IFRS 17 post-implementation review: emerging issues from the Australian and New Zealand markets

Background

1 As noted at the AASB 17 TRG's March 2024 meeting:

(a) The IASB is expected to wait until most jurisdictions have one or two years of experience of applying IFRS 17 before conducting a formal post-implementation review. Since some jurisdictions have a 2025 application date, the formal post-implementation review may not be conducted before 2026/2027; and

(b) The IASB's focus in a post-implementation review is expected to be on whether the requirements are functioning as intended, which would include areas of unforeseen divergence in practice.

2 Although the IASB's focus is expected to be on whether the requirements are functioning as intended, that does not necessarily rule out addressing issues of principle in IFRS 17 if the application of a principle had unintended or unforeseen consequences.

3 There may be some relatively minor matters that could be addressed within the IASB's 'annual improvements' process (see the Appendix regarding that process). However, issues of any significance would need to be addressed in the post-implementation review.

4 Given that entities and auditors are currently dealing with the first-time application of AASB 17 in the private sector, the AASB 17 TRG agreed 2024 would be an opportune time to capture information about those issues that are potentially relevant for consideration in a post-implementation review.

Potential post-implementation review topics

5 Tables 2 and 3 below present issues nominated as being potentially relevant for consideration in a post-implementation review based on past AASB 17 TRG and AALC discussions.

6 Noting the high bar set for change to an issued IFRS Accounting Standard, and the inevitable reluctance of some entities to change practices once an accounting policy has been decided and implemented, the issues are divided into Type A issues and Type B issues as outlined in Table 1.

Table 1		
Type		Comment
A	Issues typically addressed each time particular transactions occur – that is, not routine transactions.	Stakeholders may be keen on raising these issues in a post-implementation review given there could be an ongoing cost-benefit consideration.
B	Issues likely to have become embedded in an insurer's processes and systems as they stem from routine transactions.	Stakeholders may be less keen on raising these issues in a post-implementation review given the implementation investment already made but find value in determining how these features of IFRS 17 are being applied in different jurisdictions.

7 At the March AASB 17 TRG meeting members were asked to:

(a) provide your thoughts on the issues identified below;

(b) identify any other issues you consider should be raised and why; and

(c) identify any issues you consider might be able to be addressed within the IASB's 'annual improvements' process.

8 At this stage, we are not asking AASB 17 TRG members to necessarily consider:

(a) the risks and benefits of raising particular issues, while noting that there may be valid reasons for preferring that some issues remain open to interpretation;

(b) exactly how we might want the IASB to address each issue – that is, for example, whether we want to seek a change to the principle underlying a requirement or simply more clarity.

9 The table below incorporates feedback received since March 2024.

Table 2 – Potential PIR issue – Type A			Feedback
1	Application of IFRS 17.B5 when an insurer holds an adverse development reinsurance contract in respect of a liability for incurred claims on underlying contracts	Concerns have been expressed because: • accounting mis-matches may arise since the adverse development reinsurance gives rise to an asset for remaining coverage, while the underlying contracts relate to a liability for incurred claims • there are potentially different interpretations about when an event (determination of the ultimate cost) occurs.	Some support expressed for this being a PIR issue Not clear if the IASB would regard the outcome as being intended or not
2	Application of IFRS 17.B5 when an entity acquires a liability for incurred claims in a portfolio or business combination	Concerns have been expressed because the acquiring entity recognises (gross) revenue and (gross) expenses as claims are ultimately determined (usually as they settle), which can be a source of confusion for users, particularly when the acquirer has other similar contracts at the same stage of their lifecycle that were initiated by the insurer. Intra-group transfers also create the need for two sets of financial records to be maintained when the acquiring entity and vendor entity (or consolidated group) each apply IFRS 17.	Raised a number of times – and IASB intent is clear Still an issue of concern in UK market and potentially other markets

Table 3 – Potential PIR issue – Type B			
3	Non-distinct investment components (NDIC – being investment	There seem to be differing perspectives on what constitutes a NDIC. Investment components are amounts 'repaid in all circumstances' [IFRS 17	Practice seems to be coalescing – and IASB intent is clear

Table 3 – Potential PIR issue – Type B			
	components that have not been separated from the host insurance contract [IFRS 17.13]), including measurement and disclosure challenges	Appendix A definition]. Some areas of potential difference include: • whether amounts need to be both 'paid and repaid' • what is meant by 'all circumstances' – for example amounts that are similar to NDIC may be accounted for as NDIC, such as rights to withdraw a component of an outstanding policy balance, even though this might not occur in all circumstances. The result of identifying a NDIC is a reduction in revenue and expenses.	Potential confusion between NDIC and "amounts not contingent on claims" as both impact revenue/expense in a similar way
4	Determining coverage units	IFRS 17.BC282 identifies as a matter for judgement whether or not an entity adjusts for the time value of money when allocating coverage units. In contrast, there are no specific requirements related to inflating. There appear to be a variety of approaches emerging in practice across entities and products within entities.	Not clear IASB considered this issue – however, there are quite a few areas of judgement on coverage units
5	Identifying inflation that is part of insurance finance income or expense	There seem to be differing perspectives on what constitutes an assumption about inflation based on an entity's expectation of specific price changes (which are not assumptions that relate to financial risk under IFRS 17.B128). In particular, whether an index being used on its own versus being used as one input among many would make the assumption 'financial'.	
6	Determining the extent to which aspects of IFRS 17 apply to the PAA	There are some paragraphs which are: • clearly identified as relating only to the premium allocation approach (PAA); • clearly only relevant to applying the general measurement model (GMM); • clearly apply regardless of whether the PAA or GMM applies; and • in a 'grey' area – that is, paragraphs that are not clearly applicable or non-applicable under the PAA.	Practice seems to be coalescing – however, IASB intent remains unclear Potential impact of any change on PAA eligibility could be significant
7	Contract boundary	There can be different perspectives on when termination clauses in insurance contracts issued and reinsurance contracts held are relevant to determining the contract boundary. This includes cases when:	An interpretation issue – exiting a market may be relevant in some

Table 3 – Potential PIR issue – Type B			
8		• an entity might be regarded as having an option to terminate that it either exercises or does not exercise each day; and • termination would involve a reinsured entity exiting a particular insurance market, and considerations around whether that needs to be a commercially realistic scenario.	jurisdictions and not others
8	The extent to which recognition and measurement requirements are applied at the 'group of contracts' level	The main unit of account to which the recognition (including derecognition) and measurement requirements are applied is a group of contracts – however, different perspectives have emerged in some circumstances. For example whether the CSM on specific lapsed and derecognised contracts is recognised immediately in profit or loss or remains to be recognised as part of the CSM of the relevant group of contracts [IFRS 17.43-46 and 74-76].	Practice seems to be coalescing around lapse/ cancellation being treated at a group level Can depend on significance of lapsed contract to whole group

Additional issues raised since March 2024

Expected fulfilment cash flows, including changes therein are measured using current discount rates. The change in expected future fulfilment cash flows relating to coverage adjust CSM. However, under IFRS 17.B72(c) the amount by which the CSM is adjusted is the present value determined using the discount rate applying at inception. The result is that the change in liability is not zero and the difference ('hanging debit') is immediately recognised in profit or loss. It is not clear if this is what IASB intended.

Considerations for AASB TRG members

Q1: Do you have any further input at this stage on the above issues?

Q2: Are there other issues you consider should be raised?