



# IFRS Adviser Alert

## Insurance contracts – Amendments to IFRS 17 and IFRS 4

August 2020

### Executive summary

The International Accounting Standards Board (IASB) has issued *Amendments to IFRS 17* (the Amendments). The aim of the amendments is to address the concerns raised by stakeholders and help entities to more easily transition and implement IFRS 17 *Insurance Contracts*.

The IASB also issued an amendment to the previous insurance Standard IFRS 4 *Extension of the Temporary Exemption from Applying IFRS 9* (Amendments to IFRS 4) so that entities can still apply IFRS 9 *Financial Instruments* alongside IFRS 17.

### Background

IFRS 17 was issued in May 2017 and since its release, the IASB has been monitoring the implementation and concerns raised by stakeholders which has led to a series of amendments being issued that:

- ease transition by deferring the effective date of the Standard and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time;
- make financial performance easier to explain; and
- further reduce costs by simplifying some requirements in the Standard.

### The changes

Area of change	Description
Effective date of IFRS 17 and the IFRS 9 temporary exemption	The amendments defer the effective date of IFRS 17 by two years from annual reporting periods beginning on or after January 1, 2021 to annual reporting periods beginning on or after January 1, 2023. The amendments also extend the temporary exemption (included in IFRS 4) from IFRS 9 by two years so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after January 1, 2023.



Area of change	Description
Scope exclusions	The amendments add additional scope exclusions for credit card contracts that provide insurance coverage, and also an optional scope exclusion for loan contracts that transfer high insurance risk.
Expected recovery of insurance acquisition cash flows	The amendments include guidance on the recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.
Contractual service margin attributable to investment-return service and investment-related service	The amendments clarify the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
Applicability of the risk mitigation option	The amendments extend the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
Interim financial statements	The amendments clarify the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.
Reinsurance contracts held – recovery of losses on underlying insurance contracts	The amendments require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.
Presentation in the statement of financial position	The amendments 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 those that are liabilities rather than that of groups of insurance contracts.
Transitional modifications and reliefs	The amendments add extra transitional reliefs for business combinations, the date of application of the risk mitigation option and the use of the fair value transition approach.
Minor amendments	The amendments add minor changes where the drafting of the Standard did not achieve the IASB's intended outcome.



## Our thoughts

We welcome these changes as they give sufficient time for preparers who have not yet assessed the implementation requirements of this Standard to respond appropriately. Every reporting entity, not just entities that are currently registered with domestic regulators as insurance entities, must now carefully evaluate whether or not they are issuing insurance contracts. If insurance contracts are being issued, then plans to transition to this Standard should start right away as the requirements set out in IFRS 17 are complex and in many instances actuarial input will be needed.

## Implementation guidance issued by the Global Public Policy Committee

IFRS 17 is anticipated to have a significant impact on many aspects of an insurer's financial reporting and operational processes. Its implementation is widely anticipated to be a major project that will require managing both internal and external stakeholders.

The Global Public Policy Committee (GPPC) consists of representatives from the six largest international accounting networks: BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. They have published two papers with the objective of providing support to those charged with governance (including Audit Committees) in fulfilling their responsibilities when it comes to ensuring a high-quality implementation of IFRS 17.

The publication *Implementation of IFRS 17 Insurance Contracts* consists of two papers.

### Considerations for those charged with governance

This paper provides ten questions that those charged with governance might ask management in order to assess management's progress implementing IFRS 17, and ten questions that those charged with governance might ask the external auditors in order to understand their observations and views on management's progress.

### Companion document on key judgements and accounting policy choices

This paper is designed as a companion document to the first paper, and provides those charged with governance with an overview of the key areas in IFRS 17 where key judgements and accounting policy choices are made, as well as questions that those charged with governance might consider asking management with respect to those judgements and choices.

The implementation guides can be accessed by using the following link.

<https://www.grantthornton.global/en/insights/articles/ifrs-17---gppc/>



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