs B65–B66 of IFRS 17)

BC170A In June 2020, the Board amended IFRS 17 to resolve an inconsistency between the description of cash flows within the boundary of an insurance contract in paragraph B65(m) of IFRS 17 and the description of cash flows outside the boundary of an insurance contract in paragraph B66(f) of IFRS 17. Before the amendment, paragraph B66(f) of IFRS 17 required an entity to exclude income tax payments and receipts not paid or received in a fiduciary capacity from the estimate of the cash flows that will arise as the entity fulfils an insurance contract. Some stakeholders said that some income tax payments and receipts, although not paid or received in a fiduciary capacity, are costs specifically chargeable to the policyholder under the terms of the contract. Accordingly, those costs should be included in the boundary of an insurance contract applying paragraph B65(m) of IFRS 17. The Board agreed that any costs specifically chargeable to the policyholder are cash flows that will arise as the entity fulfils an insurance contract. Therefore, the Board amended paragraph B66(f) of IFRS 17 to avoid excluding from the fulfilment cash flows income tax payments or receipts specifically chargeable to the policyholder under the terms of the contract. An entity recognises insurance revenue for the consideration paid by the policyholder for such income tax amounts when the entity recognises in profit or loss the income tax amounts. This treatment is consistent with the recognition of insurance revenue for other incurred expenses applying IFRS 17 (see paragraph BC37).

A footnote is added to the end of paragraph BC174. For ease of reading new text is not underlined.

* When developing the June 2020 amendments to IFRS 17, the Board considered but rejected suggestions to exempt from the annual cohort requirement insurance contracts with intergenerational sharing of risks (see paragraphs BC139I–BC139S). These considerations were similar to those in developing the Standard as described in paragraph BC174.

A footnote is added to paragraph BC176 after 'future cash flows that are included in the measurement of the contract.' For ease of reading new text is not underlined.

* An asset for insurance acquisition cash flows is derecognised when those insurance acquisition cash flows are included in the measurement of the group of insurance contracts to which they have been allocated. In June 2020, the Board amended IFRS 17 so that allocation reflects an entity's expectations about future contract renewals (see paragraphs BC184A–BC184K).

A footnote is added to paragraph BC177 after '(including amounts received or to be received by the entity to acquire new insurance contracts).'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to clarify that insurance acquisition cash flows paid before a group of insurance contracts is recognised cannot be a liability.

A footnote is added to the end of paragraphs BC180 and BC184. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to include specific requirements relating to an asset for insurance acquisition cash flows recognised before a group of insurance contracts is recognised (see paragraphs BC184A–BC184K).

Paragraphs BC184A–BC184K and the heading above paragraph BC184A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—insurance acquisition cash flows (paragraphs 28A–28F and B35A–B35D of IFRS 17)

BC184A In June 2020, the Board amended IFRS 17 to require an entity to use a systematic and rational method to allocate insurance acquisition cash flows that are directly attributable to a group of insurance contracts:

(a) to that group; and

(b) to groups that will include insurance contracts that are expected to arise from renewals of insurance contracts in that group (see paragraph B35A of IFRS 17).

BC184B Before the amendment, an entity was required to allocate insurance acquisition cash flows directly attributable to a group to only that group. In contrast, insurance acquisition cash flows directly attributable to a portfolio of insurance contracts but not directly attributable to a group of insurance contracts are systematically and rationally allocated to groups of insurance contracts in the portfolio.

BC184C Stakeholders said an entity that issues an insurance contract with a short coverage period, such as one year, might incur high up-front costs, such as commissions to sales agents, relative to the premium the entity will charge for the contract. The entity agrees to those costs because it expects that some policyholders will renew their contracts. Often, those costs are fully directly attributable to the initial insurance contract issued because those costs are non-refundable and are not contingent on the policyholder renewing the contracts.

BC184D In some circumstances, such commissions are higher than the premium charged and applying IFRS 17 before it was amended would have resulted in the initial insurance contract being identified as onerous. In the Board's view, an entity recognising a loss in that circumstance would provide useful information to users of financial statements. The information would reflect that the entity does not have a right to either oblige policyholders to renew the contracts, or to reclaim the commissions from sales agents if policyholders choose not to renew the contracts.

BC184E However, the Board was persuaded that an amendment to IFRS 17 requiring an entity to allocate insurance acquisition cash flows to expected renewal contracts (expected renewals) would also provide useful information to users of financial statements. Such a requirement depicts the payment of up-front costs such as commissions as an asset that an entity expects to recover through both initial insurance contracts issued and expected renewals. The asset reflects the right of an entity to not pay again costs it had already paid to obtain renewals. The Board noted that the information resulting from the amendment is comparable to the information provided by IFRS 15 for the incremental costs of obtaining a contract.

BC184F The Board concluded it did not need to develop requirements to specify how to allocate insurance acquisition cash flows to expected renewals. It concluded that requiring a systematic and rational method of allocation, consistent with paragraph B65(l) of IFRS 17, is sufficient.

BC184G The Board noted that if an entity allocates assets for insurance acquisition cash flows to groups expected to be recognised across more than one reporting period in the future, an entity would need to update its allocation at the end of each reporting period to reflect any changes in assumptions about expected renewals. The Board also decided to clarify that an entity must apply a consistent method across reporting periods by referring in the requirements to a systematic and rational method (rather than a systematic and rational basis).

BC184H Amending IFRS 17 to require an entity to allocate insurance acquisition cash flows to expected renewals creates assets for insurance acquisition cash flows that will be recognised for longer than assets would have been recognised applying the requirements before the amendment. The amendment will therefore increase the carrying amount of assets for insurance acquisition cash flows. Accordingly, the Board considered whether it should specify requirements for:

(a) accretion of interest on assets for insurance acquisition cash flows. The Board decided against specifying such requirements because doing so would be inconsistent with IFRS 15.

(b) assessments of the recoverability of assets for insurance acquisition cash flows. The Board decided to specify such requirements for the reasons set out in paragraphs BC184I–BC184K.

BC184I When the Board issued IFRS 17 in May 2017, it concluded that requiring an entity to assess the recoverability of an asset for insurance acquisition cash flows would be unnecessary. The asset was typically of relatively short duration and any lack of recoverability would be reflected on a timely basis when the asset was derecognised and the insurance acquisition cash flows were included in the measurement of a group of insurance contracts (see paragraph BC180). As a result of the June 2020 amendment set out in paragraph BC184A, the Board concluded that it needed to require an entity to assess the recoverability of an asset for insurance acquisition cash flows at the end of each reporting period if facts and circumstances indicate the asset may be impaired.

BC184J Consistent with the impairment test in paragraph 101 of IFRS 15, an entity recognises an impairment loss in profit or loss and reduces the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount does not exceed the expected net cash inflow for the related group.

BC184K The Board noted that an entity measures an asset for insurance acquisition cash flows at the level of a group of insurance contracts. An impairment test at a group level compares the carrying amount of an asset for insurance acquisition cash flows allocated to a group with the expected net cash inflow of the group. That net cash inflow includes cash flows for contracts unrelated to any expected renewals but expected to be in that group. The Board therefore decided to require an additional impairment test specific to cash flows for expected renewals. This additional impairment test results in the recognition of any impairment losses when the entity no longer expects the renewals supporting the asset to occur, or expects the net cash inflows to be lower than the amount of the asset. Without the additional impairment test, cash flows from contracts unrelated to any expected renewals might prevent the recognition of such an impairment loss.

Paragraphs BC184L–BC184N and the heading above paragraph BC184L are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—pre-recognition cash flows other than insurance acquisition cash flows (paragraphs 38, B66A and B123A of IFRS 17)

BC184L In June 2020, the Board amended IFRS 17 to address the treatment of assets or liabilities for cash flows related to a group of insurance contracts that have been recognised before the group of insurance contracts is recognised. Such assets and liabilities might have been recognised before the group of insurance contracts is recognised because the cash flows occur or because a liability is recognised applying another IFRS Standard. Cash flows are related to a group of insurance contracts if they would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date.

BC184M The Board agreed with feedback that such cash flows should be included in the determination of the contractual service margin and insurance revenue for the group of insurance contracts. These cash flows should affect profit and revenue in the same way as the fulfilment cash flows regardless of their timing (or of the timing of their recognition as a liability).

BC184N The amendment requires an entity to derecognise any asset or liability for such cash flows when the entity recognises the related group of insurance contracts to the extent that the asset or liability would not have been recognised separately from the group of insurance contracts if the cash flows (or the event that triggered their recognition as a liability) had occurred at the date of initial recognition of the group of insurance contracts. In addition the Board concluded that, to be consistent with the recognition of insurance revenue and incurred expenses required by IFRS 17, to the extent that an asset is derecognised when the entity recognises the related group of insurance contracts, insurance revenue and expenses should be recognised. In contrast, no insurance revenue or expenses arise on the derecognition of a liability at that date. The derecognition of a liability results either in the amounts expected to settle the liability being included in the fulfilment cash flows or the performance obligation depicted by the liability being subsumed within the recognition of the group of insurance contracts. For example, an entity that recognised a liability for premiums received in advance of the recognition of a group of insurance contracts would derecognise that liability when the entity recognises a group of insurance contracts to the extent the premiums relate to the contracts in the group. The performance obligation that was depicted by the liability would not be recognised separately from the group of insurance contracts had the premiums been received on the date of the initial recognition of the group. No insurance revenue arises on the derecognition of the liability.

Paragraph BC185 is amended. New text is underlined and deleted text is struck through.

Discount rates (paragraphs 36 and B72–B85 of IFRS 17)

BC185 This section discusses:

...

(d) disclosure of the yield curve (see paragraph BC198);~~ and~~

(e) reflecting dependence on underlying items in the discount rate (see paragraphs BC199–BC205)<u>; and</u>~~.~~

<u>(f) subjectivity in determining discount rates (see paragraphs BC205A–BC205B).</u>

Paragraphs BC205A–BC205B and the heading above paragraph BC205A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on the subjectivity in determining discount rates

BC205A When the Board considered feedback from entities implementing IFRS 17, it also considered feedback from users of financial statements that the principle-based requirements for determining discount rates could limit comparability between entities.

BC205B The Board made no amendments to IFRS 17 in response to that feedback. In the Board's view, requiring an entity to determine discount rates using a rule-based approach would result in outcomes that are appropriate only in some circumstances. IFRS 17 requires entities to apply judgement when determining the inputs most applicable in the circumstances. To enable users of financial statements to understand the discount rates used, and to facilitate comparability between entities, IFRS 17 requires entities to disclose information about the methods used and judgements applied.

Paragraph BC207 is amended. New text is underlined and deleted text is struck through.

Risk adjustment for non-financial risk (paragraphs 37 and B86–B92 of IFRS 17)

...

BC207 This section discusses:

(a) ...

(b) the techniques for estimating the risk adjustment for non-financial risk (see paragraphs BC213–BC214C~~BC214~~); and

(c) ...

Paragraphs BC214A–BC214C and the headings above paragraphs BC214A and BC214B are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on the subjectivity in determining the risk adjustment for non-financial risk

BC214A When the Board considered feedback from entities implementing IFRS 17, it also considered feedback from users of financial statements that the principle-based requirements for determining the risk adjustment for non-financial risk could limit comparability between entities. The Board made no amendments to IFRS 17 in response to that feedback, for the same reason it made no amendments in response to similar feedback on discount rates (see paragraph BC205B).

Amendments to IFRS 17—feedback on the risk adjustment for non-financial risk in consolidated financial statements

BC214B The Transition Resource Group for IFRS 17 discussed an implementation question on determining the risk adjustment for non-financial risk in the consolidated financial statements of a group of entities. Transition Resource Group members held different views. Some members thought the risk adjustment for non-financial risk for a group of insurance contracts must be the same in the issuing subsidiary's stand-alone financial statements as in the consolidated financial statements of the group of entities. Other members thought the risk adjustment for non-financial risk may be measured differently in the issuing subsidiary's stand-alone financial statements from how it is measured in the consolidated financial statements of the group of entities.

BC214C The Board considered whether it should clarify its intention for determining the risk adjustment for non-financial risk in the consolidated financial statements of a group of entities in response to those different views. The Board concluded that doing so would address only some differences that could arise in the application of the requirements for determining the risk adjustment for non-financial risk, given the judgement required to apply those requirements. The Board concluded that practice needs to develop in this area. If necessary, the Board will seek to understand how the requirements are being applied as part of the Post-implementation Review of IFRS 17.

Paragraphs BC220–BC221 and the heading above paragraph BC218 are amended. New text is underlined and deleted text is struck through.

Measurement of the contractual service margin (paragraphs 38, 43–46 and B96–<u>B119B</u>~~B119~~ of IFRS 17)

...

BC220 IFRS 17 requires the carrying amount of the contractual service margin to be adjusted for (see paragraphs 44 and 45 of IFRS 17):

(a) ...

(b) insurance finance income or expenses (see paragraphs BC270–<u>BC276E</u>~~BC276~~); and

(c) ...

BC221 The resulting carrying amount at the end of the reporting period is allocated over the current and future periods, and the amount relating to the current period is recognised in profit or loss (see paragraphs BC279–<u>BC283J</u>~~BC283~~).

Paragraphs BC222–BC223 are amended. New text is underlined and deleted text is struck through.

Changes in estimates of the future unearned profit (paragraphs 44, 45 and B96–B118 of IFRS 17)

BC222 The key service provided by insurance contracts is insurance coverage, but contracts may also provide investment-related or other services. The measurement of a group of insurance contracts at initial recognition includes a contractual service margin, which represents the margin the entity has charged for the services it provides in addition to bearing risk. The expected margin charged for bearing risk is represented by the risk adjustment for non-financial risk (see paragraphs BC206–BC214C~~BC214~~).

BC223 IFRS 17 requires an entity to measure the contractual service margin, on initial recognition of the group of insurance contracts, as the difference between the expected present value of cash inflows and the expected present value of cash outflows, after adjusting for uncertainty and any cash flows received or paid before or on initial recognition. IFRS 17 also requires an entity to update the measurement of the contractual service margin for changes in estimates of the fulfilment cash flows relating to future service, for the following reasons:

(a) changes in estimates of the fulfilment cash flows relating to future service affect the future profitability of the group of insurance contracts. Thus, adjusting the contractual service margin to reflect these changes provides more relevant information about the remaining unearned profit in the group of insurance contracts after initial recognition than not adjusting the contractual service margin. Paragraphs BC227–BC237 discuss which changes in estimates relate to future service for insurance contracts without direct participation features, and paragraphs BC238–BC256H~~BC256~~ discuss which changes relate to future service for insurance contracts with direct participation features.

...

A footnote is added to the end of paragraph BC224(d). For ease of reading new text is not underlined.

* In June 2020, the Board amended paragraph B96(d) of IFRS 17 to clarify that if an entity chooses to disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses, the entity should adjust the contractual service margin only for the changes related to non-financial risk (and not for changes in the risk adjustment for non-financial risk that result from the effects of the time value of money).

Paragraph BC227 is amended. New text is underlined and deleted text is struck through.

Insurance contracts without direct participation features (paragraphs 44 and B96–B100 of IFRS 17)

BC227 In determining which changes in estimates relate to future service, IFRS 17 distinguishes two types of insurance contracts: those without direct participation features and those with direct participation features. Insurance contracts with direct participation features are discussed in paragraphs BC238–BC269C~~BC269~~.

A footnote is added to the end of paragraph BC235. For ease of reading new text is not underlined.

* Paragraph B96(c) of IFRS 17 requires changes in fulfilment cash flows that arise from differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period to adjust the contractual service margin. In June 2020, the Board amended IFRS 17 to specify that paragraph B96(c) of IFRS 17 does not apply to insurance finance income or expenses that depict the effect on the investment component of the time value of money and financial risk between the beginning of the period and the unexpected payment or non-payment of the investment component.

A footnote is added to the end of paragraph BC236. For ease of reading new text is not underlined.

* In June 2020, the Board amended the requirements relating to the effect of accounting estimates made in interim financial statements (see paragraphs BC236A–BC236D).

Paragraphs BC236A–BC236D and the heading above paragraph BC236A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—the effect of accounting estimates made in interim financial statements

BC236A In June 2020, the Board amended IFRS 17 to require an entity to choose whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period.

BC236B The requirement relating to accounting estimates made in interim financial statements as described in paragraph BC236 was developed in response to feedback during the development of IFRS 17 that recalculating the carrying amount of the contractual service margin from the beginning to the end of an annual reporting period, when an entity has prepared interim financial statements during that period, would be a significant practical burden. However, some entities implementing IFRS 17 as issued in May 2017 said that the requirement described in paragraph BC236 would result in a practical burden that would be more significant than the burden the Board had intended to alleviate. Some of those entities said that the requirement was a burden particularly for entities in a consolidated group that report at different frequencies from each other, because there would be a need to maintain two sets of records to reflect the different treatments of the accounting estimates.

BC236C The Board concluded that permitting an accounting policy choice as described in paragraph BC236A would ease IFRS 17 implementation by enabling an entity to assess which accounting policy would be less burdensome. To avoid a significant loss of useful information for users of financial statements, an entity is required to consistently apply its choice to all groups of insurance contracts it issues and groups of reinsurance contracts it holds (that is, the accounting policy choice is at the reporting entity level).

BC236D The Board added a relief, related to the amendment, to the transition requirements for entities applying IFRS 17 for the first time (see paragraphs C14A and C19A of IFRS 17).

A footnote is added to the end of paragraph BC249. For ease of reading new text is not underlined.

* The Board subsequently reaffirmed this view when it considered similar feedback from entities implementing IFRS 17 (see paragraph BC249C).

Paragraphs BC249A–BC249D and the heading above paragraph BC249A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—scope of the variable fee approach (paragraphs B101 and B107 of IFRS 17)

BC249A The requirements of IFRS 17 with the additional adjustments to the contractual service margin described in paragraph BC246 are referred to as the variable fee approach. Some entities implementing IFRS 17 suggested the Board expand the scope of the variable fee approach to include:

(a) insurance contracts that some stakeholders view as economically similar to insurance contracts with direct participation features, except that these contracts do not meet the criterion in paragraph B101(a) of IFRS 17; and

(b) reinsurance contracts issued and reinsurance contracts held, which are explicitly excluded from the scope of the variable fee approach applying paragraph B109 of IFRS 17.

BC249B The Board considered but rejected the suggestions described in paragraph BC249A(a). The additional adjustments to the contractual service margin in the variable fee approach were designed specifically to faithfully represent the profit from insurance contracts within the scope of the variable fee approach. Therefore, if the Board were to amend the scope of the variable fee approach, it would need to consider amending those adjustments. The Board also observed that whatever the scope of the variable fee approach, differences would arise between the accounting for contracts within the scope and contracts outside the scope.

BC249C The Board considered but rejected suggestions described in paragraph BC249A(b). The Board concluded that reinsurance contracts are not substantially investment-related service contracts. The variable fee approach was designed specifically so an entity issuing insurance contracts that are substantially investment-related service contracts would account for profit similarly to an entity issuing asset management contracts. Some stakeholders said that excluding reinsurance contracts held from the scope of the variable fee approach creates an accounting mismatch when a reinsurance contract held covers underlying insurance contracts that are within the scope of the variable fee approach. The Board responded to that concern by amending the risk mitigation option (see paragraphs BC256A–BC256B).

BC249D In June 2020, the Board amended paragraph B107 of IFRS 17 to replace a reference to 'the group of insurance contracts' with 'the insurance contract'. Applying paragraph B101 of IFRS 17, an entity assesses whether an insurance contract (rather than a group of insurance contracts) is within the scope of the variable fee approach. The reference to a group of insurance contracts in paragraph B107 of IFRS 17 was a drafting error and was inconsistent with the requirements in paragraph B101 of IFRS 17. Some stakeholders said this amendment would be a major change and disruptive to IFRS 17 implementation. Those stakeholders had assumed that an entity was required to apply the criteria for the scope of the variable fee approach at a group level. The Board concluded that it needed to fix the drafting error in paragraph B107 of IFRS 17 to enable consistent application of the requirements. The Board noted that some stakeholders had interpreted a contract-level assessment as being more burdensome than it is because they thought an individual assessment was required for every contract. However, the Board observed that one assessment should be sufficient for an entity to determine whether the criteria are met for each contract in a set of homogenous contracts issued in the same market conditions and priced on the same basis.

A footnote is added to paragraph BC255 after 'from those fulfilment cash flows:'. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to clarify that an entity ceases to apply the risk mitigation option if, and only if, the conditions described in paragraph BC255 cease to be met.

A footnote is added to the end of paragraph BC255(a). For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 so that the risk mitigation option also applies in specified circumstances when an entity mitigates financial risk using reinsurance contracts held or non-derivative financial instruments measured at fair value through profit or loss (see paragraphs BC256A–BC256F).

Paragraphs BC256A–BC256F and the heading above paragraph BC256A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—risk mitigation using instruments other than derivatives

BC256A In June 2020, the Board amended IFRS 17 to extend the risk mitigation option in paragraphs B115–B116 of IFRS 17 to apply when an entity uses:

(a) reinsurance contracts held to mitigate the effect of financial risk on the amount of the entity's share of the underlying items or the fulfilment cash flows set out in paragraph B113(b) of IFRS 17 (see paragraph BC256B); or

(b) non-derivative financial instruments measured at fair value through profit or loss to mitigate the effect of financial risk on the fulfilment cash flows set out in paragraph B113(b) of IFRS 17 (see paragraph BC256C).

BC256B Some stakeholders said that applying the requirements in IFRS 17 results in an accounting mismatch when an entity holds a reinsurance contract that covers insurance contracts with direct participation features. The entity accounts for the underlying insurance contracts issued, but not the reinsurance contract held, applying the variable fee approach. Reinsurance contracts that cover insurance contracts with direct participation features transfer both non-financial and financial risk to the reinsurer. The Board considered but rejected a suggestion to permit an entity to apply the variable fee approach to such reinsurance contracts held (see paragraph BC249C). However, the Board acknowledged that when an entity mitigates the effect of financial risk using a reinsurance contract held, an accounting mismatch could arise that is similar to the mismatch that could arise when an entity mitigates the effect of financial risk using derivatives (see paragraph BC252). Accordingly, the Board amended IFRS 17 so that the risk mitigation option applies in the same way when an entity uses reinsurance contracts held as when an entity uses derivatives.

BC256C Some stakeholders said that some entities mitigate the effect of some financial risk on fulfilment cash flows that do not vary with returns on underlying items (the cash flows set out in paragraph B113(b) of IFRS 17) using non-derivative financial instruments. The Board was persuaded that if such non-derivative financial instruments are measured at fair value through profit or loss, an accounting mismatch could arise, which is similar to the accounting mismatch for derivatives (see paragraph BC252). Accordingly, the Board extended the risk mitigation option to apply in such circumstances. The Board decided to limit the extension to only non-derivative financial instruments measured at fair value through profit or loss. For such non-derivative financial instruments, the extension resolves the accounting mismatch in the same way it resolves the accounting mismatch for derivatives (which are also measured at fair value through profit or loss).

BC256D The Board considered but rejected a suggestion that an entity should be permitted to apply the risk mitigation option when it uses non-derivative financial instruments measured at fair value through other comprehensive income. The Board observed that in most circumstances the risk mitigation option would not resolve perceived mismatches between amounts recognised in profit or loss relating to:

(a) insurance contracts with direct participation features using the other comprehensive income option in IFRS 17; and

(b) assets measured at fair value through other comprehensive income.

BC256E The amounts described in paragraph BC256D will differ depending on when the financial assets and the insurance liabilities are acquired or issued and depending on their duration. Further, the suggestion in paragraph BC256D would have resulted in any ineffectiveness of the risk mitigation strategy being recognised in other comprehensive income. That would be inconsistent with the hedge accounting requirements in IFRS 9 which result in the ineffectiveness of hedging strategies having a transparent effect on profit or loss. The Board observed that an entity could avoid mismatches by applying together the fair value option in IFRS 9 (to designate financial assets at fair value through profit or loss) and the risk mitigation option in IFRS 17.

BC256F The Board also considered but rejected a suggestion that an entity should be permitted to apply the risk mitigation option when it uses non-derivative financial instruments to mitigate the effect of financial risk on the entity's share of the fair value of the underlying items (see paragraph B112 of IFRS 17). Some stakeholders said that an entity may mitigate such financial risk by investing premiums in assets other than the underlying items—for example, fixed rate bonds. The Board concluded that permitting an entity to apply the risk mitigation option in that circumstance would contradict the principle that an entity need not hold the underlying items for the variable fee approach to apply (see paragraph BC246).

Paragraphs BC256G–BC256H and the heading above paragraph BC256G are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—applying the risk mitigation option and the other comprehensive income option (paragraphs 87A–89 and B117A of IFRS 17)

BC256G In June 2020, the Board amended IFRS 17 to specify that paragraphs 88 and 89 of IFRS 17 do not apply to the insurance finance income or expenses that arise from the application of the risk mitigation option. Instead, the Board specified that such insurance finance income or expenses are presented in:

(a) profit or loss if the entity mitigates financial risk using financial instruments measured at fair value through profit or loss; and

(b) profit or loss or other comprehensive income applying the same accounting policy the entity applies to a reinsurance contract held if the entity mitigates financial risk using that reinsurance contract held.

BC256H The amendment described in paragraph BC256G resolves a mismatch that would otherwise have arisen between amounts recognised in profit or loss for a group of insurance contracts with direct participation features and amounts recognised in profit or loss on the items used to mitigate financial risk arising from the insurance contracts. The mismatch would have arisen if an entity determined the amounts recognised in profit or loss on the group of insurance contracts by applying both paragraph 89 of IFRS 17 (to include some insurance finance income or expenses in other comprehensive income) and paragraph B115 of IFRS 17 (the risk mitigation option).

A footnote is added to the end of paragraphs BC265–BC269. For ease of reading new text is not underlined.

* When developing the June 2020 amendments to IFRS 17, the Board noted that some entities described in practice as mutual entities do not have the feature that the most residual interest of the entity is due to a policyholder (see paragraphs BC269A–BC269C). Paragraphs BC265–BC269 describe the outcome of applying IFRS 17 for entities for which the most residual interest of the entity is due to a policyholder.

Paragraphs BC269A–BC269C and the heading above paragraph BC269A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on insurers that are mutual entities

BC269A Entities implementing IFRS 17 expressed the following concerns about mutual entities:

(a) applying IFRS 17 as described in paragraph BC265 would result in a misleading depiction of the financial position and financial performance of an entity with the feature that the most residual interest of the entity is due to a policyholder; and

(b) some entities described in practice as mutual entities do not have the feature that the most residual interest of the entity is due to a policyholder.

BC269B The Board reaffirmed its decision that IFRS 17 should not include any specific requirements or exceptions to requirements in IFRS 17 for entities that issue insurance contracts under which the most residual interest of the entity is due to a policyholder because:

(a) a core principle of IFRS 17 applicable to all entities is the requirement to include in the fulfilment cash flows all the expected future cash flows that arise within the boundary of insurance contracts, including discretionary cash flows and those due to future policyholders;

(b) if entities were required to account for the same insurance contract differently depending on the type of entity issuing the contract, comparability among entities would be reduced; and

(c) a robust definition of entities to which different requirements would apply would be difficult to create.

BC269C In response to the concern described in paragraph BC269A(b), the Board added the footnote to paragraphs BC265–BC269.

Paragraphs BC276A–BC276E and the heading above paragraph BC276A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on discount rates used to determine adjustments to the contractual service margin

BC276A For insurance contracts without direct participation features, differences arise between a change in the fulfilment cash flows measured using current discount rates, and the resulting adjustment to the contractual service margin measured using discount rates locked in at initial recognition (see paragraph BC275). Consistent with the feedback set out in paragraph BC274, entities implementing IFRS 17 continued to express concerns about such differences.

BC276B Some stakeholders suggested that an amendment to require an entity to measure adjustments to the contractual service margin using the current discount rates used for the measurement of the fulfilment cash flows would reduce the operational burden of applying the Standard. Others said such an amendment would be conceptually appropriate.

BC276C The fulfilment cash flows and the contractual service margin are the two components of the measurement of insurance contracts. The fulfilment cash flows are a current risk-adjusted estimate of future cash flows expected to arise from a group of insurance contracts. In contrast, the contractual service margin is the profit expected to arise from future service that an entity will provide for a group of insurance contracts. The contractual service margin on initial recognition of a group is the difference between the estimated cash inflows and estimated cash outflows (adjusted for the effect of the time value of money, non-financial risk and financial risk). The contractual service margin is not a future cash flow. When changes in fulfilment cash flows relate to future service, the expected profit relating to that future service changes. Accordingly, those changes in estimates adjust the contractual service margin.

BC276D The Board considered but rejected the suggestions to amend IFRS 17 described in paragraph BC276B for the reasons that led it to conclude, while developing IFRS 17, that an entity should determine adjustments to the contractual service margin using locked-in discount rates (see paragraphs BC273–BC275). An entity would measure profit inconsistently if it were to measure the effect of future cash flows on the contractual service margin at discount rates that differed depending on when such future cash flows become part of the expected cash flows. The Board concluded that measuring the contractual service margin at the discount rates determined at the date of initial recognition (that is, locked-in discount rates) provides a faithful representation of the revenue earned as the entity provides services, reflecting the price set at the contract issue date for that service. In contrast, measuring changes in the contractual service margin using current rates would result in arbitrary amounts relating to the effects of changes in discount rates being reflected in the insurance service result rather than in insurance finance income or expenses. A core benefit introduced by IFRS 17 is the presentation of insurance finance income or expenses separately from the insurance service result.

BC276E The Board disagreed with stakeholders who said that entities would have difficulty explaining to users of financial statements a gain or loss arising from the differences between a change in fulfilment cash flows and a change in the adjustment to the contractual service margin. The Board observed that the gain or loss provides information about the cumulative amount of insurance finance income or expenses that had been previously recognised and should be reversed, or the amount that was not previously recognised and now is.

The heading above paragraph BC279 is amended. New text is underlined.

Recognition in profit or loss (paragraphs 44(e), 45(e) and B119–B119B of IFRS 17)

...

A footnote is added to the end of paragraphs BC279, BC280 and BC283. For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a coverage period to be the period during which the entity provides insurance contract services (see paragraphs BC283A–BC283J).

Paragraphs BC283A–BC283J and the headings above paragraphs BC283A and BC283J are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—contractual service margin attributable to investment-return service and investment-related service

BC283A In June 2020, the Board amended IFRS 17 to:

(a) require an entity to identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Paragraph B119B of IFRS 17 specifies criteria for when such contracts may provide an investment-return service.

(b) clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

(c) require an entity to include investment activity costs in the fulfilment cash flows, to the extent that the entity performs those activities to:

(i) enhance benefits from insurance coverage for policyholders (see paragraph B65(ka)(i) of IFRS 17);

(ii) provide investment-return service to policyholders of insurance contracts without direct participation features (see paragraph B119B of IFRS 17); or

(iii) provide investment-related service to policyholders of insurance contracts with direct participation features.

(d) define 'insurance contract services' as comprising insurance coverage, investment-return service and investment-related service.

(e) expand the definitions of a liability for remaining coverage and a liability for incurred claims to reflect an entity's obligation to provide insurance contract services and any other obligations arising from insurance contracts.

BC283B The Board was persuaded that some insurance contracts without direct participation features provide an investment-return service (see paragraph BC283A(a)). Recognising the contractual service margin considering both insurance coverage and an investment-return service will provide useful information to users of financial statements, particularly for contracts that have an insurance coverage period that differs from the period in which the policyholder benefits from an investment-return service.

BC283C The Board concluded that an investment-return service exists only if the contract includes an investment component or the policyholder has a right to withdraw an amount from the entity. Further, those amounts must be expected to include an investment return that the entity generates by performing investment activity. The Board concluded that if those conditions are not met, the policyholder has no right to benefit from investment returns. In this context, a 'right to withdraw an amount from the entity' includes a policyholder's right to:

(a) receive a surrender value or refund of premiums on cancellation of a policy; or

(b) transfer an amount to another insurance provider.

BC283D Without the Standard specifying conditions for the existence of an investment-return service, entities issuing the same type of contracts might make different decisions from each other about whether those contracts provide an investment-return service. Entities might also conclude that an investment-return service exists in circumstances in which the Board would conclude otherwise (for example, when an entity provides only custodial services relating to an investment component). On the other hand, specifying conditions creates the risk of an inappropriate outcome in some scenarios.

BC283E Balancing the potential risks described in paragraph BC283D, the Board decided to specify conditions that are necessary to identify, but are not determinative of, the existence of an investment-return service (see paragraph B119B of IFRS 17). An entity is required to apply judgement, considering the facts and circumstances, to determine whether an insurance contract that meets the conditions provides an investment-return service.

BC283F Including an investment-return service in addition to insurance coverage in determining coverage units for insurance contracts without direct participation features adds subjectivity and complexity to that determination. However, the Board noted that entities are required to make similar assessments for insurance contracts with direct participation features and for contracts that provide more than one type of insurance coverage. Furthermore, any additional subjectivity and complexity would be mitigated by the related disclosure required by paragraph 109 of IFRS 17, which provides users of financial statements with useful information about the pattern of service provision.

BC283G Applying IFRS 17 as amended in June 2020, an entity recognises the contractual service margin in profit or loss over the period the entity provides insurance contract services. Therefore, as part of the June 2020 amendments, the Board added 'insurance contract services' to the defined terms of IFRS 17 (see paragraph BC283A(d)) and inserted the defined term into the requirements in IFRS 17 for the recognition of the contractual service margin. Insurance contract services are the only services that an entity considers when determining coverage units and hence the recognition of the contractual service margin in profit or loss.

BC283H The Board decided against inserting that defined term into the requirements in IFRS 17 relating to the recognition of insurance revenue (for example, paragraph 83 of IFRS 17). This is not because other services are considered in determining insurance revenue, but rather because inserting that defined term there might be interpreted as prohibiting an entity from recognising insurance revenue unrelated to the contractual service margin before the coverage period begins. Insurance revenue can be analysed as consisting of the amount of the contractual service margin allocated to the period, the release of the risk adjustment for non-financial risk in the period and the expenses the entity expected to incur in the period. Some insurance contracts include a pre-coverage period, between the date the contract is recognised and the date the entity first provides insurance contract services. In contracts with a pre-coverage period, an entity may be released from non-financial risk, or may incur expenses before the coverage period begins—in other words, before the entity starts providing insurance contract services. The Board did not want to preclude an entity from recognising the related insurance revenue in that pre-coverage period.

BC283I Investment activity costs that an entity incurs are included in the fulfilment cash flows to the extent that the entity incurs those costs to provide investment-return service or investment-related service. The Board acknowledged that an entity may also incur investment activity costs to enhance benefits from insurance coverage for policyholders. Therefore, the Board amended IFRS 17 to specify that an entity is required to include investment activity costs in the fulfilment cash flows to the extent that the entity performs those activities to enhance benefits from insurance coverage for policyholders. The Board also specified when investment activities enhance benefits from insurance coverage. The Board noted that in determining whether investment activity costs enhance benefits from insurance coverage for policyholders, an entity needs to apply judgement in a similar manner to when an entity determines whether an investment-return service exists.

Other approaches considered but rejected

BC283J Some stakeholders said the Board should replace the requirements for the recognition of the contractual service margin in profit or loss with a less specific requirement based on all services provided by the contract. Applying this suggestion, an entity would decide what services are provided by the contract, potentially including services other than insurance coverage or services related to investment returns. The Board concluded that specifying that an entity recognises the contractual service margin by considering all services would result in more subjectivity and complexity than entities already face when determining the pattern of service provision. Feedback the Board received when developing IFRS 17 supports that view. Furthermore, the Board noted that the concerns leading to this suggestion were generally about services related to investment returns. The Board concluded that the amendment described in paragraph BC283A(a) responds to feedback that some insurance contracts without direct participation features have two defining services—insurance coverage and investment-return service. Thus, the amendment balances the need for relevant information about the way in which profit from the contract is earned and the need for comparable information, as well as the costs of applying the coverage units requirement.

A footnote is added to paragraph BC284 after ‘immediately in profit or loss.’. For ease of reading new text is not underlined.

* In June 2020, the Board amended paragraphs 48(a) and 50(b) of IFRS 17 for measuring onerous insurance contracts to clarify that those paragraphs relate to both changes in estimates of future cash flows and changes in the risk adjustment for non-financial risk.

A footnote is added to the end of paragraph BC292(a). For ease of reading new text is not underlined.

* In June 2020, the Board amended the definition of a coverage period to be the period during which the entity provides insurance contract services (see paragraphs BC283A–BC283J).

Paragraph BC303 and the heading above paragraph BC296 are amended. New text is underlined and deleted text is struck through.

Reinsurance contracts (paragraphs 60–<u>70A</u>~~70~~ of IFRS 17)

...

BC303 The following paragraphs discuss aspects of the general principles in IFRS 17 in relation to groups of reinsurance contracts held:

...

(c) cash flows (see paragraphs BC307–<u>BC309F</u>~~BC309~~); and

(d) contractual service margin (see paragraphs BC310–BC315L~~BC315~~).

The heading above paragraph BC304 is amended. New text is underlined and deleted text is stuck through.

Recognition for groups of reinsurance contracts held (paragraphs 62–62A~~paragraph 62~~ of IFRS 17)

...

Paragraph BC305A is added. For ease of reading new text is not underlined.

BC305A In June 2020, the Board amended IFRS 17 for reinsurance contracts held when underlying insurance contracts are onerous at initial recognition (see paragraphs BC315A–BC315L). As a consequence of that amendment, the Board also amended the requirement in paragraph 62 of IFRS 17 (for recognising a group of reinsurance contracts held) to require an entity to recognise a group of reinsurance contracts held when the entity recognises onerous underlying insurance contracts, if it does so earlier than when the entity would otherwise recognise the group of reinsurance contracts held. The Board concluded such an amendment was necessary for income to be recognised on a group of reinsurance contracts held at the same time that losses are recognised on initial recognition of onerous underlying insurance contracts.

A heading is added above paragraph BC307. For ease of reading new text is not underlined.

Expected credit losses

...

Paragraphs BC309A–BC309F and the heading above paragraph BC309A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on the cash flows in the boundary of a reinsurance contract held

BC309A Estimates of future cash flows included in the measurement of a group of reinsurance contracts held include future cash flows that relate to insurance contracts an entity expects to be covered by the reinsurance contracts held in the group. Such cash flows include cash flows related to insurance contracts the entity expects to issue in the future if the entity has a substantive right to receive reinsurance coverage for those insurance contracts. The Board considered a suggestion from entities implementing IFRS 17 to amend IFRS 17 to exclude from the measurement of the group of reinsurance contracts held cash flows that relate to underlying insurance contracts that are yet to be issued.

BC309B The Board noted that the suggestion in paragraph BC309A, which is consistent with feedback during the development of IFRS 17, would achieve an outcome similar to the practice often used applying IFRS 4 whereby an entity measured reinsurance contracts held based on the measurement of existing underlying insurance contracts.

BC309C The Board reaffirmed its view that the accounting for a reinsurance contract held should be consistent with the accounting for insurance contracts issued (see paragraph BC298). Consistent accounting includes measuring the expected value of all the entity's rights and obligations arising from a contract. When an entity holds a reinsurance contract that provides the entity with a substantive right to receive reinsurance coverage for insurance contracts it expects to issue, cash flows arising from that substantive right are included in the measurement of the reinsurance contract held (that is, those cash flows are within the boundary of the reinsurance contract held applying paragraph 34 of IFRS 17). In contrast, if a reinsurance contract held provides an entity with neither substantive rights nor substantive obligations relating to insurance contracts it expects to issue, those insurance contracts would be outside the boundary of the reinsurance contract held. The requirements for expected future cash flows in paragraphs 33–35 of IFRS 17 form a core aspect of the Standard. The Board identified no reason for these requirements to be applied inconsistently—they should be applied both to insurance contracts issued and reinsurance contracts held.

BC309D The Board noted that including all expected future cash flows in the measurement of the contractual service margin at initial recognition of the group of reinsurance contracts held reflects the conditions under which the entity agreed, under specified terms, to receive services from the reinsurer for future insurance contracts it expects to issue.

BC309E Some stakeholders said that the requirements in IFRS 17 create an accounting mismatch when an entity has a substantive right to receive reinsurance coverage relating to insurance contracts it expects to issue. They said such a mismatch arises because expected future cash flows that relate to the reinsurance of those insurance contracts will be included in the measurement of the reinsurance contract held before those underlying insurance contracts are issued. The Board disagreed that differences between the carrying amount of the reinsurance contract held and the underlying insurance contracts are accounting mismatches. The carrying amount of a reinsurance contract held is nil before any cash flows occur or any service is received. Thereafter any differences that arise between the carrying amount of the reinsurance contract held and the underlying insurance contracts are not accounting mismatches. Rather they are differences caused by:

(a) the provision of coverage—for example, because the reinsurer provides coverage for less than 100 per cent of the risks the entity covers;

(b) the timing of cash flows; and

(c) interest accreted on the contractual service margin of the reinsurance contract held from an earlier period than, and at a different discount rate from, the interest accreted on the contractual service margin of the underlying insurance contracts, reflecting the different effects of the time value of money on the contractual service margin and fulfilment cash flows.

BC309F The Board acknowledged that some entities will incur costs implementing IFRS 17 for reinsurance contracts held because doing so would be a change from previous practice. However, the Board concluded that the benefits of appropriately reflecting an entity's rights and obligations as the holder of a reinsurance contract outweigh those costs. Accordingly, the Board rejected the suggestion to amend the contract boundary requirements in IFRS 17 for reinsurance contracts held.

The heading above paragraph BC310 is amended. New text is underlined and deleted text is struck through.

Gains and losses on buying reinsurance (paragraphs 65–65A, 66A–66B and B119D–B119F~~paragraph 65~~ of IFRS 17)

...

Paragraphs BC315A–BC315L and the headings above paragraphs BC315A and BC315J are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—recovery of losses on underlying insurance contracts (paragraphs 66A–66B and B119D–B119F of IFRS 17)

BC315A In June 2020, the Board amended IFRS 17 to require an entity to adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous contracts to a group. An entity determines the income on the reinsurance contract held (ie the amount of loss recovered) by multiplying:

(a) the loss recognised on the underlying insurance contracts; and

(b) the percentage of claims on underlying insurance contracts the entity expects to recover from the reinsurance contracts held.

BC315B As a practical assumption, the amendment treats:

(a) a loss recognised on an underlying insurance contract as the early recognition of a portion of expected claims; and

(b) a loss recovery recognised on the reinsurance contract held as the early recognition of a portion of expected claim recoveries.

BC315C For the amendment described in paragraph BC315A to apply, an entity must enter into the reinsurance contract held before or at the same time as the entity recognises the onerous underlying insurance contracts. The Board concluded it would not be appropriate for an entity to recognise a recovery of loss when the entity does not hold a reinsurance contract.

BC315D As a consequence of the amendment described in paragraph BC315A, the Board also:

(a) amended IFRS 17 to require an entity that has entered into a reinsurance contract held to recognise the related group of reinsurance contracts held when the entity recognises onerous underlying insurance contracts, if that is earlier than the date the entity would otherwise recognise the group of reinsurance contracts held (see paragraphs 62–62A of IFRS 17).

(b) added requirements to IFRS 17 relating to recovery of losses from a reinsurance contract held:

(i) in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3 (see paragraphs B95B–B95D of IFRS 17); and

(ii) in applying IFRS 17 for the first time (see paragraphs C16A–C16C and C20A–C20B of IFRS 17).

BC315E The amendment responds to concerns that, applying IFRS 17 before the amendment, an entity would have recognised a loss on initial recognition of an onerous group of insurance contracts (or on addition of onerous contracts to a group), without recognising corresponding income on a reinsurance contract held that covers that onerous group of insurance contracts. Some stakeholders said this is an accounting mismatch and suggested the Board amend IFRS 17 so that income is recognised on the reinsurance contract held at the same time losses are recognised on initial recognition of onerous underlying insurance contracts. That income would reflect the entity's right to recover those losses.

BC315F The Board was persuaded that such an amendment was justified because:

(a) paragraph 66(c) of IFRS 17 provides a similar exception from the general measurement requirements for changes in the measurement of a group of reinsurance contracts held that arise from changes in the measurement of underlying insurance contracts (see paragraph BC315).

(b) the amendment provides users of financial statements with useful information about expected loss recoveries on reinsurance contracts held that complements the information about expected losses on underlying insurance contracts. The information provided about onerous underlying contracts is unchanged. Losses and loss recoveries are presented in separate line items in the statement(s) of financial performance and are disclosed separately in the notes to the financial statements.

BC315G The Board acknowledged, however, that the amendment adds complexity to IFRS 17 because it requires an entity to track a loss-recovery component. On balance, the Board concluded that the added complexity is justified given the strong stakeholder support for the information that will result from entities applying the amendment. The Board also noted that, applying the amendment, the loss-recovery component of a reinsurance contract held is treated similarly to the loss component of insurance contracts issued. That similarity will help entities to understand how to apply the amendment, reducing the complexity caused.

BC315H An entity might group together onerous insurance contracts covered by a reinsurance contract held and onerous insurance contracts not covered by a reinsurance contract held. To apply the amendment described in paragraph BC315A in that circumstance, an entity needs to determine amounts at a level that is lower than the level of the group of insurance contracts. IFRS 17 does not require an entity to track insurance contracts at a level lower than the level of the group of insurance contracts. Accordingly, the Board specified that, in that circumstance, an entity applies a systematic and rational method of allocation to determine the portion of losses on a group of insurance contracts that relates to underlying insurance contracts covered by a reinsurance contract held. Requiring a systematic and rational method of allocation is consistent with other requirements in IFRS 17.

BC315I The Board noted that specifying that an entity use a systematic and rational method of allocation in a specified circumstance, such as the one described in paragraph BC315H, does not prohibit an entity from using a systematic and rational method of allocation as part of other estimation processes required in applying IFRS 17 if doing so meets the objective set by IFRS 17 for those estimation processes. The Board's decision to specify that an entity use a systematic and rational method of allocation in the specific circumstance described in paragraph BC315H was driven by the need to avoid the potential misinterpretation described in that paragraph. The need for such specification in this case does not imply that an entity cannot use a systematic and rational method of allocation in circumstances when it is not specified in the requirements of IFRS 17.

Other approaches considered but rejected

BC315J In the 2019 Exposure Draft, the Board had proposed limiting the amendment to a defined population of reinsurance contracts held—those that provide proportionate coverage. For such contracts, an entity can easily identify the portion of losses on underlying insurance contracts that the entity has a right to recover. For other reinsurance contracts held, the Board was concerned that entities would have difficulty identifying that portion and thus may need to make arbitrary allocations. However, in the light of feedback on the Exposure Draft, the Board concluded that it should not impose that limitation. Respondents to the Exposure Draft reported that if the Board had limited the amendment in that way, the amendment would apply to few reinsurance contracts held in practice. Further, respondents said that an entity could identify the portion of losses the entity has a right to recover for any reinsurance contract held in a non-arbitrary way based on the expected claim recovery cash flows included in the measurement of the reinsurance contract held. For example, consider a reinsurance contract held that provides cover over an aggregate amount of claims on 100 underlying insurance contracts—some of which are in a profitable group and the others in an onerous group. The entity could determine the portion of losses on the onerous contracts that the entity has a right to recover by comparing:

(a) total expected claim recoveries from the reinsurance contract held; and

(b) total expected claims for all underlying insurance contracts.

BC315K The Board considered a view that the amendment described in paragraph BC315A should apply only when a reinsurance contract held is in a net gain position—in other words, when an entity expects to receive from the reinsurer claim recoveries that are higher than the premium the entity pays to the reinsurer (see paragraph BC310). The Board disagreed with this view because an entity has a right to recover claims from the reinsurance contract held regardless of whether claim recoveries are expected to be higher or lower than the premiums the entity pays to the reinsurer.

BC315L The Board also considered an alternative suggestion to require a loss on a group of insurance contracts to be treated as a negative contractual service margin to the extent that the contracts in the group are covered by a reinsurance contract held on a proportionate basis. The Board disagreed with this suggestion because it is inconsistent with the Board's objective to recognise losses on insurance contracts when expected.

The heading above paragraph BC323 is amended. New text is underlined and deleted text is struck through.

Transfers of insurance contracts and business combinations (paragraphs 39 and B93–B95F~~B95~~ of IFRS 17)

...

A footnote is added to the end of the first sentence of paragraph BC324 and to the end of paragraph BC325. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to replace references to 'a business combination' in paragraphs 39 and B93–B95 of IFRS 17 with 'a business combination within the scope of IFRS 3' (see paragraph BC327A).

Paragraph BC327A and the heading above paragraph BC327A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—business combinations outside the scope of IFRS 3

BC327A In June 2020, the Board amended IFRS 17 to specify that an entity is required to apply paragraph 38 of IFRS 17 in accordance with paragraphs B93–B95F of IFRS 17 to insurance contracts acquired in a business combination within the scope of IFRS 3. An entity is not required to apply the measurement requirements in those paragraphs to insurance contracts acquired in a business combination outside the scope of IFRS 3 (that is, a business combination under common control). The Board did not intend to set requirements for business combinations outside the scope of IFRS 3. Such business combinations are the subject of a separate Board project.

Paragraphs BC327B–BC327G and the headings above paragraphs BC327B and BC327E are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on insurance contracts acquired in a transfer of insurance contracts or in a business combination within the scope of IFRS 3

Classification as an insurance contract

BC327B Applying IFRS 4, an entity acquiring a contract in a business combination determined whether that contract met the definition of an insurance contract based on facts and circumstances at the date the contract was issued, instead of the date of the business combination transaction (the acquisition date). This requirement was an exception to the general principles in IFRS 3. In contrast, entities applying IFRS 17 assess the classification of contracts using the general principles in IFRS 3.

BC327C When considering feedback from entities implementing IFRS 17, the Board considered but rejected a suggestion to reinstate that exception in IFRS 3 to continue to apply when an entity applies IFRS 17 instead of IFRS 4.

BC327D By removing the exception described in paragraph BC327B, IFRS 17 makes the accounting for the acquisition of insurance contracts consistent with the accounting for acquisitions of other contracts acquired in a business combination. Differences in accounting between an acquirer's financial statements and an acquiree's financial statements can arise because of the requirements in IFRS 3. Such differences reflect changes in facts and circumstances at the acquisition date compared to facts and circumstances at the date the acquiree recognised the contracts. Such differences depict the economics of the acquisition, are not unique to insurance contracts and are not unusual when applying IFRS Standards.

Contracts acquired in their settlement period

BC327E The Board also considered but rejected a suggestion to create an exception to the general classification and measurement requirements in IFRS 17 for contracts acquired in their settlement period. The Board concluded that an entity that acquires a contract should, at the acquisition date, apply the requirements for identifying whether a contract has an insured event and meets the definition of an insurance contract—just as an entity that issues a contract applies the requirements at the issue date.

BC327F An acquirer identifies assets and liabilities acquired based on the contractual terms, rights and obligations and economic conditions at the acquisition date, including the consideration to which the acquirer agreed at that date. The Board noted that for a contract to meet the definition of an insurance contract from the perspective of the acquirer at the acquisition date, the acquirer must compensate the policyholder for the adverse effect of an uncertain future event (that is, the acquirer must provide insurance coverage). If the acquirer provides insurance coverage, the contract is an insurance contract accounted for applying the requirements of IFRS 17. Contracts acquired in their settlement period with claim amounts that are uncertain in timing or amount could meet the definition of an insurance contract at the acquisition date.

BC327G The Board observed that some contracts acquired in their settlement period will not meet the definition of an insurance contract at the acquisition date. In some circumstances, all claim amounts are known at the acquisition date but remain unpaid. In such circumstances, the acquirer is not providing insurance coverage, the contract does not meet the definition of an insurance contract and the acquirer would account for the contract as a financial liability applying IFRS 3 and subsequently IFRS 9. The Board also observed that for contracts that meet the definition of an insurance contract at the acquisition date, an entity would need to consider whether any amounts payable to the policyholder meet the definition of an investment component (and are therefore excluded from insurance revenue).

Paragraphs BC327H–BC327I and the heading above paragraph BC327H are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—assets for insurance acquisition cash flows in a transfer of insurance contracts and in a business combination within the scope of IFRS 3 (paragraphs B95E–B95F of IFRS 17)

BC327H In June 2020, the Board amended IFRS 17 to require an entity that acquires insurance contracts in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 to recognise an asset measured at fair value at the acquisition date for the rights to obtain:

(a) future insurance contracts that are renewals of insurance contracts recognised at that date; and

(b) future insurance contracts, other than those in (a), after the acquisition date without paying again insurance acquisition cash flows the acquiree has already paid.

BC327I Requiring an entity to recognise such assets at the acquisition date is consistent with the requirements in IFRS 17 for recognising an asset for insurance acquisition cash flows (paragraph 28B of IFRS 17). As a result, the contractual service margin for a group of insurance contracts recognised after the acquisition date will appropriately reflect the rights relating to that future group which the entity paid for as part of the consideration for the acquisition. The Board decided that to achieve consistency between the requirements at the acquisition date and after the acquisition date, an entity should determine the rights described in paragraph BC327H(b) by reference to insurance acquisition cash flows the acquiree has already paid. Otherwise, broader rights to obtain future contracts from intangible assets such as customer relationships, unconnected to any previously paid insurance acquisition cash flows, could be included in the assets for insurance acquisition cash flows and therefore subsequently included in the contractual service margin of future groups of insurance contracts. In contrast, the Board decided that such reference is unnecessary to determine the rights described in paragraph BC327H(a)—these rights relate only to renewals, so they are sufficiently constrained.

A footnote is added to the end of paragraphs BC328 and BC329. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to present separately portfolios of insurance contracts that are assets and portfolios of insurance contracts that are liabilities (see paragraphs BC330A–BC330B).

Paragraphs BC330A–BC330D and the headings above paragraphs BC330A and BC330C are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—presentation in the statement of financial position

BC330A In June 2020, the Board amended IFRS 17 to require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and portfolios of insurance contracts issued that are liabilities. Before the amendment, IFRS 17 required an entity to present separately groups of insurance contracts issued that are assets and groups of insurance contracts issued that are liabilities (see paragraph BC328). The amendment also applies to portfolios of reinsurance contracts held.

BC330B The presentation requirement prior to the amendment was consistent with the requirements for recognising and measuring groups of insurance contracts. However, entities implementing IFRS 17 told the Board that they would need to allocate some fulfilment cash flows to groups only for the purpose of presentation (for example, fulfilment cash flows for incurred claims). These entities said that an amendment to require an entity to present insurance contracts at a portfolio level would provide significant operational relief. Feedback on the 2019 Exposure Draft, including from users of financial statements, suggested that the amendment would not significantly diminish the usefulness of information compared to that which would have been provided without the amendment.

Other approaches considered but rejected

BC330C Some stakeholders suggested the Board require an entity to present one insurance contract asset or liability for all insurance contracts issued by the entity (that is, present insurance contracts at an entity level). The Board rejected that suggestion because such presentation would risk an unacceptable loss of useful information for users of financial statements.

BC330D Some stakeholders suggested a different, more disaggregated approach to presentation in the statement of financial position. Applying IFRS 4, some entities presented separately in the statement of financial position different amounts arising from an insurance contract, as if those different amounts were separate assets or liabilities. For example, some entities presented an insurance contract liability and line items labelled as premiums receivable, claims payable and deferred acquisition costs. Entities differed in what line items they presented and in the definitions of those line items. For example, some entities presented amounts that were not yet billed as premiums receivable whereas other entities presented only billed amounts that remain outstanding. Some stakeholders said they would like to continue further disaggregation because they view such disaggregated line items as providing meaningful information to users of financial statements. The Board disagreed with suggestions to permit an entity to continue such disaggregation because it could result in the presentation of amounts that are not separable assets or liabilities. For example, premiums receivable for future insurance coverage is not a gross asset separable from the related liability for the future insurance coverage.

A footnote is added to the end of paragraph BC332. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to recognise an amount of the contractual service margin in profit or loss in each period to reflect the insurance contract services provided in that period (see paragraph BC283H).

Paragraphs BC342A–BC342C and the heading above paragraph BC342A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—insurance finance income or expenses

BC342A In June 2020, the Board amended paragraph B128 of IFRS 17 to clarify that changes in the measurement of a group of insurance contracts resulting from changes in underlying items are changes arising from the effect of the time value of money and assumptions that relate to financial risk for the purposes of IFRS 17. Otherwise, changes in underlying items could adjust the contractual service margin of insurance contracts without direct participation features. The Board considered a view that the effects of changes in cash flows resulting from the participation in underlying items that are not solely financial in nature (for example, insurance contracts) should be presented within the insurance service result, instead of within insurance finance income or expenses. The Board disagreed with this view because the requirement to reflect changes from participation in underlying items in insurance finance income or expenses appropriately depicts the nature of the participation—as an investment. The Board concluded that policyholder participation in underlying items, including underlying items that are not solely financial in nature such as insurance contracts, should have no effect on the depiction of the entity's insurance service result. Further, splitting the effect of changes in cash flows resulting from the participation in underlying items that are not solely financial in nature into an amount that should be included in the insurance service result and an amount that should be included in insurance finance income or expenses would be complex and could disrupt implementation for some entities.

BC342B Some users of financial statements were concerned that the requirements in paragraphs 88–89 of IFRS 17 for disaggregating insurance finance income or expenses allow an accounting policy choice. They would rather IFRS 17 required one consistent presentation. The Board acknowledged that requiring entities to report insurance finance income or expenses entirely in profit or loss instead of permitting the choice in paragraphs 88–89 of IFRS 17 would improve comparability between entities. However, consistent with the Board's previous conclusion explained in paragraph BC340, the Board concluded that the presentation of insurance finance income or expenses as a systematic allocation in profit or loss may provide more useful information than total insurance finance income or expenses in profit or loss for some contracts and less useful information for other contracts.

BC342C Some stakeholders said that accounting mismatches might arise between financial assets the entity holds and insurance contract liabilities if an entity were to apply the option in paragraph 88 of IFRS 17 to recognise some insurance finance income or expenses in other comprehensive income. That feedback led to no amendment because the Board noted that an entity can avoid such mismatches by not applying the option. The Board received similar feedback about accounting mismatches before IFRS 17 was issued (see paragraphs BC53–BC56).

...

Disclosure (paragraphs 93–132 of IFRS 17)

...

A footnote is added to the end of paragraph BC348(b)(iii). For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to correct the terminology used in paragraphs 128–129 of IFRS 17 by replacing 'risk exposures' with 'risk variables'.

Paragraph BC349 is amended. New text is underlined and deleted text is struck through.

BC349 In addition, when developing IFRS 17 the Board identified key items it views as critical to understanding the financial statements of entities issuing insurance contracts, in the light of the requirement to update the measurement of insurance contracts at each reporting date. The Board therefore decided that entities should disclose the following items:

...

(f) to the extent not already included in meeting the requirements in paragraph 117(a) of IFRS 17, information about the entity's approach to determine (see paragraph 117(c) of IFRS 17):

...

(iv) investment components (see paragraphs BC33–<u>BC34A</u>~~BC34~~).

...

A footnote is added to the end of paragraph BC363. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require an entity to disclose when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss quantitatively, in appropriate time bands (see paragraph BC366B).

A footnote is added to paragraph BC365 after 'criteria in paragraph B116 are met.'. For ease of reading new text is not underlined.

* In June 2020, the Board extended the risk mitigation option to be applicable when an entity uses reinsurance contracts held or non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk (see paragraphs BC256A–BC256F).

Paragraphs BC366A–BC366C and the headings above paragraphs BC366A, BC366B and BC366C are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—disclosure of amounts recognised

Insurance acquisition cash flows (paragraphs 105A–105B and 109A of IFRS 17)

BC366A In June 2020, the Board amended IFRS 17 to require an entity to allocate insurance acquisition cash flows to future groups of insurance contracts that are expected to include contracts that are renewals of other contracts (see paragraphs BC184A–BC184K). That amendment extends the period for which an asset for insurance acquisition cash flows exists, and therefore increases the total amount of such assets at the end of each reporting period. In the light of the amendment, the Board amended the disclosure requirements in IFRS 17 to require an entity to disclose a reconciliation from the opening to the closing balance of any asset for insurance acquisition cash flows recognised applying paragraph 28B of IFRS 17. An entity is also required to provide quantitative disclosure, in appropriate time bands, of the expected inclusion of insurance acquisition cash flows recognised as an asset in the measurement of the group of insurance contracts to which they are allocated (see paragraph 105A of IFRS 17).

Recognition of the contractual service margin (paragraphs 109 and 117 of IFRS 17)

BC366B In June 2020, the Board amended IFRS 17 to require an entity to determine the quantity of benefits provided by an insurance contract considering either investment-return service or investment-related service in addition to insurance coverage (see paragraphs BC283A–BC283J). That amendment adds complexity and judgement to the determination of the quantity of benefits provided by an insurance contract for the purpose of recognising the contractual service margin in profit or loss. Accordingly, the Board decided to require an entity to disclose:

(a) quantitative information, in appropriate time bands, about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of the reporting period (instead of permitting an entity to provide only qualitative information); and

(b) the approach used to assess the relative weighting of the benefits from insurance coverage and either investment-return service or investment-related service.

Other additional disclosures

BC366C In June 2020, the Board also amended the disclosure requirements in IFRS 17 to clarify that an entity:

(a) is not required to disclose refunds of premiums separately from investment components in the reconciliation required by paragraph 100 of IFRS 17; and

(b) cannot present separately amounts relating to the risk adjustment for non-financial risk that are experience adjustments applying paragraph 104(b)(iii) of IFRS 17 if the entity already discloses those amounts applying paragraph 104(b)(ii) of IFRS 17 (to prevent double counting those amounts).

...

Applying the Standard for the first time (Appendix C of IFRS 17)

...

A footnote is added to the end of paragraph BC372. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to permit an entity that has the information to apply a fully retrospective approach to instead apply the fair value approach for transition for a group of insurance contracts with direct participation features when specified conditions relating to risk mitigation are met (see paragraph BC393A).

Paragraph BC373 is amended. New text is underlined and deleted text is struck through.

BC373 The Board developed two alternative transition methods that may be used when retrospective application is impracticable (see paragraphs BC379–<u>BC384B</u>~~BC384~~ for the alternative transition method referred to as the 'modified retrospective approach' and paragraphs BC385–BC386 for the alternative transition method referred to as the 'fair value approach'). The Board decided to permit an entity to choose between the modified retrospective approach and the fair value approach if the entity cannot apply IFRS 17 retrospectively. The Board acknowledged a choice of transition methods results in a lack of comparability of transition amounts but concluded it was appropriate for the following reasons. The objective of the modified retrospective approach is to achieve the closest outcome to a retrospective application of the Standard. The Board noted that the similarity between a modified retrospective approach and a full retrospective application would depend on the amount of reasonable and supportable information available to an entity. If an entity has relatively little reasonable and supportable information available and, therefore, would need to use many of the permitted modifications, the cost of the modified retrospective approach might exceed the benefits.

Paragraphs BC373A–BC373B and the heading above paragraph BC373A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on transition approaches

BC373A When the Board considered feedback from entities implementing IFRS 17, the Board also considered feedback from users of financial statements that the optionality in the transition requirements reduces comparability between entities—in particular, the option to apply the modified retrospective approach or the fair value approach. The Board concluded that the choices provided are appropriate, for the reasons set out in paragraph BC373.

BC373B In the Board's view, providing practical one-off reliefs to help entities with their transition to IFRS 17 is worth a limited loss of comparability for a limited period. The Board therefore decided not to reduce the options available in the transition requirements, because doing so would be likely to cause undue disruption to implementation already under way. The Board noted the reduced comparability that the transition options cause has no effect on the current value measurement of the fulfilment cash flows. The Board also noted that entities are required to provide disclosures on the transition approaches used. Such disclosures assist users of financial statements in making comparisons between entities, and in understanding the transition reliefs used and how those reliefs affect reported information.

The heading above paragraph BC374 is amended. New text is underlined and deleted text is struck through.

Retrospective application (paragraphs C3–C5B~~C5~~ of IFRS 17)

...

A footnote is added to the end of paragraph BC374(a). For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to clarify that an entity recognises and measures any assets for insurance acquisition cash flows as if IFRS 17 had always applied, except that an entity is not required to assess the recoverability of any such assets before the transition date (see paragraphs BC184A–BC184K).

Paragraph BC380 and the heading above paragraph BC379 are amended. New text is underlined and deleted text is struck through.

Modified retrospective approach (paragraphs C6–C19A~~C19~~ of IFRS 17)

...

BC380 The Board decided to specify some modifications that could be applied if retrospective application as defined in IAS 8 is impracticable, to address the issues noted in paragraph BC378. Those modifications are permitted only to the extent necessary because an entity does not have reasonable and supportable information to apply the retrospective approach. Those modifications:

(a) simplify the information necessary for an entity to make assessments about insurance contracts or groups of insurance contracts that would be made at the date of inception or initial recognition (see paragraphs BC381–BC382B~~BC382~~).

(b) simplify how an entity determines amounts related to the contractual service margin (see paragraphs BC383–BC383B~~paragraph BC383~~).

(c) simplify how an entity determines the information necessary to determine insurance revenue (see paragraphs BC383–BC383B ~~paragraph BC383~~).

(d) permit an entity to determine insurance finance income and expenses included in profit or loss using the discount rates at the transition date if an entity chooses to disaggregate insurance finance income or expenses into an amount included in profit or loss and an amount included in other comprehensive income. In addition, the modification provides an expedient for determining the amount of the accumulated balance in equity relating to insurance finance income and expenses (see paragraphs BC384–BC384B~~paragraph BC384~~).

Paragraphs BC380A–BC380D and the heading above paragraph BC380A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on using reasonable and supportable information and making estimates

BC380A Some entities implementing IFRS 17 suggested that to provide operational relief, the Board should remove from the modified retrospective approach the requirements to:

(a) maximise the use of reasonable and supportable information available without undue cost or effort that would have been used to apply a fully retrospective approach.

(b) use reasonable and supportable information to apply the modifications.

BC380B The Board considered but rejected the suggestions in paragraph BC380A because:

(a) with regards to the suggestion in paragraph BC380A(a), permitting an entity to ignore reasonable and supportable information available without undue cost or effort that the entity would have used to apply a fully retrospective approach would be contrary to the objective of the modified retrospective approach. The objective is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. The suggestion would also reduce comparability between contracts issued before and after the transition date.

(b) with regards to the suggestion in paragraph BC380A(b), permitting an entity to apply a modification when it does not have reasonable and supportable information to do so would undermine the credibility of information that results from applying IFRS 17. In the Board's view, applying a fair value approach would result in more useful information for users of financial statements than would applying a modified retrospective approach without the reasonable and supportable information necessary to do so.

BC380C Some entities implementing IFRS 17 suggested that the inclusion of specified modifications implies that an entity cannot make estimates in applying IFRS 17 retrospectively. The Board noted that paragraph 51 of IAS 8 acknowledges the need for estimates in retrospective application. This paragraph applies to entities applying IFRS 17 for the first time just as it does to entities applying other IFRS Standards for the first time. The Board expects that entities will often need to make estimates when applying a specified modification in the modified retrospective approach.

BC380D Some stakeholders suggested that the Board could reduce the burden of applying the transition requirements by specifying methods that could be used—for example, methods using information from embedded value reporting or information prepared for regulatory reporting. The Board rejected this suggestion. The Board concluded that specifying methods would conflict with the approach in IFRS 17 of establishing measurement objectives that can be satisfied using various methods. The appropriateness of a method depends on facts and circumstances. Furthermore, if the Board were to specify methods, it could risk incorrectly implying that entities cannot use other methods that would satisfy the requirements of IFRS 17.

A footnote is added to the end of paragraph BC382. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to permit an entity to assess whether a contract meets the definition of an investment contract with discretionary participation features either at the date of initial recognition of the contract or at the transition date. This assessment is consistent with other assessments described in paragraph BC382.

Paragraphs BC382A–BC382B and the heading above paragraph BC382A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—classification of contracts acquired in their settlement period (paragraphs C9A and C22A of IFRS 17)

BC382A In June 2020, the Board considered but rejected a suggestion to create an exception to the general classification and measurement requirements in IFRS 17 for contracts acquired in their settlement period (see paragraphs BC327E–BC327G). However, the Board amended IFRS 17 to provide reliefs on transition in response to feedback that to apply IFRS 17 retrospectively to contracts acquired before the transition date (that is, to classify and measure those contracts as a liability for remaining coverage) would often be impracticable. Those reliefs permit an entity applying the modified retrospective approach or the fair value approach to classify as a liability for incurred claims a liability for the settlement of claims when:

(a) that liability relates to an insurance contract that was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3; and

(b) the acquisition date was before the transition date.

BC382B An entity applying the modified retrospective approach applies the relief in paragraph BC382A only to the extent permitted by paragraph C8 of IFRS 17.

Paragraphs BC383A–BC383B and the heading above paragraph BC383A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—modifications considered but rejected

BC383A The Board considered a suggestion from entities implementing IFRS 17 to permit an entity to develop the modifications that it thinks would achieve the closest possible outcome to retrospective application. The Board disagreed with this suggestion, because if such modifications were permitted:

(a) an entity could use modifications that would result in an outcome that the Board would consider insufficiently close to retrospective application; and

(b) each entity could use different modifications, reducing comparability and increasing complexity for users of financial statements.

BC383B Paragraph C17 of IFRS 17 provides a modification for determining the contractual service margin at the transition date for insurance contracts with direct participation features. An entity applying that modification determines the carrying amount of the contractual service margin at the transition date in a more direct way than the entity would by applying the modifications in paragraphs C11–C16 of IFRS 17 for determining the contractual service margin at the transition date for insurance contracts without direct participation features. An entity can determine the contractual service margin in this more direct way because of the extent to which the contractual service margin is remeasured for insurance contracts with direct participation features. Some stakeholders suggested that an entity should be able to apply the modifications in paragraphs C11–C16 of IFRS 17 to insurance contracts with direct participation features. The Board disagreed with this suggestion because applying those modifications to such contracts would be unlikely to achieve an outcome as close to retrospective application as would applying paragraph C17 of IFRS 17.

Paragraphs BC384A–BC384B and the heading above paragraph BC384A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback relating to the accumulated balance recognised in other comprehensive income

BC384A Some entities implementing IFRS 17 said they would prefer alternative modifications to the modifications set out in paragraphs C18–C19 of IFRS 17 for determining the amount of insurance finance income or expenses accumulated in other comprehensive income at the transition date. These entities suggested that for all insurance contracts (insurance contracts with and without direct participation features), an entity should be required to:

(a) deem as nil the accumulated amount in other comprehensive income for financial assets accounted for applying IFRS 9 that are related to insurance contracts; or

(b) deem the accumulated amount of insurance finance income or expenses in other comprehensive income as equal to the accumulated amount in other comprehensive income arising on financial assets accounted for applying IFRS 9 that are related to insurance contracts.

BC384B The Board considered but rejected the suggestions in paragraph BC384A because:

(a) both suggested amendments involve significant subjectivity in determining which assets relate to insurance contracts.

(b) both suggested amendments could result in an outcome that the Board would consider to be insufficiently close to retrospective application of IFRS 17 requirements.

(c) the suggested amendment to IFRS 9 described in BC384A(a) would reduce comparability of entities first applying IFRS 9 and IFRS 17 at the same time choosing this approach with other entities that have already applied IFRS 9. The Board noted that the amount accumulated in other comprehensive income relating to financial assets measured at fair value through other comprehensive income includes amounts that relate to expected credit losses. Hence, setting the cumulative amount to nil on transition would affect the accounting for expected credit losses in future periods.

(d) the suggested amendment to IFRS 17 described in BC384A(b) would mean that insurance finance income or expenses recognised in profit or loss in future periods would reflect the historical discount rate for assets held at the transition date that an entity determines are related to insurance contracts. The Board concluded that using that historical discount rate could result in a significant loss of useful information, because of the subjectivity in determining which assets relate to insurance contracts and because comparability for insurance contracts would be reduced between entities that hold different assets.

The heading above paragraph BC385 is amended. New text is underlined and deleted text is struck through.

Fair value approach (paragraphs C20–C24B~~C24~~ of IFRS 17)

...

A footnote is added to the end of paragraph BC386(a). For ease of reading new text is not underlined.

* An entity applying the fair value approach is permitted to classify as a liability for incurred claims a liability for the settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 (see paragraph BC382A).

Paragraph BC389A is added. For ease of reading new text is not underlined.

Comparative information (paragraphs C25–C28 of IFRS 17)

...

BC389A In June 2020, the Board deferred the effective date of IFRS 17 from 1 January 2021 to 1 January 2023 (see paragraphs BC404A–BC404F). The Board considered but rejected a suggestion to provide relief from the restatement of comparative information, because the Board concluded that restatement of comparative information is particularly important given the diversity in previous accounting practices and the extent of change introduced by IFRS 17.

Paragraph BC392A and the heading above paragraph BC392A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on applying the level of aggregation requirements on transition

BC392A In the modified retrospective approach, an entity is permitted to group together contracts that were issued more than one year apart, to the extent that the entity does not have reasonable and supportable information to separately group those contracts—in other words, the entity is permitted not to apply the annual cohort requirement in paragraph 22 of IFRS 17. In the fair value approach, an entity is permitted a choice to group together contracts that were issued more than one year apart. Some stakeholders suggested the Board provide further relief by permitting an entity a choice to group together contracts issued more than one year apart in a fully retrospective approach and in the modified retrospective approach, regardless of whether the entity has reasonable and supportable information to apply the annual cohort requirement. The Board disagreed with the suggestion for such transition relief because permitting an entity not to apply the annual cohort requirement:

(a) when the entity has the information available to apply a fully retrospective approach would have the effect that the entity would not be applying a fully retrospective approach; and

(b) when the entity has reasonable and supportable information to apply that requirement in the modified retrospective approach would be inconsistent with the objective of the modified retrospective approach.

A footnote is added to the end of the first sentence of paragraph BC393 and to the end of the heading above paragraph BC393. For ease of reading new text is not underlined.

* In June 2020, the Board extended the risk mitigation option to be applicable when an entity uses reinsurance contracts held and non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk (see paragraphs BC256A–BC256F).

A footnote is added to the end of paragraph BC393. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17 to require prospective application of the risk mitigation option from the transition date instead of the date of initial application (see paragraph BC393A).

Paragraphs BC393A–BC393E and the heading above paragraph BC393A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—the prohibition from applying the risk mitigation option retrospectively (paragraphs C3(b) and C5A of IFRS 17)

BC393A In June 2020, the Board amended the transition requirements relating to the risk mitigation option to:

(a) permit an entity to apply the risk mitigation option in paragraph B115 of IFRS 17 prospectively from the transition date instead of the date of initial application; and

(b) permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts to instead apply the fair value approach if, and only if:

(i) the entity chooses to apply the risk mitigation option to the group prospectively from the transition date; and

(ii) before the transition date, the entity had been using derivatives, reinsurance contracts held or non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk arising from the group of insurance contracts.

BC393B The amendments described in paragraph BC393A respond to concerns that prohibiting retrospective application of the risk mitigation option reduces comparability between risk mitigation activities that took place before the date of initial application and those that take place after that date. Most stakeholders agreed with the Board that the amendments described in paragraph BC393A resolve these concerns.

BC393C Nonetheless, some stakeholders suggested the Board amend IFRS 17 to permit retrospective application of the risk mitigation option, and so the Board considered whether it should make such an amendment. The Board observed that if an entity were permitted to apply the option retrospectively, it could decide the extent to which it reflects risk mitigation activities in the contractual service margin based on known accounting outcomes. The entity could apply the option in a way that differs from how the entity would have applied the option in previous periods without hindsight, had it always applied IFRS 17. Permitting retrospective application of the option would therefore affect the credibility of information presented on transition to IFRS 17 and in subsequent periods in which those groups of insurance contracts exist. The Board therefore reaffirmed its decision to prohibit retrospective application of the option because of the risk of the use of hindsight.

BC393D Some stakeholders suggested the Board amend IFRS 17 to permit an entity to apply the risk mitigation option retrospectively if, and only if, the entity applies the option for all risk mitigation relationships that would meet the conditions in paragraphs B115–B116 of IFRS 17 (an 'all or nothing' approach). These stakeholders thought such an amendment would avoid the risk of hindsight. The Board considered what an 'all or nothing' approach would be and whether the Board should add such an approach to the IFRS 17 transition requirements. The Board noted that an 'all or nothing' approach would require:

(a) 'all' to mean all insurance contracts issued by the entity that exist at the transition date (that is, all would be at a reporting entity level);

(b) 'all' to mean all past and current risk mitigation relationships that meet the criteria in paragraph B116 of IFRS 17 at any point between initial recognition of a group of insurance contracts and the transition date;

(c) an entity to hold historical documentation of each of those risk mitigation relationships described in (b), and that documentation to have existed at the beginning of the first reporting period that the entity would have met the criteria in paragraph B116 of IFRS 17; and

(d) an entity to retrospectively determine the effect of applying the risk mitigation option for all relationships described in (b) at each reporting date between initial recognition of a group of insurance contracts and the transition date.

BC393E The Board noted that any approach other than the one described in paragraph BC393D would involve the risk of hindsight. The approach described in paragraph BC393D would not involve the risk of hindsight. However, the Board concluded that applying that approach would be impracticable in almost all cases. Meeting the conditions necessary for an 'all or nothing' approach would be a high hurdle that entities would overcome in only a narrow set of circumstances. Accordingly, the Board decided not to add those requirements to IFRS 17.

Paragraphs BC398A–BC398F and the headings above paragraphs BC398A and BC398C are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—feedback on redesignation of financial assets

BC398A The Board considered but rejected a suggestion from entities implementing IFRS 17 that on initial application of IFRS 17 an entity that:

(a) first applied IFRS 9 before IFRS 17 be permitted to apply the transition relief in paragraph C29 of IFRS 17 to redesignate financial assets that were derecognised during the IFRS 17 comparative period; and

(b) first applied IFRS 9 at the same time it first applied IFRS 17 be permitted to apply IFRS 9 to financial assets that were derecognised during the IFRS 17 comparative period.

BC398B The Board extensively discussed and consulted on the requirements in IFRS 9 relating to transition when IFRS 9 was being developed. Such requirements include prohibiting an entity from applying IFRS 9 to derecognised items, and permitting but not requiring an entity to restate comparative periods in some circumstances.

Amendments to IFRS 17—transition requirements when an entity chooses to apply IFRS 9 to contracts specified in paragraph 8A of IFRS 17 (paragraphs 7.2.36–7.2.42 of IFRS 9)

BC398C Some entities will first apply IFRS 17 after they first apply IFRS 9. In June 2020, the Board amended IFRS 9 to provide transition requirements for such entities that apply paragraph 8A of IFRS 17 and choose to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (see paragraphs BC94D–BC94F). The amendment enables those entities to use the transition requirements in Section 7.2 of IFRS 9 (as issued in 2014) when first applying IFRS 9 to those contracts.

BC398D The Board also considered transition requirements related to the fair value option in IFRS 9. An entity's decision to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract could change, either partially or in full, the classification and measurement of such contracts. Such changes may create or eliminate accounting mismatches between the contracts and financial liabilities an entity might consider to be related to the contracts. Therefore, the Board amended the IFRS 9 transition requirements to permit an entity to designate, or require an entity to revoke its previous designation of, a financial liability at the date of initial application of these amendments to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists, as a result of the application of these amendments.

BC398E Consistent with the transition requirements in IFRS 9 and IFRS 17, the Board decided to specify that when an entity applies the amendment described in paragraph BC398C and chooses to apply IFRS 9 to such contracts, the entity:

(a) can choose to restate prior periods to reflect the effect of applying these amendments only if the entity can do so without the use of hindsight and if the restated financial statements reflect all the requirements in IFRS 9 for the affected financial instruments;

(b) will be required to disclose information about the changes in the classification and measurement of contracts as a result of applying these amendments in addition to any disclosures required by other IFRS Standards; and

(c) can choose to not disclose the quantitative information otherwise required by paragraph 28(f) of IAS 8 for the current period or any prior period presented.

BC398F The Board added these transition requirements as a consequence of adding paragraph 8A to the requirements of IFRS 17 (see paragraph BC398C). In June 2020, the Board also added a scope exclusion in paragraph 7(h) of IFRS 17 for some contracts that provide credit or payment arrangements such as particular credit card contracts (see paragraphs BC94A–BC94C). Stakeholders said that, for such contracts, many entities already apply IFRS 9 to the credit or payment arrangement component applying the separation requirements in IFRS 4. However, some may not have. Accordingly, the transition requirements discussed in paragraphs BC398A–BC398E will apply if an entity has already applied IFRS 9 but has not applied IFRS 9 to those components.

A footnote is added to the end of paragraph BC403. For ease of reading new text is not underlined.

* In June 2020, the Board deferred the effective date of IFRS 17 by two years to require entities to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023 (see paragraphs BC404A–BC404F).

Paragraphs BC404A–BC404F and the heading above paragraph BC404A are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—deferral of the effective date

BC404A In June 2020, the Board deferred the effective date of IFRS 17 by two years to require entities to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023.

BC404B In the 2019 Exposure Draft, the Board proposed a one-year deferral of the effective date to balance:

(a) providing certainty about the effective date considering the uncertainty caused by the Board's decision in October 2018 to explore possible amendments to IFRS 17 (see paragraphs BC6A–BC6C); and

(b) requiring IFRS 17 implementation as soon as possible because:

(i) IFRS 17 is a Standard urgently needed to address many inadequacies in previous accounting practices for insurance contracts; and

(ii) undue delay in the effective date of the Standard may increase workload and costs, particularly for entities that are advanced in their implementation projects.

BC404C Feedback on the 2019 Exposure Draft generally supported the proposed deferral of the effective date. Some stakeholders, particularly users of financial statements and regulators, expressed concern about any deferral of the effective date beyond one year, but other stakeholders suggested a longer deferral was necessary.

BC404D Some stakeholders said a longer deferral was necessary because some entities required more time to implement IFRS 17, for example because of challenges in developing systems and determining appropriate accounting policies, and because of the effect on implementation projects already under way of the amendments proposed in the 2019 Exposure Draft. The Board acknowledged that implementing IFRS 17 is a major undertaking. However, it noted that it had allowed an implementation period of three and a half years when it issued IFRS 17. Furthermore, given that IFRS 17 is urgently needed, the Board thought that a year's deferral of the effective date as proposed in the 2019 Exposure Draft ought to be sufficient to allow for the effects of any disruption caused by amending the Standard before its effective date. The Board was careful to propose only targeted amendments and not to reopen fundamental aspects of the Standard. The Board acknowledged, however, that implementing the Standard by 2022, as proposed in the 2019 Exposure Draft, would be demanding, in particular for smaller insurers.

BC404E Some stakeholders suggested a longer deferral was necessary to ensure that the initial application of IFRS 17 would be aligned in major markets around the world. These stakeholders were uncertain whether such an alignment would occur if the Board confirmed a one-year deferral. They commented on uncertainties and delays in jurisdictional endorsement and adoption processes and the consequential uncertainty about the effective dates that might be set in some jurisdictions. The Board noted that it had set the effective date of IFRS 17 so that jurisdictions would have sufficient time to adopt the new Standard. However, the Board acknowledged that considering amendments to the Standard before its effective date inevitably caused some disruption to those processes. The Board noted that the initial application of IFRS 17 will significantly affect insurers' financial statements and acknowledged that users of financial statements would benefit if the initial application of IFRS 17 were aligned around the world.

BC404F Accordingly, although the Board was aware of the costs of delaying the implementation of IFRS 17, particularly for users of financial statements, the Board decided to defer the effective date by two years to annual reporting periods beginning on or after 1 January 2023. The Board concluded that a two-year deferral should allow time for an orderly adoption of the amended IFRS 17 by jurisdictions. It should therefore enable more entities to initially apply IFRS 17 around the same time for the benefit of users of financial statements. The additional year's deferral compared to that proposed in the 2019 Exposure Draft should also assist those entities for whom implementing IFRS 17 by 2022 would have been challenging, including those entities for whom implementation projects were affected by the covid-19 pandemic in 2020. The deferral should thereby help to improve the quality of the initial application of the Standard.

A footnote is added to the end of paragraph BC406. For ease of reading new text is not underlined.

* In June 2020, the Board amended IFRS 17. The reference to IFRS 15 in paragraph C1 of IFRS 17 was deleted, because IFRS 15 was effective at the time the June 2020 amendments were issued.

Appendix A
Summary of changes since the 2013 Exposure Draft

A footnote is added to 'The following table summarises the main differences between the 2013 Exposure Draft and IFRS 17 *Insurance Contracts*.' For ease of reading new text is not underlined.

* This appendix compares IFRS 17 as issued in May 2017 with the 2013 Exposure Draft. In June 2020, the Board amended IFRS 17. A list summarising the June 2020 amendments, including references to the relevant paragraphs of this Basis for Conclusions, is included in Appendix C.

Appendix C is added. For ease of reading new text is not underlined.

Appendix C
List of amendments issued in 2020

Table C lists the main amendments to IFRS 17 issued in June 2020 with a reference to the rationale for those amendments included in this Basis for Conclusions (see paragraphs BC6A–BC6C).

The Board also:

(a) made minor amendments to correct cases in which the drafting of IFRS 17 did not achieve the Board's intended outcome; and

(b) considered but rejected other amendments suggested by stakeholders—for example, suggestions to amend the annual cohort requirement (see paragraphs BC139A–BC139T).

Table C Main amendments to IFRS 17 issued in June 2020	
Area of amendment	**Paragraphs in Basis for Conclusions on IFRS 17**
Scope exclusions—credit card contracts and similar contracts that provide credit or payment arrangements	BC94A–BC94C
Scope exclusions—specified contracts such as loan contracts with death waivers	BC94D–BC94F
Insurance acquisition cash flows	BC184A–BC184K BC327H–BC327I
The effect of accounting estimates made in interim financial statements	BC236A–BC236D
Risk mitigation option using instruments other than derivatives	BC256A–BC256F
Contractual service margin attributable to investment-return service and investment-related service	BC283A–BC283J
Reinsurance contracts—recovery of losses on underlying insurance contracts	BC315A–BC315L
Presentation in the statement of financial position	BC330A–BC330D
Applying the Standard for the first time—classification of contracts acquired in their settlement period	BC382A–BC382B
Applying the Standard for the first time—the prohibition from applying the risk mitigation option retrospectively	BC393A–BC393E
Applying the Standard for the first time—deferral of the effective date	BC404A–BC404F

