Need to know

IASB issues amendments to IFRS 17 *Insurance Contracts*

Contents

This *Need to know* addresses the recent amendments to IFRS 17 *Insurance Contracts* that have been published by the International Accounting Standards Board (Board) in June 2020.

- The Board has issued *Amendments to IFRS 17*, which makes targeted amendments to the following aspects of IFRS 17: Deferral to 1 January 2023 of the effective date of IFRS 17 and the fixed expiry date for the temporary exception in IFRS 4 from applying IFRS 9
  - Scope exclusion for credit card contracts and similar contracts and optional scope exclusion for loan contracts with insurance coverage limited to the loan amount
  - Recognition of insurance acquisition cash flows relating to expected contract renewals, including guidance for insurance acquisition cash flows recognised in a business combination
  - Application of IFRS 17 in interim financial statements
  - Allocation of CSM attributable to investment-return service and investment-related service
  - Risk mitigation option using instruments other than derivatives
  - Recovery of losses from underlying insurance contracts through reinsurance contracts held
  - Presentation in the statement of financial position
  - Transition issues: classification of contracts acquired in their settlement period and guidance on the restatement of the risk mitigation option applied in prior periods
  - Minor application issues
- The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. They are applied retrospectively in accordance with IAS 8.

For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

Background

Since issuing IFRS 17, the Board has undertaken a comprehensive programme of stakeholder engagement, including holding four meetings of the IFRS 17 Transition Resource Group (TRG). Through this programme the Board has identified concerns and implementation challenges, including those related to the balance of costs and benefits from applying IFRS 17. After consideration of those concerns and implementation challenges, the Board conducted a process of evaluating the need for making changes to the Standard. The Board decided that IFRS 17 could be improved in a number of areas. In June 2019, the Board published Exposure Draft ED/2019/4 *Amendments to IFRS 17* (the 'ED') in which it proposed several amendments to IFRS 17. The amendments now finalised are the result of this process.

The amendments

Deferral of the date of initial application of IFRS 17 by two years

The amendment changes the mandatory effective date of IFRS 17, so that entities are required to apply IFRS 17 for annual periods beginning on or after 1 January 2023 (from the original effective date of 1 January 2021).

The Board also amended the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments* (see our *Need to know* for more detail on the temporary exemption), so that entities will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

Observation

In the ED, the Board proposed deferring the original effective date by one year to 1 January 2022. However, some respondents to the ED asked for a further deferral to allow for a well-controlled and robust implementation. The Board agreed with those respondents as some of the amendments needed more implementation work. In addition, delays in endorsement processes in various jurisdictions meant that it would not have been possible to have an aligned effective date around the world.

The Board also found that the benefit of extending the temporary exemption in IFRS 4 by a further year is appropriate to maintain the alignment of the initial application of IFRS 17 and IFRS 9 for specified insurers.

Additional scope exclusion for credit card contracts that provide insurance coverage

For some credit cards, the credit card issuer provides customers with protection for purchases within a certain price range. Such protection, arising from legal terms of the contract or regulations, may transfer significant insurance risk, bringing the credit card contracts into the scope of IFRS 17.

The scope of IFRS 17 is amended to mandatorily exclude credit card contracts or similar contracts that provide credit or payment arrangements when they meet the definition of an insurance contract. The scope exclusion applies only when the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the credit card contract with that customer. The Board has also published a consequential amendment to IFRS 9 to reflect that IFRS 17 applies to the insurance coverage component that is embedded in the credit card contract if, and only if, IFRS 9 requires that component to be separated, which is when insurance coverage is a contractual term of such financial instrument.

Observation

The amendment was proposed in the ED, because entities that currently account for a loan or a loan commitment in a credit card applying IFRS 9 would have needed to change the accounting for those contracts on application of IFRS 17, because the contract would have met the definition of an insurance contract.

In the ED, the Board proposed to provide the scope exclusion for credit cards only. However, some respondents suggested that the Board extend the scope exclusion to other 'similar' contracts that meet the definition of an insurance contract. These respondents provided examples of such contracts, including debit cards, charge cards, consumer financing contracts, current and deposit accounts and overdraft facilities. The Board agreed with those respondents and modified the scope of IFRS 17 further to exclude these similar contracts as well. In addition, the amended IFRS 17 scope paragraph brings back into IFRS 17 the insurance component embedded in a credit card contract thus eliminating the impact of insurance cash flows on the classification of the non-insurance host credit card contract in IFRS 9.

Additional optional scope exclusion for loan contracts that transfer significant insurance risk

The scope paragraphs of IFRS 17 and IFRS 9 are amended to include an optional exclusion for insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract.

Those contracts typically combine a loan with an agreement from the entity to compensate the borrower if a specified uncertain future event adversely affects the borrower, by waiving some or all of the payments due under the contract. They are often issued by a non-insurance entity and may not typically be thought of as insurance contracts.

- Examples of these contracts include:
- Mortgages with a death waiver
- Student loan contracts (with repayments contingent on income)
- Lifetime mortgage contracts (sometimes referred to as equity-release mortgages)

The amendment enables entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9.

In particular, the amendment changes the transition requirements in IFRS 9 so that an entity can apply either IFRS 17 or IFRS 9 irrespective of whether it has already applied IFRS 9 before it first applies IFRS 17. This irrevocable election is made separately for each portfolio of insurance contracts.

Observation

The Board decided that the optional scope exclusion is warranted as loans that transfer significant insurance risk meet the IFRS 17 definition for insurance contracts in their entirety. Consequently, without the amendment, entities would be *required* to apply IFRS 17 accounting to those loans. With the amendment, preparer entities now have the option to apply IFRS 9 to those contracts.

While IFRS 4 allowed the voluntary separation of the loan component from the insurance contract, IFRS 17 prohibits this and requires separation only of distinct investment components. Because these loans are not distinct investment components, the original version of IFRS 17 applied to the entire contract.

Insurance acquisition cash flows relating to expected contract renewals

Insurance acquisition cash flows are cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. The amendment provides additional guidance on insurance acquisition cash flows 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:
  - to that group; and
  - to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.

insurance acquisition cash flows directly attributable to a portfolio of insurance contracts that are not directly attributable to individual contracts or groups of contracts, to groups in the portfolio.

An entity shall also:

- recognise those cash flows as an asset until the entity recognises groups of related contract renewals or groups expected to be in the portfolio; and

- assess the recoverability of the asset at each reporting period until the entity recognises the renewed contracts based on the expected fulfilment cash flows of the related group of insurance contracts. The assessment is required only if facts and circumstances indicate the asset may be impaired.

An entity recognises insurance acquisition cash flows it expects to pay after the related group of insurance contracts are recognised as part of the fulfilment cash flows of the group of insurance contracts. An entity recognises insurance acquisition cash flows it pays at the date of initial recognition of the group of insurance contracts, as part of the contractual service margin (CSM) of the group of insurance contracts. This approach is required to reflect the amortisation of insurance acquisition cash flows in the insurance service expenses over the coverage period.

The amendment also clarifies that when an entity recognises in a reporting period only some of the insurance contracts expected to be included in the group (i.e. when the group straddles a reporting period), the entity determines the related portion of the acquisition cash flows asset that it derecognises and includes in the fulfilment cash flows of the group.

The disclosure requirements are also amended to include:

- A reconciliation of the acquisition cash flows asset at the beginning and the end of the reporting period, with disclosure of any impairment loss or reversals recognised in the period; and

- Quantitative disclosure, in appropriate time bands, of the expected timing of the inclusion of these acquisition cash flows in the measurement of the related expected future groups of insurance contracts.

When no cash flows have been paid or received, but another IFRS Standard requires an entity to recognise a liability for future insurance acquisition cash flows before it recognises the related group of insurance contracts, the Board amended IFRS 17 to also recognise an asset for those cash flows. In addition, the Board amended IFRS 17 to require an entity to include in the initial measurement of the CSM of a group of insurance contracts the effect of the derecognition of any asset or liability previously recognised for cash flows related to that group paid or received before the group is recognised. This also applies to assets and liabilities previously recognised because of the requirements of another IFRS Standard even if no cash flows have been paid or received.

Observation

The amendment results from a discussion at the TRG. The group discussed concerns relating to non-refundable commissions paid to agents, where the costs may be high relative to the measurement of the first insurance contract only because the entity expects to recover them from expected future contract renewals. When future contract renewals fell outside the contract boundary of the newly issued group of insurance contracts, the original version of IFRS 17 ignored them in the measurement of the group, such that the acquisition costs could not be deferred and attributed to those future contracts renewals. This often resulted in the newly issued group of insurance contracts being onerous.

Some stakeholders stated that the original requirements in IFRS 17 were inconsistent with those of IFRS 15 *Revenue from Contracts with Customers*. While the measurement approaches of IFRS 17 and IFRS 15 differ, the amendment aligns more closely the requirements of IFRS 17 with respect to acquisition costs with those requirements in IFRS 15.

The Board decided not to develop specific requirements on how to allocate part of the insurance acquisition cash flows to anticipated contract renewals, considering the existing guidance in IFRS 17 as sufficient.

Observation

The amendment requires an entity to include in the initial measurement of the CSM of a group of insurance contracts the effect of the derecognition of any asset or liability previously recognised for cash flows related to that group. Related cash flows are cash flows that would be included in the fulfilment cash flows of the group on initial recognition if they were paid after initial recognition of that group rather than before. The Board found that there could be other cash flows related to a group of insurance contracts that are paid or received before the group is recognised—for example, premiums paid in advance of their due date. The original version of IFRS 17 was silent on the accounting for those other cash flows.

Asset for insurance acquisition cash flows—transition and business combinations

The Board has amended the transition provisions in the Standard to require an entity, at its transition date, to identify, recognise and measure an asset for insurance acquisition cash flows. If, and only if, it is impracticable for the entity to apply IFRS 17 retrospectively, an entity measures an asset for insurance acquisition cash flows at the transition date applying either the modified retrospective approach or the fair value approach.

The modified retrospective approach is amended as follows:

In line with the requirement in IFRS 17:C8, an entity is permitted to use the modifications in b)-d) below only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

a) In line with the requirement in IFRS 17:C8, an entity is permitted to use the modifications in b)-d) below only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

b) To the extent permitted by a), an entity is required to measure an asset for insurance acquisition cash flows using information available at the transition date by:

    i. identifying the amount of insurance acquisition cash flows paid before the transition date (excluding the amount relating to the contracts that ceased to exist before the transition date); and

    i. allocating the amount determined in b) i. using the same systematic and rational allocation method that the entity will apply going forward to:

        1. the groups of insurance contracts that are recognised at the transition date; and
        2. the groups of insurance contracts that are expected to be recognised after the transition date.

a) An entity is required to adjust the measurement of the CSM for the groups of insurance contracts that are recognised at the transition date by deducting the amount of insurance acquisition cash flows determined applying b) ii. 1.

b) An entity is required to recognise an asset for insurance acquisition cash flows for the groups of insurance contracts that are expected to be recognised after the transition date at the amount determined applying b) ii. 2.

In the absence of reasonable and supportable information necessary to apply the modification described above, applying the modified retrospective approach, an entity is precluded from recognising an asset for insurance acquisition cash flows related to groups of contracts expected to be recognised after the transition date and from adjusting the CSM of groups of contracts existing at the transition date.

An entity applying the fair value approach is required to recognise an asset for insurance acquisition cash flows measured as the amount of insurance acquisition cash flows that the entity would incur at the transition date if the entity had not already paid insurance acquisition cash flows to obtain the rights to:

- obtain future contracts (including the expected renewals) after the transition date without paying again insurance acquisition cash flows the entity has already paid; or

- recover insurance acquisition cash flows from premiums of insurance contracts originated before the transition date but not yet recognised at the transition date.

IFRS 17 was silent on the treatment of an asset for insurance acquisition cash flows when an entity acquires insurance contracts in a transfer of insurance contracts that does not form a business or in a business combination within the scope of IFRS 3 *Business Combinations*. Therefore, the Board amended IFRS 3 and 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 a separate asset for insurance acquisition cash flows measured at fair value at the acquisition date.

The Board also clarified that on transition to IFRS 17 for the assets for insurance acquisition cash flows recognised at the transition date, an entity is not required to apply the impairment requirements for those assets retrospectively—i.e. for the periods that occurred earlier than the transition date.

Interim Financial Statements

IFRS 17 generally requires changes in estimates of the fulfilment cash flows related to future service to adjust the CSM, whereas changes in estimates related to current and past service and experience adjustments (i.e. differences between expected and actual amounts in the current and past period) are recognised in profit or loss immediately—thus the accounting depends on the timing of a reporting date.

IAS 34 *Interim Financial Reporting* states that the frequency of an entity's reporting should not affect the measurement of its annual results. In the original version of IFRS 17, paragraph B137 precluded entities from changing the treatment of accounting estimates made in the previous interim period in the subsequent interim or annual reporting period. The application of the requirement meant that frequency of reporting affected amounts recognised.

While the ED did not propose any changes to this requirement, most of the respondents to the ED added comments to express concerns about its application.

Based on those concerns, the Board amended IFRS 17 to require an entity to:

- make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial reports when applying IFRS 17 in subsequent interim or annual financial reports and

- apply its choice of accounting policy to all insurance contracts issued and reinsurance contracts held (i.e. the accounting policy choice is selected at a reporting entity level, which means a subsidiary choice in the subsidiary-only financial statements does not need to be the same as the choice made at the level of consolidated financial statements that includes the subsidiary).

CSM allocation relating to investment services

IFRS 17 requires the recognition of revenue based on the amount of service provided in the period. Revenue is comprised of the amount of premium that compensates for insurance service expense (as expected at the beginning of the reporting period) and the release of unearned profit (CSM) based on the amount of service provided in the period expressed in coverage units.

The amendment:

- clarifies that the definition of the coverage units and coverage period for insurance contracts with direct participation features (direct participating contracts) includes the quantities of benefits and expected periods in which an entity provides investment-related services; and

- requires an entity to allocate the CSM for insurance contracts without direct participation features based on coverage units determined considering the quantities of benefits and expected period of both insurance coverage and any investment-return service.

The amendment also defines investment-related service (for direct participating contracts) and investment-return service (for other than direct participating contracts).

Investment-return service only exists when all three conditions are met:

- the contract contains either an investment component, or the policyholder has a right to withdraw an amount;

- such component or amount includes an investment return; and

- the entity expects to perform investment activity to generate such return.

An entity is required to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return or investment-related service.

An entity is required to provide:

- quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the CSM remaining at the end of the reporting period; and

- specific disclosure of the approach used to assess the relative weighting of the benefits provided by insurance coverage and investment-related services or investment-return services.

The original version of IFRS 17 allowed the recognition of the CSM only over the insurance coverage period based on coverage units, as coverage for insured events is provided. The timing of provision of investment and insurance services under the contracts may differ. Following the amendment, the definition of coverage for direct participating contracts includes the provision of both insurance and investment services and, under the general model, the CSM is allocated on the basis of coverage units that are determined by considering both insurance coverage and any investment-return service. The disclosure requirements have been updated accordingly.

Observation
Direct participating contracts by definition provide investment-related services. For other than direct participating contracts, entities need to identify whether there is an investment-return service based on the criteria.

The ED proposed consequential amendments to the definitions of 'contractual service margin', 'coverage period', 'liability for remaining coverage' and 'liability for incurred claims'. In particular, the Board proposed to amend IFRS 17 to include in the definitions of the liability for remaining coverage and the liability for incurred claims all obligations arising from insurance contracts issued by an entity.

While the Board confirmed the addition of the definition of 'insurance contract services' to Appendix A of IFRS 17, it decided not to change other terminology used in the Standard (i.e. not replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage') because of the risk of unintended consequences.

Extension of the risk mitigation option to include reinsurance contracts held and non-derivative financial instruments
For insurance contracts with direct participating features only and in specified circumstances, IFRS 17 includes an option for an entity to recognise the effect of some changes in financial risk on the entity's share of the underlying items in profit or loss, instead of adjusting the CSM (risk mitigation option). The amendment extends the application of the risk mitigation option for insurance contracts with direct participation features when the entity uses reinsurance contracts held or non-derivative financial instruments to mitigate financial risks.

In IFRS 17, both reinsurance contracts held and issued are excluded from the definition of insurance contracts with direct participating features and instead are accounted for using the general model, as opposed to the variable fee approach (VFA). This meant that for direct participating contracts, the effect of financial guarantees and the effect of financial risk on the entity's share of underlying items was reflected in the CSM, as opposed to profit or loss, unless the entity hedged the risk with derivatives and applied the risk mitigation option. However, for reinsurance contracts held, which may transfer both financial and non-financial risk to the reinsurer, the effect of financial guarantees and the effect of financial risk was reflected in profit or loss. This created a mismatch.

To address the mismatch, the Board explored several options. The Board decided against extending the scope of direct participating contracts to include reinsurance contracts held when the underlying contracts are direct participating insurance contracts. Instead, the Board decided to expand the scope of risk mitigating instruments that can be used for the risk mitigation option in IFRS 17. In addition to derivatives, the permissible risk mitigation instruments now include reinsurance contracts held and non-derivative financial instruments measured at fair value through profit or loss for mitigating financial risk not arising from underlying items, such as the impact of guarantees.

Observation

To apply the risk mitigation option for direct participating contracts using any of the permitted instruments, the entity needs to have a documented risk management objective and strategy and, in applying that objective, demonstrate that an economic offset exists.

The election is irrevocable and the risk mitigation option is discontinued only if the eligibility criteria for the group cease to be met.

When developing the ED, the Board rejected a suggestion from stakeholders that the risk mitigation option should also apply when an entity uses financial instruments other than derivatives, for example bonds, to mitigate financial risk. Respondents to the ED suggested the Board revisit this decision, as it further reduces accounting mismatches.

Some respondents explained that:

- entities often use a combination of derivatives and non-derivative financial instruments, for example, fixed income securities, to mitigate financial risk on insurance contracts with direct participation features.
- an entity may mitigate some financial risk using either derivatives or non-derivative financial instruments. Those respondents explained that using non-derivative financial instruments can often be less costly than using derivatives.
- an entity may mitigate some financial risk using non-derivative financial instruments when the availability of derivatives is limited.

The Board considered those comments and decided to permit an entity to apply the risk mitigation option when the entity mitigates the effect of financial risk on the fulfilment cash flows using non-derivative financial instruments measured at fair value through profit or loss. An entity is permitted to apply the option if, and only if, the eligibility criteria are met.

Reinsurance contracts held when underlying contracts are onerous

The amendment requires an entity to adjust the CSM 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 that group. An entity is required to determine the amount of a loss recovered from a reinsurance contract held by multiplying:

- the loss recognised on the underlying insurance contracts; and
- the percentage of claims on underlying insurance contracts the entity expects to recover from the reinsurance contract held.

This amendment to IFRS 17 applies only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

Groups of onerous contracts may comprise both contracts that are reinsured and those that are not. The amendment requires an entity, in the circumstances described above, to use a systematic and rational method of allocation to apply the requirements relating to the recovery of losses from reinsurance contracts held. This avoids the need to develop systems to identify the amount of losses on underlying insurance contracts for the purpose of determining the amount of recovery of losses from reinsurance contracts held. An entity must use the same systematic and rational method of allocation to determine the portion of subsequent changes in the loss component of the group of insurance contracts that relates to underlying (reinsured) insurance contracts in the group.

This amendment helps to avoid an accounting mismatch and a significant loss of useful information and also reduce complexity.

Observation

The key feature of the amendment is that it eliminates a 'day one' mismatch for entities which issue insurance contracts that are onerous on initial recognition and transfer the risk using reinsurance contracts held.

In the ED, the Board proposed that the amendment would only apply to reinsurance contracts held that provide proportionate coverage. However, respondents expressed concerns that the proposed amendment would apply only to a limited population of reinsurance contracts held. Those respondents either expressed the view that the definition of a reinsurance contract held that provides proportionate coverage should be expanded, or the amendment should apply to all reinsurance contracts held. The Board agreed with those respondents and decided to make the amendment available to all reinsurance contracts held.

Simplified presentation of insurance contracts in the statement of financial position

The amendment requires an entity to present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts as the required level of aggregation rather than groups of insurance contracts which continues to be the level of aggregation for recognition and measurement.

The Board saw merit in providing the practical relief to present insurance contracts at a higher level of aggregation in the statement of financial position, balancing this with the requirements of the Conceptual Framework for Financial Reporting prohibiting offsetting. The loss of information in presentation from offsetting is deemed acceptable when considering the cost relief and the fact that the amendment would not disrupt existing implementation processes. Accordingly, the Board amended the presentation requirements so that entities offset groups at the portfolio level. Instead of presenting groups that are assets and liabilities separately, the entity is now required to present separately portfolios of insurance contracts that are assets, portfolios of insurance contracts that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

Observation

The unit of account for measurement is still a group of contracts. While the amendment removes the requirement to present based on that unit of account, information at a group level may continue to be required to satisfy disclosure requirements. For example, amounts presented in the statement of financial position need to be split in the notes into the liability for remaining coverage excluding loss component, loss component, and liability for incurred claims. The information disclosed would be at a level below portfolio, if only some groups in the portfolio are onerous.

Additional transition relief for business combinations

For insurance contracts acquired in a business combination or a portfolio transfer, the liability for settlement of claims incurred before the contracts were acquired/transferred transfers a risk of adverse claims development to the acquirer. Therefore, for the acquirer, the liability for settlement of claims incurred before the contracts were acquired/transferred shall be classified as a liability for remaining coverage. This classification leads to recognition of insurance revenue in the acquiring entity in future periods.

The Board responded to preparers' concerns about the difficulty of estimating the CSM on transition related to the claims development coverage for contracts acquired in business combinations and portfolio transfers, using both fair value and modified retrospective approaches by amending IFRS 17.

The amendment changes the transition requirements to introduce an exception in the modified retrospective approach to require an entity to classify the liability for settlement of claims incurred before the contracts were acquired/transferred as liability for incurred claims. The use of this exception is required only when the entity does not have reasonable and supportable information to apply a retrospective approach. An optional relief is also provided to the fair value transition approach to classify such a liability as liability for incurred claims.

The effect of applying the exception is that the difference between consideration received or paid at the date of transaction and fulfilment cash flows does not go to CSM and is instead recognised in the opening retained earnings. No insurance revenue is recognised in subsequent periods.

Observation

The amendment applies only on transition to IFRS 17 and therefore the measurement of insurance contracts acquired after transition to IFRS 17 includes the risk of adverse claims development in the liability for remaining coverage (and thereafter as revenue).

Additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach

When developing the ED, the Board considered allowing retrospective application of the risk mitigation option, but has decided to retain the prohibition in IFRS 17 of retrospective application to avoid the use of hindsight. Instead, the Board decided to amend the transition requirements in IFRS 17 to permit an entity to use the fair value transition approach for a group of insurance contracts with direct participating features if, and only if, the entity:

- can apply IFRS 17 retrospectively to the group;
- chooses to apply the risk mitigation option to the group prospectively from the transition date; and
- has used 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 before the transition date.

The Board also amended the transition requirements in IFRS 17 to permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date, as opposed to the date of initial application, provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date. The date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 17, whereas the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

In making this amendment, the Board has responded to stakeholders' concerns about the impact of not applying the option retrospectively, while retaining the principle of not allowing the use of hindsight for hedge accounting.and portfolios of reinsurance contracts held that are liabilities.

Other amendments

Amendment	Observation
Amendment to IFRS 17:B96 to exclude from the adjustment to the CSM changes between the expected and actual repayment of an investment component or loan to a policyholder arising due to changes relating to the time value of money and financial risk.	The repayment of investment components is certain, with the only uncertainty relating to the timing. The amendment requires that changes relating to the time value and the financial risk are reflected in insurance finance income or expense. However, changes in the amount of the repayment of investment components other than those relating to the time value of money and the financial risk adjust the CSM at the locked-in rate. Between the beginning of the period and the unexpected payment or non-payment in the period of the investment component, the investment component will be affected by the time value of money and may be affected by financial risk and changes in the time value of money and financial risk. Those effects might be as expected at the beginning of the period, or might differ from that expected at the beginning of the period. In either case, the effects should be recognised as insurance finance income or expenses, and should not adjust the CSM.
Amendment to IFRS 17:B96(d) to clarify that when an entity chooses to disaggregate changes in the risk adjustment for non-financial risk between those relating to non-financial risk and those relating to financial risk and the effect of the time value of money, it would affect the measurement of the CSM, the timing of recognition of changes in the financial risk and the split between revenue and insurance finance income or expense.	The April 2019 TRG discussion confirmed that the choice to disaggregate changes in the risk adjustment for non-financial risk between those relating to financial and non-financial risk is optional.
Amendment to the definition of an investment component to clarify that to meet the definition, amounts must be repayable in all circumstances.	This amendment clarifies that 'repayable in all circumstances' includes repayable on cancellation, surrender and expiry. Some contracts are repayable to policyholders regardless of a claim occurring, but, for example, are not repayable on cancellation. Such amounts would not meet the clarified definition of investment components.
Amendment to ensure IFRS 17 applies to investment components that, if separated, would meet the definition of investment contracts with discretionary participation features.	This amendment clarifies and overcomes the unintended consequence of excluding from the scope of IFRS 17 a distinct component representing a contract that would otherwise be within the scope of the Standard had it been issued as a standalone contract.
Amendments to IFRS 17:48(a) and IFRS 17:50(b) clarifying that the loss component is adjusted for changes in the risk adjustment for non-financial risk.	The amendments clarify that changes in fulfilment cash flows include changes in the risk adjustment for non-financial risk, as well as changes in expected future cash flows.

Other amendments

Amendment	Observation
Amendment to specify that IFRS 17:88 and 89 do not apply to the insurance finance income or expenses that arise from the application of the risk mitigation option and to add new requirements to the risk mitigation option that specify how to present insurance finance income or expenses that arise from the application of the risk mitigation option. It is clarified that the presentation follows the mitigating instrument used.	The other comprehensive income (OCI) option in IFRS 17 has two methodologies for determining the amount of insurance finance income or expenses to be recognised in profit or loss. An entity can choose whether to include part of insurance finance income or expenses in OCI (rather than entirely in profit or loss), but if it chooses to use OCI it cannot choose which methodology to apply for determining the amounts in profit or loss and OCI. The methodology depends on the circumstances. If the group of contracts is a group of variable fee approach contracts and the entity holds the underlying items, the entity must use the current period book yield. For all other groups of contracts, the entity uses an effective yield approach or the projecting crediting rate method for contracts where financial variables have a substantial effect on the amounts paid to policyholder, or the locked-in discount rates determined at initial recognition for all other contracts. An entity applying the OCI option and that is required to use the current period book yield might also elect to apply the risk mitigation option in IFRS 17. If so, an accounting mismatch would arise, which has now been addressed by the amendment.
Amendment to resolve an inconsistency between IFRS 17:B66(f) and B65(m) and consequential amendment to IFRS 17:B121.	Applying the amended IFRS 17:B65(m), the entity includes in the fulfilment cash flows the income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract. The intended consequence of the amendment is for an entity to recognise insurance revenue for the consideration paid by the policyholder for those income tax amounts in a manner consistent with the recognition of insurance revenue for other incurred expenses applying IFRS 17. To enable an entity to recognise insurance revenue, the list in IFRS 17:B121 was amended to include income tax expenses incurred that are specifically chargeable to the policyholder under the terms of an insurance contract.
Amendment to clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items should be treated as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk.	The amendment clarifies the treatment of insurance contracts where the underlying items themselves contain non-financial risk, such as a pool of insurance contracts.
Amendment to IFRS 17:B123(a) to clarify that changes resulting from cash flows of amounts lent to customers and waivers of amounts lent to customers are excluded from insurance revenue.	Various types of insurance contracts, including loans with a waiver on occurrence of an insured event (e.g. equity release mortgages) and reinsurance arrangements, contain loans from the issuer to the policyholder. Excluding such advances and repayments of loan amounts from revenue is consistent with the treatment of investment components. A waiver of a loan is treated as any other claim.

Other amendments

Amendment	Observation
Amendment to IFRS 17:103 to clarify that, in the reconciliation from the opening to the closing balance of the insurance contract liabilities, an entity does not need to separately disclose refunds of premiums.	In clarifying the definition of an investment component as repayable in all circumstances, the Board clarified that an amount that is repayable regardless of the claim occurring but not repayable on maturity of the contract is not an investment component, because it is consumed as the service is provided. This amount repayable before the contract expiry is a premium refund. At the point of repayment, the identification of an amount as a repayment of investment component or premium refund was seen as burdensome by preparers.
Amendment to IFRS 17:28 to clarify that insurance contracts are added to a group when they meet the recognition criteria, regardless of when they were issued.	The Board confirmed that a similar amendment is not needed for IFRS 17:22 as that paragraph refers to the time at which insurance contracts are issued, rather than recognised. This has practical implications for contracts issued in one period (when there is one annual group) but relating to coverage periods starting in future periods.
Amendment to IFRS 17:104, B121 & B124 to explicitly exclude amounts relating to risk adjustment for non-financial risk from the descriptions of other components.	This amendment became necessary to prevent potential double-counting.
Amendment to the disclosure requirement for sensitivity analyses to replace 'risk exposure' with 'risk variable'.	This amendment was necessary to correct the terminology used
Amendments to IFRS 17:B93 to B95A to clarify that references to business combinations refer to business combinations within the scope of IFRS 3.	This amendment clarifies that these measurement requirements are not necessarily applicable to business combinations under common control.
Consequential amendment to IFRS 3 for business combinations that occurred before the date of initial application of IFRS 17, to allow an entity to continue to use an exception in IFRS 3:17(b) and to classify acquired insurance contracts based on conditions existing at the inception of the contracts rather than at the acquisition date.	The significance of insurance risk can change over time. For contracts acquired in a business combination, the acquirer assesses the significance of insurance risk and the resulting classification of the contract as an insurance contract at the acquisition date under IFRS 3:15. However, because IFRS 3 contained an exception to this principle for insurance contracts in the scope of IFRS 4, this practical expedient allows entities to keep existing insurance contract classifications for business combinations that occurred before the date of initial application of IFRS 17.
Consequential amendments to the scope of IFRS 7 *Financial Instruments: Disclosures,* IFRS 9 and IAS 32 *Financial Instruments: Presentation.* The amendments replace the words 'contracts within the scope of IFRS 17' in those Standards with 'insurance contracts as defined in IFRS 17 and investment contracts with discretionary participation features within the scope of IFRS 17'.	The amendments are necessary to clarify that insurance contracts *held* are not in the scope of IFRS 7, IFRS 9 and IAS 32.

Level of aggregation—annual cohorts for insurance contracts with intergenerational sharing of risks between policyholders

In the discussions leading up to the ED, the Board considered feedback received on the level of aggregation, in particular the annual cohort requirement. Back then, the Board voted unanimously to leave the level of aggregation requirements of IFRS 17 unchanged.

Although the Board did not ask a question on the annual cohort requirement in the ED, some respondents commented on the Board's decision to retain the requirements unchanged. Some of these respondents agreed with the Board's decision, however, others suggested the Board propose an exemption to the annual cohort requirement for insurance contracts with intergenerational sharing of risks between policyholders.

After analysing the issue, the Board concluded that:

- the reason for providing an exemption would be that the costs of the annual cohort requirement could exceed the benefits of the resulting information for some contracts. Those costs include the need to apply considerable judgement in some circumstances to determine the assumptions and allocations that result in information that faithfully represents the contracts.
- because of the potential demand for applying such exemption and the danger of losing information about the effect of financial guarantees in the current economic environment, the exemption would need to be robust and well-defined.
- there is no way to specify such an exemption without the use of 'bright lines' which would be arbitrary and difficult to justify, and without developing a particularly complex set of criteria.
- the resulting complexity would disrupt implementation of the Standard and reduce the benefits of its ongoing application.

The Board therefore decided to retain, unchanged, the annual cohort requirement in IFRS 17.

Transitional provisions and effective date

An entity applies the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. They are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted.

Further information

If you have any questions about the amendments to IFRS 17, please speak to your usual Deloitte contact.