AASB Transition Resource Group for AASB 17 *Insurance Contracts*
Submission form for potential implementation question

In addition to the form, attachments (such as memos) may be included with the submission.

Any public discussion of issues submitted will be without the identification of the submitter's name. Although the submission forms will remain private, please do not include any confidential information in your submission.

Email a PDF of the completed (including any attachments) form to standards@aasb.gov.au.

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Do you wish to present to the TRG?	Yes

Potential implementation question

Whether an acquirer applying predecessor carrying amounts (and not the acquisition method) in a business combination under common control (BCUCC) would apply IFRS 17.B5 to an acquired liability for incurred claims and recognise a liability for remaining adverse development coverage.
Note, the same issue arises for acquired assets for incurred claims recoveries – but this is not specifically addressed to simplify the discussion.
Previously raised verbally at the August 2024 Accountants' and Actuaries' Liaison Committee.

Paragraphs of IFRS 17 *Insurance Contracts* and IFRS 3 *Business Combinations*

IFRS 17.B5
IFRS 3.2(c) and B1 to B4

Analysis of the question
The analysis of the question should include a detailed description of the different ways the new Standard may be applied, resulting in possible diversity in practice.

Please see the Appendix

Is the question pervasive?
Explain whether the question is expected to be relevant to a wide group of stakeholders.

Could impact any insurer undertaking a BCUCC for which the acquirer must prepare stand-alone IFRS 17-compliant financial statements post acquisition.

Appendix – BCUCC and applying IFRS 17.B5

Background

1. IFRS 3 does not apply to a business combination of entities or businesses under common control (BCUCC) [IFRS 3.2(c) and B1]. Accordingly, an acquirer can choose to apply the acquisition method under IFRS 3 or an alternative approach, which would typically involve using the predecessor carrying amounts of the acquiree.

2. IFRS 17.B93 requires an entity acquiring insurance contracts issued in a business combination to be accounted for as if it had entered into the contracts on the date of the transaction. Liabilities for incurred claims are regarded as giving rise to liabilities for remaining coverage under IFRS 17.B5. That is, they become adverse development coverage liabilities.

3. This paper identifies three views of an acquirer's accounting when it uses predecessor carrying amounts of the acquiree in a BCUCC.

   View A: IFRS 17.B5 does not apply in a BCUCC when an acquirer uses predecessor carrying amounts of the acquiree. The use of those predecessor carrying amounts means also using the predecessor recognition and classification of an acquired liability for incurred claims.

   View B: IFRS 17.B5 applies in a BCUCC when an acquirer uses predecessor carrying amounts of the acquiree. The use of those predecessor carrying amounts means reclassifying an acquired liability for incurred claims as a liability for remaining coverage measured at the carrying amount of the acquired liability for incurred claims.

   View C: Either View A or View B is acceptable.

Analysis in favour of View A

4. It is logical in a BCUCC when an acquirer uses predecessor carrying amounts of the acquiree for the acquirer to also use the predecessor classification (as a liability for incurred claims).

5. IFRS 17.B93 states (emphasis added):

   > B93 When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or **in a business combination within the scope of IFRS 3**, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction

6. IFRS 17.B93 specifically identifies business combinations within the scope of IFRS 3, and IFRS 3.2(c) specifically excludes BCUCC from the scope of IFRS 3.

7. The reference to "within the scope of IFRS 3" is regarded as a deliberate means of excluding IFRS 17.B93 to B95D from being applied in a BCUCC. This is logical since those paragraphs refer to the consideration received or paid and the allocation of fair values to the various assets and liabilities acquired (which would not be relevant in a BCUCC when predecessor carrying amounts are used).

8. The Basis for Conclusions to IFRS 17 also makes it clear the IASB did not intend setting any requirements in respect of BCUCC – (emphasis added):

   > 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.

9. View A is also consistent with current practice adopted when an acquirer uses predecessor carrying amounts of the acquiree in a BCUCC that involves an acquiree with a contingent liability that is a present obligation arising from past events and its fair value can be measured reliably. Applying the acquisition method involves the acquirer recognising a liability under IFRS 3.23. However, in a BCUCC when an acquirer uses predecessor carrying amounts of the acquiree, the contingent liability remains a disclosure only.[1]

Analysis in favour of View B

10. IFRS 17.B5 itself is not limited in its application to liabilities for incurred claims acquired in business combinations within the scope of IFRS 3 – it applies to any insurance contracts covering events that have already occurred but the financial effect of which is still uncertain – no matter how those contracts were acquired.

11. It would be feasible to apply IFRS 17.B5 while also using predecessor carrying amounts of the acquiree – the acquirer would assign the carrying amount of the acquirees' liability for incurred claims relating to adverse development coverage.

Question for TRG

Do you support View A or View B or do you consider either View acceptable and what is the basis for your support?

Relevant extracts from IFRS 17 and IFRS 3 not otherwise quoted above

IFRS 17.B5 Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides insurance coverage against an adverse development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

IFRS 17.B94 An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination within the scope of AASB 3, the consideration received or paid is the fair value of the contracts at that date. In determining that fair value, an entity shall not apply paragraph 47 of AASB 13 (relating to demand features).

IFRS 3.2 This Standard applies to a transaction or other event that meets the definition of a business combination. This Standard does not apply to: …

(c) a combination of entities or businesses under common control (paragraphs B1–B4 provide related application guidance).

IFRS 3.B1 This Standard does not apply to a business combination of entities or businesses under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

1 For example, see Grant Thornton: *IFRS Viewpoint* Common control business combinations, page 4.