Issue 56, November 2016

KPMG

Insurance
IFRS Newsletter

"The decisions made this month should ease some of the operational burden and costs in key areas when implementing and applying IFRS 17."

– Joachim Kölschbach, KPMG's global IFRS insurance leader

Contents

Summary of feedback received	2
Level of aggregation	3
Recognition of changes in estimates	7
Derivatives used to mitigate financial risk	9
Transition	11
Other sweep issues	15
Appendix: Summary of IASB's redeliberations	19
Project milestones and timeline	32
KPMG contacts	33
Keeping in touch	34
Acknowledgements	36

Setting the stage for a final standard

This month, the IASB discussed its findings from the external testing of a draft of the forthcoming insurance contracts standard (draft IFRS 17) and addressed some of the issues raised.

Level of aggregation

A portfolio of contracts would be divided at least between those contracts that are onerous on initial recognition, contracts that have no significant risk of becoming onerous after initial recognition and other contracts. However, entities would be prohibited from grouping contracts issued more than one year apart.

Recognition of changes in estimates

The Board agreed that when an experience adjustment directly causes a change in the estimate of the present value of future cash flows, the combined effect would be recognised in profit or loss.

Derivatives used to mitigate financial risks

The Board agreed that if an entity uses a derivative to mitigate financial risks arising from an insurance contract, subject to the variable fee approach, then the entity would be permitted to exclude the effect of those changes in the financial risk from the contractual service margin (CSM) when specific criteria are met.

Transition

The Board made changes to some transition requirements and confirmed that an entity would apply the forthcoming insurance contracts standard (IFRS 17) retrospectively, unless this is impracticable. If it is impracticable, then an entity would be permitted to choose between a modified retrospective approach and the fair value approach.

Effective date

The Board agreed that an entity would apply IFRS 17 for annual periods beginning on or after 1 January 2021, assuming that it is published in H1 2017. Entities would be able to apply it earlier if they also apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

Next steps

The staff are continuing the drafting process and expect to issue IFRS 17 in H1 2017.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Summary of feedback received

Respondents provided generally consistent feedback on key areas such as level of aggregation, transition and variable fee approach scope.

As part of the balloting process, which began in February 2016, the staff undertook a topic-based external testing of the draft IFRS 17. The topics included, among others, level of aggregation, recognition of changes in estimates, derivatives used to mitigate financial risk, and transition.

The objective was to provide the Board with evidence about how entities interpret specific requirements and what operational difficulties, if any, they may encounter in applying the requirements.

Over the past two months, the staff analysed the feedback and this month they presented that feedback to the Board.

The key feedback from respondents is included throughout this newsletter in the 'What feedback was received?' sections, and the staff's responses to this feedback and actions taken by the Board based on this feedback are discussed in the 'What did the staff recommend?' and 'What did the IASB decide?' sections.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Level of aggregation

A portfolio of contracts would be divided at least between those contracts that are onerous on initial recognition, contracts that have no significant risk of becoming onerous after initial recognition and other contracts.

What were the proposed requirements?

An entity would have aggregated contracts into groups to determine whether to recognise a loss for a group of onerous contracts and to measure the CSM after initial recognition. Those groups would have comprised contracts that on initial recognition have future cash flows that the entity expects will respond similarly in terms of amount and timing to changes in key assumptions and similar expected profitability[1].

What feedback was received?

Generally, external reviewers said that the proposed requirements would result in a very high number of groups of contracts and low numbers of contracts in each group, which would require excessively granular, costly and burdensome calculations that may not necessarily equate with better quality information.

Most believed that this level of granularity resulted from the 'similar profitability' proposed requirement. In addition, they believed that how to interpret this term was unclear.

Most external reviewers noted that the application of these proposed requirements would generally be different from the way they currently manage their business to assess profitability and track contracts' performance. Further, the number of groups would be much higher than the groups that they currently use for management reporting, and accounting for financial and regulatory reporting.

Nearly all respondents agreed with the principle that losses on onerous contracts should be accounted for in the statement of profit or loss. However, most felt that the objective of grouping is not clearly articulated.

What did the staff recommend?

Grouping requirements

The Board's conclusion is about limiting when contracts that are onerous should be grouped with contracts that are profitable after inception, as follows:

- groups of contracts that have a greater risk of being onerous should not be grouped with those that have a lower risk of being onerous; and
- the CSM should be allocated to periods in a way that reflects the service provided under the contracts.

The staff believed that some aspects of the Board's intention could be met even if entities were permitted to aggregate contracts into bigger groups in some cases, and such a permission would have a significant benefit in terms of operational costs for preparers. They also noted that it is generally desirable to align accounting requirements with information that is consistent with internal reporting and risk management.

1. See 'Topic 1 – Aggregation of contracts' in the IASB's August 2016 testing questionnaire for the exact requirements.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Accordingly, the staff proposed that operational relief could be provided to entities by:

- being clear that determining whether contracts 'respond similarly to changes in key assumptions' is expected to be assessed at the level of monitoring and management of key assumptions by management (i.e. contracts within each product line would be expected to have similar risks); and
- using a top-down approach, focused on separating groups of contracts rather than grouping individual contracts (e.g. taking a portfolio of insurance contracts and determining whether further disaggregation is necessary based on certain requirements).

The staff proposed disaggregating portfolios into at least three groups within each portfolio:

- those that are onerous at inception;
- those that have no significant risk of becoming onerous (i.e. more resilient in their ability to retain profitability as a result of adjustments to the CSM); and
- other contracts that are not onerous at inception (i.e. less resilient in their ability to retain profitability as a result of adjustments to the CSM).

The staff believed that such a requirement would enable the Board to achieve its intention and reduce the operational burden that may have resulted from the proposed requirement for entities to group contracts according to 'similar expected profitability'.

The staff also proposed prohibiting entities from grouping contracts issued more than one year apart. They noted that such a requirement is operational and retains the desired outcome for the allocation of the CSM.

This recommendation would also apply to mutualised contracts where the losses of one policyholder are offset by gains from another within an insurance contract portfolio (although the contracts may be in different annual cohorts). The staff noted that the effects of mutualisation should be taken into account within the fulfilment cash flows. Accordingly, losses that arise in a group would not be regarded as onerous if the combined mutualised portfolio is profitable.

Discount rates used for determining the interest accretion on the CSM

External reviewers also expressed a concern that a group may contain contracts that accrete interest on the CSM at different rates. This would mean that contracts would need to be accreted at different rates, and would result in entities needing to track contracts with those different rates separately within a group.

The staff acknowledged this concern and proposed that an entity may use a weighted-average discount rate for the interest accretion on the CSM, with an averaging period of up to one year.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?

Various Board members agreed with the staff's recommendations, noting that they 'strike the right balance' between operationality, cost concerns and achieving the Board's objectives. Some who supported the recommendations expressed a preference for the previous proposals (i.e. a more principles-based approach), but acknowledged that the external reviewers had interpreted the previous proposals in a way that resulted in a significantly larger amount of groups than the Board intended. Another Board member said that it should be clear in the standard what the objectives are and what is included as a way to achieve those objectives.

The staff noted that they will add more guidance on how to apply IFRS 17 to contracts with mutualisation and clarified that entities would be prohibited from grouping contracts issued more than one year apart. However, they may group on a more frequent basis. The staff also clarified that entities may measure a set of contracts together at inception if they can determine that those contracts can be grouped with others based on available information at inception.

What did the IASB decide?

The Board agreed with the staff's recommendations, as follows.

- Retain the definition of 'portfolio' – i.e. a portfolio is a group of contracts subject to similar risks and managed together as a single pool. IFRS 17 would provide guidance that contracts within each product line (e.g. annuities or whole-life contracts) would be expected to have similar risks, and therefore contracts from different product lines would not be expected to be in the same portfolio.
- Entities would be required to identify onerous contracts at inception and group them separately from contracts that are not onerous at inception. In addition, they could measure contracts together if they can determine that those contracts can be grouped with others based on available information at inception.
- Entities would be required to measure insurance contracts that are not onerous at inception by dividing portfolios into two groups – a group of contracts that have no significant risk of becoming onerous and a group of other profitable contracts. IFRS 17 would provide guidance that:
  - an entity would assess the risk of the contracts in the group becoming onerous in a manner consistent with the entity's internal reporting about changes in estimates;
  - an entity would assess the risk of the contracts in the group becoming onerous based on the sensitivity of the fulfilment cash flows to changes in estimates which, if they occurred, would result in the contracts becoming onerous; and
  - an entity would be permitted to divide portfolios further. For example, if the entity's internal reporting provides information that distinguishes the different risks of contracts becoming onerous.
- Entities would be prohibited from grouping contracts issued more than one year apart.
- Entities would be permitted to use a weighted-average discount rate for the accretion of interest on the CSM, with an averaging period of up to one year.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- The IASB also confirmed its previous proposal that entities would allocate the CSM for a group of contracts on the basis of the passage of time. Therefore, the CSM would be allocated over the current and expected remaining coverage period and the allocation would be based on coverage units, reflecting the expected duration and size of the contracts in the group.

KPMG insight

The revised proposals are expected to result in fewer groups – i.e. units of account – than was previously expected, and therefore may alleviate a significant amount of the burden and reduce associated implementation costs. However, entities would still have to identify groups of insurance contracts at a lower level than the portfolio of insurance contracts.

Entities would be able to take a 'top-down' approach to their level of aggregation assessment – i.e. may be able to begin at the portfolio level and determine whether further disaggregation is necessary.

For portfolios of insurance contracts that do not include onerous contracts at inception, and:

- where all of the contracts have no significant risk of becoming onerous; or
- where all of the contracts have a significant risk of becoming onerous,

the level of aggregation may be consistent with the portfolio level – but only for contracts issued within the same year. This may be more consistent with the level at which the business is managed and currently accounted for than the IASB's previous proposals.

The proposed requirements do not seem to alleviate the potential inconsistency that may result between the IFRS 17 reported results and those that are used by management to manage the business for portfolios where losses at inception on some contracts are offset by gains on others such that the overall portfolio is profitable.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Recognition of changes in estimates

The combined effect of experience adjustments that directly cause a change in the estimate of the present value of future cash flows would be recognised in profit or loss.

What were the proposed requirements?

An entity would have regarded experience adjustments as relating to current or past services to be recognised in profit or loss, and changes in estimates of future cash flows as relating to future services to be recognised as an adjustment to the CSM. However, circumstances in which the former would not apply would have included the effect of events that result in an experience adjustment that causes a change in the estimate of future cash flows. The combined effect would have been regarded as relating to future service, giving rise to an adjustment to the CSM.[2]

What feedback was received?

Many external reviewers had difficulty in interpreting and applying the proposed requirements that deal with the combined effects of experience adjustments and associated changes in estimates of future cash flows. They believed that it was not clear how to distinguish when a change in estimate was caused by an experience adjustment and when it was not.

Some respondents expressed that it would be operationally less complicated if the combined effect were accounted for in the statement of profit or loss and not in the CSM. However, others noted that this may result in accounting volatility in the statement of profit or loss.

What did the staff recommend?

The staff acknowledged that entities may find it difficult to understand what types of changes in estimates should be considered because past and current experience is sometimes used to determine changes in future assumptions. For example, entities may periodically review their recent experience coupled with that from the past (e.g. mortality rates) via experience studies. These studies are used to determine prospective changes to future assumptions when determining the estimates of future cash flows. The staff did not intend for such a change to be regarded as being caused by experience adjustments that had occurred in the current or past periods. The staff believed that it was possible to make a distinction between:

- changes in estimates of cash flows that should be combined with experience adjustments (e.g. an unexpected increase in lapses in the current period that directly causes a reduction in expected coverage units and the related fulfilment cash flows); and
- other changes in estimates of cash flows (e.g. prospective changes in future lapse assumptions as a result of an annual experience study).

The staff proposed that the changes in estimates of cash flows that should be combined with experience adjustments would be those *directly* caused by an experience adjustment because the experience adjustment changes the future rights and obligations for the group of contracts (i.e. the number of coverage units), and not just the measurement of those rights and obligations.

The staff also noted that adjusting the CSM for the combined effect of an experience adjustment and a resulting change in the estimate of the present value

2. See paragraph B93 of the draft IFRS 17, as presented 'Topic 5 – Recognition of changes in estimates' of the IASB's August 2016 testing questionnaire, for the exact requirements.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

of future cash flows could result in increased implementation costs. However, they believed that these costs could be reduced if this adjustment is recognised in the statement of profit or loss instead.

The staff also analysed experience adjustments for contracts measured under the variable fee approach that do not affect the underlying items and that arise from non-financial risk. The Board had previously decided that these items would adjust the CSM. However, this would be inconsistent with the treatment under the general model for:

- experience adjustments that do not directly cause changes in the estimates of the present value of future cash flows; and
- the revised treatment (as proposed by the staff this month) for the combined effects of experience adjustments.

The staff did not believe that there is a good reason for a difference between the general model and the variable fee approach in the treatment of these items. Therefore, they proposed that these items be recognised in profit or loss.

What did the IASB decide?

The Board agreed with the staff's recommendations that:

- when an experience adjustment directly causes a change in the estimate of the present value of future cash flows, the combined effect of the experience adjustment and the change in the estimate of the present value of future cash flows would not adjust the CSM, but would be recognised in profit or loss;
- for contracts measured under the variable fee approach, experience adjustments arising from non-financial risk that do not affect the underlying items, and any directly caused changes in the estimates of the present value of future cash flows, would not adjust the CSM but would be recognised in profit or loss; and
- an experience adjustment directly causes a change in the estimate of the present value of future cash flows only when it causes a change in the future rights and obligations for the group of contracts (i.e. the number of coverage units). A change in the measurement only of existing rights and obligations would not be directly caused by an experience adjustment.

KPMG insight

Usually, insurance contracts are impacted by experience adjustments in each reporting period. If the combined effect of an experience adjustment and a resulting change in the estimate of the present value of future cash flows were to adjust the CSM, then there would be additional measurement complexity and operational considerations that entities would need to consider when calculating the CSM.

The Board's decision this month is expected to reduce the number of adjustments that would be made against the CSM and should make the subsequent measurement of the CSM less complex.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Derivatives used to mitigate financial risk

The Board decided to extend a previous decision to more closely align the general model and variable fee approach.

What were the proposed requirements?

The Board had previously agreed that if an entity uses a derivative measured at fair value through profit or loss (FVTPL) to mitigate the financial market risk from a financial option or a guarantee embedded in an insurance contract subject to the variable fee approach, then the entity would be permitted to recognise in profit or loss the changes in the value of the embedded financial option or guarantee determined using fulfilment cash flows, provided that certain criteria were met.[3]

What feedback was received?

Most external reviewers for whom these requirements were relevant supported the proposals, as they would reduce accounting mismatches. However, the reviewers believed that these proposed requirements should also be available for contracts that are accounted for using the general model.

Some external reviewers believed that the scope of the proposed requirements should be extended to include other changes in financial risk that are mitigated through hedging with derivatives (e.g. changes in the entity's share in the underlying items), as well as changes to non-financial risks (e.g. mortality or longevity) when they are hedged.

Some also stated that applying these proposed requirements on a prospective basis could lead to significant accounting mismatches on transition and, as a result, misstate shareholders' equity at the date of transition and future profits after transition.

One external reviewer stated that there would be a significant accounting mismatch due to differences between the discount rate used to value the insurance contract cash flows and that used in the valuation of the derivatives.

What did the staff recommend?

The staff acknowledged that under the variable fee approach, an entity's use of a derivative measured at FVTPL (which is not considered an underlying item of the contract) to mitigate:

- the financial market risks from the entity's share in the underlying items; or
- a financial option or guarantee embedded in an insurance contract,

could result in similar accounting mismatches. The IASB's previous decision to reduce these accounting mismatches was only permitted for financial options or guarantees embedded in insurance contracts. Given the similarities, the staff proposed extending this permission to include other changes in financial risk – namely, those arising from an entity's share of underlying assets.

3. See paragraph B104 of the draft IFRS 17, as presented 'Topic 3 – Derivatives used to mitigate financial market risk' in the IASB's August 2016 testing questionnaire, for the exact requirement.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The staff also considered the other feedback provided by external reviewers but did not propose any other changes to the Board's previous decision, primarily because the objective of this requirement is to align the general measurement model and variable fee approach where necessary. It is not the staff's intention to address general concerns related to accounting for risk mitigation activities. Further, some of the feedback had already been considered by the Board.

What did the IASB decide?

The Board agreed with the staff's recommendation that if an entity uses a derivative to mitigate financial risks arising from an insurance contract, subject to the variable fee approach, then the entity would be permitted to exclude the effect of those changes in the financial risk from the CSM when specific criteria are met. This extends the Board's previous decision to all financial risks reflected in the insurance contract to which the variable fee approach is applied.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Transition

The Board revised its proposals for transition to IFRS 17 to allow greater applicability of the permitted modifications.

What were the proposed requirements?

An entity would have applied IFRS 17 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, unless this was impracticable. If it were impracticable to measure the CSM retrospectively at the beginning of the earliest period presented, then an entity would have used a simplified transition approach. If it were impracticable to estimate the CSM at the beginning of the earliest period presented based on the simplified transition approach, then an entity would have determined the CSM at the beginning of the earliest period presented as the excess, if any, of the fair value of the insurance contracts at that date over the fulfilment cash flows measured at that date[4].

What feedback was received?

Most external reviewers were concerned about the difficulty involved in applying the transition requirements of the draft IFRS 17, both in terms of applicability and costs.

Most external reviewers believed that they would be significantly limited in the amount of contracts to which they could apply a full retrospective approach (i.e. less than 10 percent). However, some said that it may be possible to use it for existing contracts if the necessary data is already captured and for contracts that they will issue close to and after the publication of IFRS 17.

Some external reviewers also expressed concerns over the practicability of and their ability to apply the simplified transition approach, and whether this approach provides sufficient relief. These concerns included difficulties in obtaining reliable data and determining reliable estimates. Some also believed that it is hardly more practicable than the full retrospective approach due to the amount of data required.

Concern was also expressed about the fair value approach to transition, in terms of the measurement of fair value and the expectation that this approach would result in too small a CSM.

The interpretation of 'impracticability' also raised some concerns, as well as the unit of account relevant for the transition requirements and the ability to use the same groups for contracts issued before and after initial application of IFRS 17.

What did the staff recommend?

The staff thought that it was important to require retrospective application when it is practicable. However, they proposed moving to a range of permitted modifications to retrospective application if a full retrospective application is impracticable, rather than mandating a simplified approach.

The staff believed that the use of a modified approach, rather than the previous concept of a simplified approach, would allow entities to use modifications of retrospective information only to the extent necessary, while also using other reasonable and supportable information that is available without undue cost or effort, to apply a retrospective approach. This might not contribute to consistency but it would achieve the closest outcome to a full retrospective approach.

4. See 'Topic 6 – Transition' in the IASB's August 2016 testing questionnaire for the exact requirements.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The draft IFRS 17 suggested a slightly different approach to transition for contracts that would be accounted for under the variable fee approach – mainly, determining the CSM based on the information available at the date of initial application, rather than at the beginning of the earliest period presented. This was due to a concern about using hindsight to determine the fair value of the underlying items at the beginning of the earliest period presented. Given the length of time that entities would have before initial application of IFRS 17, it was suggested that the Board align the transition requirements with those of the general model so that the CSM would be determined at the beginning of the earliest period presented, using a set of permitted modifications to retrospective application.

The staff continued to support the use of the fair value approach as an accounting policy choice when a full retrospective approach is impracticable and as a requirement in the absence of reasonable and supportable information available without undue cost or effort to apply a modified retrospective approach. They proposed that, under the fair value approach (and consistent with their modifications recommended for the modified retrospective approach), an entity would be allowed to perform various assessments (e.g. how to group contracts and the eligibility of the variable fee approach) either at the beginning of the earliest period presented or at contract inception.

In addition, the staff proposed permitting the use of a discount rate determined at the beginning of the earliest period presented to accrete and adjust the CSM after transition and requiring related disclosures.

Lastly, given the likelihood of different methods of transition being adopted by different entities, and for different products by the same entity as a result of the proposals above, the staff proposed additional disclosure requirements.

What did the IASB decide?

The Board agreed with the staff's recommendations, as follows.

Objective

- An entity would apply the requirements of IFRS 17 retrospectively in accordance with IAS 8 to groups of insurance contracts, unless this is impracticable.
- For insurance contracts for which an entity cannot identify a group retrospectively, and for groups of insurance contracts for which retrospective application is impracticable, an entity would be permitted to choose a modified retrospective approach or the fair value approach. If a modified retrospective approach is impracticable, then an entity would have to use the fair value approach.

Modified retrospective approach

- The objective of a modified retrospective approach would be to achieve the closest possible outcome to retrospective application using reasonable and supportable information, and therefore an entity would be permitted to use specified modifications[5] but would use the minimum modifications necessary to meet the objective of the modified retrospective approach.

5. See Appendix B of the November 2016 IASB staff paper 2E for a listing of these specified modifications.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- In applying a modified retrospective approach, an entity would maximise the use of information that would have been used to apply a full retrospective approach, but need only use information that is available without undue cost or effort.

Variable fee approach

- An entity would determine the CSM using the permitted modifications[6] for the variable fee approach determined at the beginning of the earliest period presented.

Fair value approach

- Under the fair value approach and consistent with the modifications recommended for the modified retrospective approach:
  - an entity would be permitted to assess whether a contract is eligible for the variable fee approach, how to group contracts and how to determine the effect of discretion on estimated cash flows for contracts subject to the general model, either:
    - as at inception of a contract: based on reasonable and supportable evidence of what the entity would have determined given the terms of the contract and the market conditions at that time; or
    - at the beginning of the earliest period presented; and
  - an entity would:
    - not be prohibited from grouping contracts issued more than one year apart; and
    - be permitted to use the discount rate at the beginning of the earliest period presented to:
      - accrete and adjust the resulting CSM for groups of contracts to which the entity applies the general model; and
      - determine the finance income or expense in profit or loss when the entity makes an accounting policy choice to disaggregate the insurance finance income or expense between profit or loss and other comprehensive income (OCI) for non-participating contracts.

Disclosures

- Entities would disclose a reconciliation from the opening to the closing balance of the accumulated OCI for financial assets measured at fair value through other comprehensive income (FVOCI) if those assets are related through the entity's asset-liability management to those insurance contracts for which it determines the finance income or expense in profit or loss using the discount rate at the beginning of the earliest period presented when the entity first applies IFRS 17.
- An entity would provide all of the disclosures required by IFRS 17 relating to the CSM, insurance contract revenue and insurance finance income or expense separately for:
  - insurance contracts that existed at the beginning of the earliest period presented; and

---

6. See paragraph B8 of the November 2016 IASB staff paper 2E for a listing of the permitted modifications.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- insurance contracts written after the beginning of the earliest period presented.

– For all periods in which disclosures are provided for insurance contracts that existed at the beginning of the earliest period presented when the entity first applies IFRS 17, an entity would explain how it determined the measurement of insurance contracts at transition. This should help users understand the nature and significance of the methods used and judgements applied.

KPMG insight

The Board's decisions this month reflect an appreciation of the complexity of transition and the difficulties – indeed, impossibility, in some cases – of obtaining all of the historical information that would be necessary for a full retrospective application. The revisions that move from a 'simplified' transition approach to a modified retrospective approach may improve consistency and comparability by increasing the ability to apply such an approach and minimising the extent of changes from a full retrospective approach.

By contrast, allowing entities a choice between a modified retrospective approach and a fair value approach when full retrospective application is impracticable may reduce comparability. In addition, the Board is not providing substantive additional guidance on how to measure the fair values of insurance contracts.

The revisions provide entities with a further ability to make accounting policy choices and use their own judgement in determining how to implement IFRS 17. Accordingly, it is critical that entities begin assessing these requirements and the various accounting policy choices that they need to make to determine how they will proceed with implementing IFRS 17.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Other sweep issues

The IASB made decisions on various other issues that arose in the drafting process.

What did the staff recommend?

The staff summarised and proposed other changes or clarifications to previous decisions that have arisen in the drafting process and external testing that are not addressed above. This list presents all issues discussed by the IASB that would result in changes to the exposure draft ED/2013/7 *Insurance Contracts* (the ED) or previous decisions made by the Board during its redeliberations. To see a complete list of issues discussed, see the November 2016 IASB staff paper 2G.

Issue	Recommendation
Contract modifications	
Source of issue: Paragraph 49 of the ED. One respondent noted that the following should also be a condition that would require a contract modification: the addition of a component to an existing contract that would have been separated if it had been present at inception because it is an embedded derivative, a distinct investment component or distinct good or service.	The staff agreed with this suggestion and proposed to include it in IFRS 17.
OCI presentation for the finance element of the change in risk adjustment	
Source of issue: IASB Board meeting – June 2016[7]. An entity would not be required to disaggregate the change in the risk adjustment into a finance component and an underwriting component. If the entity does not disaggregate the risk adjustment into these components, then it would present the change as part of the underwriting result. The entity would disclose which method has been used. Respondents questioned whether an entity that makes such a disaggregation should be permitted to recognise part of the insurance finance income or expense relating to the change in the risk adjustment in profit or loss and OCI.	The staff proposed amending the current proposed requirement to clarify that an entity would be permitted to recognise part of the insurance finance income or expense relating to the change in the risk adjustment for a group of contracts in profit or loss and OCI, consistently with the way that the finance income or expense for that group of contracts as a whole is presented.

7. See *IFRS Newsletter: Insurance*, June 2016.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

<table>
<tr><th>Issue</th><th>Recommendation</th></tr>
<tr><th colspan="2">Variable fee approach scope</th></tr>
<tr><td colspan="2">Source of the issue: Paragraph B97 of the draft IFRS 17[8].

Insurance contracts with direct participation features would be defined as insurance contracts for which:

– the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

– the entity expects to pay to the policyholder an amount equal to a substantial share of the returns from the underlying items; and

– a substantial proportion of the cash flows that the entity expects to pay to the policyholder are expected to vary with the cash flows from the underlying items.</td></tr>
<tr><td>Most respondents were unclear whether the term ‘contractual terms’ includes terms implied by constructive obligations or terms arising from law or regulation.</td><td>The staff noted that the Board’s intention was that the link to the underlying items, though subject to discretion, should be enforceable. The notion of ‘enforceable’ should be consistent with the requirements of paragraph 10 of IFRS 15.

The staff proposed adding guidance along those lines for determining whether a contract is in the scope of the variable fee approach.</td></tr>
<tr><td>Some respondents were unclear what was meant by the term ‘substantial’.</td><td>The staff noted that the Board’s intention was that application of this term would be subject to judgement.

They also noted that the criteria that refer to the term ‘substantial’ are intended to identify when the entity’s primary obligation is to pay to the policyholder an amount equal to the fair value of the underlying items, less the variable fee for service, and should be interpreted in that context. The staff proposed to ensure that this is clear in IFRS 17.</td></tr>
</table>

8. See ‘Topic 2 – Scope of the variable fee approach’ in the IASB’s August 2016 testing questionnaire for the exact requirements.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Issue	Recommendation
Presenting comparative information on transition	
Source of the issue: Appendix C of the draft IFRS 17[9]. Some entities – e.g. those that file with the US's SEC – are required to provide more than one year of comparative information. A respondent suggested that the Board provide relief from restating comparative information for more than one period preceding the date of initial application.	The staff proposed to add relief consistent with IFRS 10 *Consolidated Financial Statements* that an entity would only be required to present adjusted comparative information for the annual period immediately preceding the date of initial application of IFRS 17. However, an entity may present adjusted comparative information for earlier periods, but would not be required to do so.
Impact of inflation throughout the standard	
Some respondents believed that the language in the draft IFRS 17 on the accounting treatment for inflation is inconsistent. Additionally, it was unclear whether inflation should be treated as a market variable.	The staff agreed and proposed clarifying that an inflation index would be a financial variable, but inflation specific to a contract would be a non-financial variable.
Combination of insurance contracts	
Source of issue: Paragraph 8 of the ED. Respondents were concerned that the requirement to combine insurance contracts may cause contracts to be combined inappropriately. For example, it may not be appropriate to combine contracts that are issued separately, but whose pricing reflects the existence of the other contract. However, based on this requirement, they would be.	The staff noted that this requirement would result in unintended consequences. Accordingly, they recommended removing the requirement and replacing it with the general principle in IFRS that the substance of contracts should be followed, which is proposed in paragraph 4.56 of exposure draft ED/2015/3 *Conceptual Framework for Financial Reporting*.
Pre-coverage cash flows	
Source of issue: Paragraph 13 of the ED. Respondents believed that it was unclear what was intended by the term 'pre-coverage cash flows'.	The staff noted that only cash flows that meet the definition of acquisition costs could be incurred before the coverage period begins. Accordingly, they proposed to refer only to 'acquisition costs' and remove reference to 'pre-coverage cash flows'.

9. See 'Topic 6 – Transition' in the IASB's August 2016 testing questionnaire for the exact requirements.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Issue	Recommendation
Recognising insurance contract revenue using the premium-allocation approach (PAA)	
Source of the issue: IASB Board meeting – September 2014.[10] For contracts accounted for under the PAA, insurance contract revenue would be recognised on the basis of the passage of time. However, if the expected pattern of release of risk differs significantly from the passage of time, then it would be recognised on the basis of the expected timing of incurred claims and benefits. Some respondents were unclear whether an entity could change between the different allocation methods.	The staff noted that permitting a prospective change in the allocation method would be consistent with the objective that an entity would recognise the remaining CSM according to the remaining service to be provided. Therefore, the staff proposed not to prohibit an entity from changing allocation methods.
The general objective that the fulfilment cash flows should include 'all available information'	
Some respondents suggested that the use of the term 'all available information' should be consistent with similar wording in other standards – e.g. IFRS 9 impairment requirements.	The staff proposed aligning the use of this term with how it is used in IFRS 9 (i.e. an entity would use reasonable and supportable information that is available without undue cost or effort), where appropriate.

What did the IASB decide?

The IASB agreed with the staff's recommendations.

KPMG insight

Entities and key stakeholders should now have more clarity on the final requirements of IFRS 17.

Although the mandatory effective date of 1 January 2021 will allow approximately three and a half years from the expected issue date of IFRS 17 to the mandatory effective date, we encourage entities to begin assessing the impact and planning their implementation as soon as possible (if they have not already done so).

10. See *IFRS Newsletter: Insurance*, September 2014.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Appendix: Summary of IASB's redeliberations

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Targeted issues		
Unlocking the CSM	– Favourable changes in estimates that arise after losses have previously been recognised in profit or loss would be recognised in profit or loss to the extent that they reverse losses that relate to coverage and other services in the future.	Yes
	– Differences between the current and previous estimates of the risk adjustment that relate to coverage and other services for future periods would be added to, or deducted from, the CSM, subject to the condition that the CSM would not be negative. Consequently, changes in the risk adjustment that relate to coverage and other services provided in the current and past periods would not adjust the CSM.	Yes
	– The CSM would not be adjusted for an experience adjustment or a change in the present value of future cash flows caused by changes in financial assumptions.	No
	– An entity would regard experience adjustments as relating to current or past services, and changes in estimates of future cash flows as relating to future services. However, circumstances where this does not apply would include those listed below. - Changes in the liability for remaining coverage, as follows. – Experience adjustments arising from premiums paid in the period that relate to future services. These experience adjustments relate to future service. – The effect of events that result in an experience adjustment that directly causes a change in the estimate of the present value of future cash flows. The combined effect would be recognised in profit or loss. An experience adjustment directly causes a change in the estimate of the present value of future cash flows only when it causes a change in the future rights and obligations for the group of contracts (i.e. the number of coverage units). A change in the measurement only of existing rights and obligations would not be directly caused by an experience adjustment. - Changes in estimates of incurred claims, which relate to current or past services.	Yes
	– An entity would specify at inception of the contract how it views its discretion under the contract and use that specification to measure the effect of changes in estimates of discretionary cash flows to be recognised in the CSM because such estimates are regarded as relating to future service under the general measurement model.	Yes
	– For non-direct participating contracts, the rate applicable to nominal cash flows that do not depend on the returns on any underlying items would be used for: - accreting interest on the CSM; and - calculating the change in the present value of expected cash flows that adjust the CSM.	No

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Targeted issues (continued)		
Unlocking the CSM (continued)	– An entity would disclose: - the changes in fulfilment cash flows that are accounted for as a change in the CSM (except when the variable fee approach applies); and - an explanation of when the entity expects to recognise the remaining CSM in profit or loss either: – on a quantitative basis using the appropriate time bands; or – using qualitative information.	Yes
Presenting the effects of changes in the discount rate and other market variables in OCI	– An entity could choose as its accounting policy either: - to disaggregate changes in the discount rate and other market variables between profit or loss and OCI; or - to present insurance finance income or expense in profit or loss using a current measurement basis.	Yes
	– An entity would present changes in estimates of the amount of cash flows that result from changes in market variables in the same location in the statement of comprehensive income as, and consistently with, changes in discount rates.	Yes
	– The objective of disaggregating changes in the measurement of an insurance contract arising from changes in financial assumptions between profit or loss and OCI would be to present in profit or loss a systematic allocation of the total expected insurance finance income or expense over the life of the contract.	Yes
	– A systematic allocation would be based on characteristics of the contract without reference to factors that do not affect the cash flows of the contract[11] and would result in zero accumulated OCI at the termination of the contract. - Further, for insurance contracts for which changes in financial assumptions *do not* have a substantial effect on the amounts paid to the policyholder, the systematic allocation would be determined using the discount rate(s) applicable at contract inception. - For insurance contracts for which changes in financial assumptions *do* have a substantial effect on the amounts paid to the policyholder, a systematic allocation could be determined in one of the following ways: – using a constant rate; or – for contracts that use a crediting rate to determine amounts due to the policyholder, using an allocation that is based on the amounts credited to the policyholder in the period and those expected to be credited in future periods.	Yes
	– The requirements in IAS 8 would be applied without modification to changes in accounting policy relating to the presentation of the effects of changes in discount rates and other market variables.	Yes

11. For example, if expected recognised returns from assets do not affect the fulfilment cash flows, then they would not impact the allocation of the expected finance income or expense.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Targeted issues (continued)		
Presenting the effects of changes in the discount rate and other market variables in OCI (continued)	– Application guidance would be added to clarify that, in accordance with IAS 8, an entity would select and apply its accounting policies consistently for similar contracts, considering the portfolio in which the contract is included, the assets that the entity holds and how those assets are accounted for.	Yes
	– If an entity chooses to present the effects of changes in discount rates and other market variables in OCI, then it would disclose an explanation of the method used to calculate the insurance finance income or expense.	Yes
	– An entity would explain the total amount of insurance finance income or expense in a reporting period by disclosing: - the relationship between insurance finance income or expense and the investment return on the related assets that the entity holds (to provide investors with sufficient information to understand the sources of net finance income or expense recognised in profit or loss and OCI); and - the methods that it uses to calculate the insurance finance income or expense presented in profit or loss.	Yes
	– An entity would be permitted to recognise part of the insurance finance income or expense relating to the change in the risk adjustment for a group of contracts in profit or loss and OCI, consistently with the way that the finance income or expense for that group of contracts as a whole is presented. If the entity does not do this, then it would present the change as part of the underwriting result. The entity would disclose which method has been used.	Yes
	– For non-participating contracts accounted for under the PAA, when an entity presents the effects of changes in discount rates in OCI, the discount rate that is used to determine the interest expense for the liability for incurred claims would be the rate locked in at the date the claim was incurred. This would also apply if a liability for onerous contracts is established under the PAA, in which case the locked-in discount rate would be the rate on the date the liability is recognised.	Yes
Insurance contract revenue	– An entity would be prohibited from presenting premium information in profit or loss if that information is not consistent with commonly understood notions of revenue.	No
	– An entity would present insurance contract revenue in profit or loss, as proposed in paragraphs 56–59 and B88–B91 of the ED.	No
	– An entity would disclose the following: - a reconciliation that separately reconciles the opening and closing balances of the components of the insurance contract asset or liability; - the inputs used when determining the insurance contract revenue that is recognised in the period; and - the effect of the insurance contracts that are initially recognised in the period on the amounts that are recognised in the statement of financial position.	No

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Targeted issues (continued)		
Insurance contract revenue (continued)	– For contracts accounted for under the PAA, insurance contract revenue would be recognised on the basis of the passage of time. However, if the expected pattern of release of risk differs significantly from the passage of time, then it would be recognised on the basis of the expected timing of incurred claims and benefits.	Yes
	– An entity would not be prohibited from changing allocation methods for the remaining unallocated premium.	Yes
	– The disclosure required by paragraph 79 of the ED to reconcile revenue recognised in profit or loss in the period to premiums received in the period would be deleted.	Yes
Direct participating contracts		
The variable fee approach	– For direct participating contracts – i.e. those that meet the following criteria – the CSM would be adjusted for changes in the estimate of the variable fee for service that the entity expects to earn: - the contractual terms specify that the policyholder participates in a defined share of a clearly identified pool of underlying items; - the entity expects to pay to the policyholder an amount equal to a substantial share of returns from the underlying items; and - a substantial portion of the cash flows that the entity expects to pay to the policyholder is expected to vary with the cash flows from the underlying items.	Yes
	– When assessing whether a contract is in the scope of the variable fee approach, the link to the underlying items, though subject to discretion, should be enforceable. The notion of 'enforceable' should be consistent with the requirements of paragraph 10 of IFRS 15.	Yes
	– An entity would be permitted to measure at FVTPL investment properties, investments in associates, owner-occupied property, own debt and own shares that are underlying items for direct participating contracts.	Yes
	– An entity would not apply the variable fee approach to reinsurance contracts issued or reinsurance contracts held.	Yes
Recognising the CSM in profit or loss	– An entity would recognise the CSM in profit or loss on the basis of the passage of time.	Yes
	– Experience adjustments arising from non-financial risk that do not affect the underlying items, and any directly caused changes in the estimates of the present value of future cash flows, would be recognised in profit or loss.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Direct participating contracts (continued)		
Accounting mismatches arising from hedging activities for direct participating contracts	– If an entity uses the variable fee approach to measure insurance contracts, and uses a derivative measured at FVTPL to mitigate the financial risk, then it would be permitted to exclude the effect of those changes in the financial risk from the CSM, determined using fulfilment cash flows, but only if the following criteria are met. - That risk mitigation is consistent with the entity's risk management strategy. - An economic offset exists between the financial risk and the derivative – i.e. the values or cash flows from the financial risk and the derivative generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity would not consider accounting measurement differences in assessing the economic offset. - Credit risk does not dominate the economic offset.	Yes
	– An entity would be required to: - document, before it starts recognising changes in the value of the financial risk in profit or loss, its risk management objective and its strategy for using the derivative to mitigate the financial risk embedded in the insurance contract; and - discontinue recognising in profit or loss changes in the value of the financial risk prospectively from the date on which the economic offset no longer exists.	No
	– An entity would disclose changes in the amount of the financial risk recognised in profit or loss for the period.	Yes
Disaggregating changes arising from market variables – Direct participating contracts with no economic mismatches	– For direct participating insurance contracts, for which the entity holds the underlying items, an entity would make an accounting policy choice between: - including insurance finance income or expense for the period in the statement of profit or loss; or - disaggregating insurance finance income or expense for the period to include in the statement of profit or loss an amount that eliminates accounting mismatches with the finance income or expense arising on the underlying items held – the current period book yield (CPBY) approach. The difference between the insurance finance income or expense recognised in profit or loss and the changes in the contract arising from changes in market variables would be recognised in OCI.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Direct participating contracts (continued)		
Disaggregating changes arising from market variables – Direct participating contracts with no economic mismatches (continued)	– If an entity changes to or from the CPBY approach, then it would: - not restate the opening accumulated OCI balance; - recognise in profit or loss the accumulated OCI balance at the date of the change, in the period of change and in future periods, as follows: – if the entity had previously applied a different approach, then it would recognise the accumulated OCI balance in profit or loss using a rate determined by applying the same assumptions that applied before the change; and – if the entity had previously applied the CPBY approach, then it would continue to recognise the accumulated OCI balance in profit or loss using the assumptions that applied before the change; - not restate prior-period comparatives; and - disclose, in the period during which the change in approach occurred: – an explanation of the reason for the change and the effect of the change on each financial statement line item affected; and – the value of the contracts that no longer qualify for the CPBY approach but previously qualified (and vice versa).	Yes
Mirroring approach	– The mirroring approach proposed in the ED for the measurement of participating contracts would be neither permitted nor required in IFRS 17.	Yes
Transition		
Transition	– An entity would apply IFRS 17 retrospectively in accordance with IAS 8, unless this is impracticable.	No
	– For insurance contracts for which an entity cannot identify a group retrospectively, and for groups of insurance contracts for which retrospective application is impracticable, an entity would be permitted to choose a modified retrospective approach or the fair value approach. If a modified retrospective approach is impracticable, then an entity would have to use the fair value approach.	Yes
	– If an entity uses a derivative to mitigate financial risks arising from an insurance contract, subject to the variable fee approach, then the entity would be permitted to exclude prospectively the effect of those changes in the financial risk from the CSM when specific criteria are met.	Yes
	– The objective of a modified retrospective approach would be to achieve the closest possible outcome to retrospective application using reasonable and supportable information, and therefore an entity would be permitted to use the specified modifications, but would use the minimum modifications necessary to meet the objective of the modified retrospective approach.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition (continued)		
Transition (continued)	– In applying a modified retrospective approach, an entity would maximise the use of information that would have been used to apply a full retrospective approach, but need to use only information that is available without undue cost or effort.	Yes
	– For the modified retrospective approach, an entity may estimate the risk adjustment by adjusting it at the beginning of the earliest period presented by the expected release of the risk before the beginning of the earliest period presented. The expected release of risk would be determined with reference to the release of risk for similar insurance contracts that the entity issued at the beginning of the earliest period presented.	Yes
	– For circumstances in which full retrospective application is impracticable, the approach for determining insurance finance income or expense (and accumulated OCI) for contracts in which changes in market variables affect the amount of cash flows would be modified as follows. - For contracts whose objective is to present insurance finance income or expense using a systematic allocation in profit or loss, an entity would assume that the earliest market variable assumptions that should be considered are those that occur when the entity first applies IFRS 17. Accordingly, on initial application of IFRS 17 the accumulated OCI balance for the insurance contract would be zero. - For contracts under the CPBY approach, insurance finance income or expense would be equal and opposite in amount to the gains (or losses) presented in profit or loss for the items held by the entity.	Yes
	– The effect of contracts derecognised before transition would be incorporated into the calculation of the CSM at transition, but the entity would be permitted to assume that the effect on the CSM at transition of contracts derecognised before the earliest date of inception of the contracts in force in each group at transition is zero.	Yes
	– Under the fair value approach, the CSM at the beginning of the earliest period presented would be the difference between the fair value of the insurance contract and the fulfilment cash flows measured at that date.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition (continued)		
Transition (continued)	– Under both the modified retrospective approach and the fair value approach, an entity: - would be permitted to assess whether a contract is eligible for the variable fee approach, how to group contracts and how to determine the effect of discretion on estimated cash flows for contracts subject to the general model, either: – as at inception of a contract: based on reasonable and supportable evidence of what the entity would have determined given the terms of the contract and the market conditions at that time; or – at the beginning of the earliest period presented;	Yes
	- would not be prohibited from grouping contracts issued more than one year apart; and	Yes
	- would be permitted to use the discount rate at the beginning of the earliest period presented to: – accrete and adjust the resulting CSM for groups of contracts to which the entity applies the general model; and – determine the finance income or expense in profit or loss when the entity makes an accounting policy choice to disaggregate the insurance finance income or expense between profit or loss and OCI for non-participating contracts.	Yes
	– Under all transition approaches: - An entity would provide all of the disclosures required by IFRS 17 relating to the CSM, insurance contract revenue and insurance finance income or expense separately for: – insurance contracts that existed at the beginning of the earliest period presented; and – insurance contracts written after the beginning of the earliest period presented. - Entities would disclose a reconciliation from the opening to the closing balance of the accumulated OCI for financial assets measured at FVOCI if those assets are related through the entity's asset-liability management to those insurance contracts for which it determines the finance income or expense in profit or loss using the discount rate at the beginning of the earliest period presented when the entity first applies IFRS 17. - For all periods in which disclosures are provided for insurance contracts that existed at the beginning of the earliest period presented when the entity first applies IFRS 17, an entity would explain how it determined the measurement of insurance contracts at transition.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition (continued)		
Transition (continued)	– Where there are contracts measured using either the modified retrospective approach or the fair value approach, for each period presented, an entity would disclose: - the amounts in the financial statements determined at transition and in subsequent periods; and - the information proposed in paragraph C8 of the ED separately for contracts measured using the: – modified retrospective approach; and – fair value approach.	Yes
	– If the modified retrospective approach is used on transition for contracts accounted for using the variable fee approach, at the date of the earliest period presented, then the CSM would be measured as the: - total fair value of the entity's share of returns from underlying items at the date of the beginning of the earliest period presented; less - fulfilment cash flows at the date of the beginning of the earliest period presented, adjusted to reflect relevant cash flows that have already occurred between the inception of the contracts and the beginning of the earliest period presented; and - accumulated fee for contractual service that relates to service provided before the beginning of the earliest period presented. The entity would estimate this amount by comparing the remaining coverage units with the total coverage units of the group of contracts.	Yes
Transition – Classification and measurement of financial assets	– Consistent with the approach to identifying financial assets that relate to insurance activities under the overlay approach, an entity would be permitted to reassess the business model for managing financial assets on transition to IFRS 17 for financial assets that it designates as related to insurance activities.	Yes
	– On transition to IFRS 17, the reassessment of the business model for managing financial assets and designation and de-designation of financial assets under the fair value option (FVO) and the OCI presentation election for investments in equity instruments would be based on the facts and circumstances that exist on initial application of that standard – i.e. the beginning of the latest period presented.	Yes
	– The resulting classifications would be applied retrospectively and the cumulative effect of any changes in classification and measurement of financial assets as a result of applying those transition reliefs would be recognised in the opening balance of retained earnings or accumulated OCI.	Yes
	– The entity would disclose its policy for designating financial assets to which the transition relief is applied.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition (continued)		
Transition – Classification and measurement of financial assets (continued)	– For any changes in classification and measurement of financial assets as a result of applying the transition provisions in IFRS 17, an entity would be required to disclose, by class of financial assets: - the measurement category and carrying amount immediately before initial application; - the new measurement category and carrying amount determined as a result of applying the transition provisions; - the amount of any financial assets in the statement of financial position that were previously designated under the FVO but are no longer so designated, distinguishing between those that the entity was required to de-designate and those that it elected to de-designate; and - qualitative information that would enable users of the financial statements to understand how the entity has applied the transition provisions to those financial assets whose classification has changed as a result of initial application, including: – the reasons for any designation or de-designation of financial assets under the FVO; and – an explanation of why the entity came to a different conclusion in reassessing its business model.	Yes
Transition – Restatement of comparative information	– On initial application of IFRS 17: - an entity would be required to restate comparative information about insurance contracts; and - an entity that has previously applied IFRS 9 would be permitted (but not required) to restate comparative information about financial assets only if it is possible without hindsight and the entity chooses to apply the transition reliefs for classification and measurement of financial assets.	No
	– An entity would only be required to present adjusted comparative information for the annual period immediately preceding the date of initial application of IFRS 17. However, an entity may present adjusted comparative information for earlier periods, but would not be required to do so.	Yes
Non-targeted issues		
Fixed-fee service contracts	– Entities would be permitted, but not required, to apply IFRS 15 to fixed-fee service contracts that meet the criteria stated in paragraph 7(e) of the ED.	Yes
Combining insurance contracts	– The requirements of paragraph 8 of the ED will be replaced with the general principle in IFRS that the substance of contracts should be followed, which is proposed in paragraph 4.56 of exposure draft ED/2015/3 *Conceptual Framework for Financial Reporting*.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Non-targeted issues (continued)		
Separating embedded derivatives	– An entity would be required to apply IFRS 9 to determine whether there is an embedded derivative to be separated and, if so, how to account for that derivative.	No
Pre-coverage cash flows	– Only cash flows that meet the definition of acquisition costs could be incurred before the coverage period begins. Accordingly, all references to 'pre-coverage cash flows' would be removed and such instances would refer only to 'acquisition costs' throughout IFRS 17.	Yes
Contract modifications	– The addition of a component to an existing contract that would have been separated if it had been present at inception would result in the derecognition of the original contract and recognition of a new contract.	Yes
Available information	– IFRS 17 would refer to the need to consider 'all available information' in measuring insurance contracts. An entity would use reasonable and supportable information that is available without undue cost or effort to achieve this objective.	Yes
Inflation	– An inflation index would be considered a financial variable, but inflation specific to a contract would be considered a non-financial variable.	Yes
Significant insurance risk	– The ED's guidance will be adjusted to clarify that significant insurance risk occurs only when there is a possibility that an issuer will incur a loss on a present-value basis.	Yes
Portfolio transfers and business combinations	– Paragraphs 43–45 of the ED will be amended to clarify that contracts acquired through a portfolio transfer or a business combination would be accounted for as if they had been issued by the entity at the date of the portfolio transfer or the business combination.	No
Determining discount rates when there is a lack of observable data	– The discount rates used to adjust the cash flows of an insurance contract for the time value of money would be consistent with observable current market prices for instruments with cash flows whose characteristics are consistent with those of the insurance contract.	No
	– In determining those discount rates, an entity would use judgement to: - ensure that appropriate adjustments are made to observable inputs, to accommodate any differences between observed transactions and the insurance contracts being measured; and - develop any unobservable inputs using the best information available in the circumstances, while remaining consistent with the objective of reflecting the way market participants assess those inputs – accordingly, any unobservable inputs should not contradict any available and relevant market data.	Yes
Asymmetrical treatment of gains from reinsurance contracts	– After inception, entities would recognise in profit or loss any changes in estimates of cash flows for a reinsurance contract that arise as a result of changes in estimates of cash flows that are recognised immediately in profit or loss for an underlying insurance contract.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Non-targeted issues (continued)		
Level of aggregation	– The objective is to provide principles for measuring an individual insurance contract; but in applying IFRS 17, an entity could aggregate insurance contracts, provided that the aggregation would meet that objective.	No
	– The objective for the adjustment and allocation of the CSM would be that the CSM at the reporting date represents the profit for the future services to be provided for a group of contracts.	Yes
	– Entities would allocate the CSM for a group of contracts on the basis of the passage of time. Therefore, the CSM would be allocated over the current and expected remaining coverage period and the allocation would be based on coverage units, reflecting the expected duration and size of the contracts in the group.	Yes
	– A portfolio of insurance contracts would be a group of contracts subject to similar risks and managed together as a single pool. Contracts within each product line (e.g. annuities) would be expected to have similar risks, and therefore contracts from different product lines would not be expected to be in the same portfolio.	Yes
	– Entities would be required to identify onerous contracts at inception and group them separately from contracts that are not onerous at inception. In addition, they could measure a set of contracts together if they can determine that those contracts can be grouped with others based on available information at inception.	Yes
	– Entities would be required to measure insurance contracts that are not onerous at inception by dividing portfolios into two groups – a group of contracts that have no significant risk of becoming onerous and a group of other profitable contracts.	Yes
	– An entity would assess the risk of the contracts in the group becoming onerous in a manner consistent with the entity's internal reporting about changes in estimates.	Yes
	– An entity would assess the risk of the contracts in the group becoming onerous based on the sensitivity of the fulfilment cash flows to changes in estimates which, if they occurred, would result in the contracts becoming onerous.	Yes
	– An entity would be permitted to divide portfolios further. For example, if the entity's internal reporting provides information that distinguishes the different risks of contracts becoming onerous.	Yes
	– Entities would be prohibited from grouping contracts issued more than one year apart.	Yes
	– Examples would be provided of how an entity could aggregate contracts but nevertheless satisfy the objective of the proposed insurance standard when determining the CSM on subsequent measurement.	Yes
	– Entities would be permitted to use a weighted-average discount rate for the accretion of interest on the CSM, with an averaging period of up to one year.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Non-targeted issues (continued)		
Presentation of line items	– An entity would not be required to present a separate line item for contracts measured using the variable fee approach.	No
Comparability with IFRS 15 disclosure requirements	– An entity would be required to disclose any practical expedients used.	Yes

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Project milestones and timeline

In May 2007, the IASB published a discussion paper (DP), *Preliminary Views on Insurance Contracts*. It re-exposed its revised insurance contracts proposals for public comment by publishing the ED in June 2013.

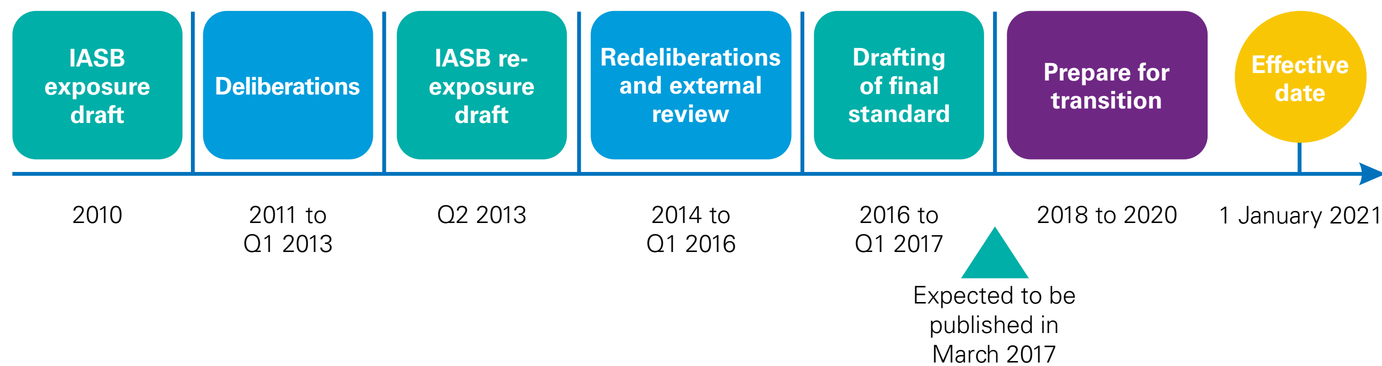
Since January 2014, the Board has been redeliberating issues raised through the ED.

Interaction with other standards

Throughout its redeliberations, the Board has considered whether the accounting for insurance contracts would be consistent with other existing or future standards, including the new revenue recognition standard – IFRS 15.[12]

The Board has also considered how IFRS 9[13] might interact with IFRS 17 – because IFRS 9 will cover a large majority of an insurer's investments. The IASB published amendments to IFRS 4 *Insurance Contracts* in September 2016 to address some of the consequences of the differing effective dates of IFRS 9 and IFRS 17.

For further information and analysis of these amendments (including our First Impressions and SlideShare presentation), visit our Insurance topic page.



Our suite of publications considers the different aspects of the project.

	KPMG publications
1	First Impressions: Amendments to IFRS 4 (September 2016)
2	SlideShare Presentation: Insurance Amendments (September 2016)
3	New insurance contracts standard – It's time to engage (July 2016)
4	IFRS Newsletter: Insurance (issued after IASB deliberations)
5	New on the Horizon: Insurance contracts (July 2013)
6	Challenges posed to insurers by IFRS 9's classification and measurement requirements
7	Evolving insurance risk and regulation: Preparing for the future (June 2016)

For more information on the project, including our publications on the IASB's insurance proposals, see our website. You can also find, in the same place, information about the FASB's insurance contracts project before February 2014, when this newsletter stopped following that project.

For information on the FASB's project subsequent to February 2014, see KPMG's Issues & Trends in Insurance.

The IASB's website and the FASB's website contain summaries of the Boards' meetings, meeting materials, project summaries and status updates.

12. See our Issues In-Depth: Revenue from Contracts with Customers and First Impressions.
13. See our First Impressions: Financial instruments – The complete standard.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG contacts

Global Head of Insurance
Gary Reader
T: +44 20 7694 4040
E: gary.reader@kpmg.co.uk

Global Insurance Accounting Change Leader
Mary Trussell
T: +1 647 777 5428
E: mtrussell@kpmg.ca

Also country contact for Canada

Global IFRS Insurance Leader
Joachim Kölschbach
T: +49 221 2073 6326
E: jkoelschbach@kpmg.com

Global IFRS Insurance Co-Deputy Leader
Alan Goad
T: +1 212 872 3340
E: agoad@kpmg.com

Global IFRS Insurance Co-Deputy Leader
Neil Parkinson
T: +1 416 777 3906
E: nparkinson@kpmg.ca

Austria
Thomas Smrekar
Partner
T: +43 1 31332 262
E: tsmrekar@kpmg.at

Australia
Scott A Guse
Partner
T: +61 7 3233 3127
E: sguse@kpmg.com.au

Bermuda
Richard Lightowler
Managing Director
T: +1 441 295 5063
E: richardlightowler@kpmg.bm

Brazil
Luciene T Magalhaes
Partner
T: +55 11218 33144
E: ltmagalhaes@kpmg.com.br

China
Walkman Lee
Partner
T: +86 10850 87043
E: walkman.lee@kpmg.com

France
Vivian Leflaive
Partner
T: +33 1556 86227
E: vleflaive@kpmg.fr

Germany
Martin Hoser
Partner
T: +49 89 9282 4684
E: mhoser@kpmg.com

Hong Kong
Erik Bleekrode
Partner
T: +852 2826 7218
E: erik.bleekrode@kpmg.com

Hungary
Csilla Leposa
Partner
T: +3618877275
E: csilla.leposa@kpmg.hu

India
Akeel Master
Partner
T: +91 22 3090 2486
E: amaster@kpmg.com

Italy
Giuseppe Rossano Latorre
Partner
T: +39 0267 6431
E: glatorre@kpmg.it

Japan
Ikuo Hirakuri
Partner
T: +813 3548 5107
E: ikuo.hirakuri@jp.kpmg.com

Korea
Won Duk Cho
Partner
T: +82 2 2112 0215
E: wcho@kr.kpmg.com

Kuwait
Bhavesh Gandhi
Director
T: +965 2228 7000
E: bgandhi@kpmg.com

Luxembourg
Geoffroy Gailly
Director
T: +35 222 5151 7250
E: geoffroy.gailly@kpmg.lu

Netherlands
Frank van den Wildenberg
Partner
T: +31 0 20 656 4039
E: vandenwildenberg.frank@kpmg.nl

South Africa
Gerdus Dixon
Partner
T: +27 21408 7000
E: gerdus.dixon@kpmg.co.za

Spain
Antonio Lechuga Campillo
Partner
T: +34 9325 32947
E: alechuga@kpmg.es

Switzerland
Marc Göessi
Partner
T: +41 44 249 31 42
E: mgoessi@kpmg.com

UK
Danny Clark
Partner
T: +44 20 7311 5684
E: danny.clark@kpmg.co.uk

US
Mark S McMorrow
Partner
T: +1 312 665 2685
E: msmcmorrow@kpmg.com

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Keeping in touch

Visit kpmg.com/ifrs for the latest on IFRS.

Whether you are new to IFRS or a current user, you can find digestible summaries of recent developments, detailed guidance on complex requirements, and practical tools such as illustrative disclosures and checklists.

You can also follow our LinkedIn showcase page for the latest content and topical discussion.

Helping you deal with IFRS today…

Insights into IFRS

Helping you apply IFRS to real transactions and arrangements.

Guides to financial statements

Illustrative IFRS disclosures and checklists of currently effective requirements.

Newly effective standards

US GAAP

… and prepare for IFRS tomorrow

IFRS news

IFRS newsletters

IFRS for banks

IFRS 15 for sectors

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Major new and forthcoming standards

Revenue

Financial instruments

Leases

Insurance contracts (under development)

Amendments to existing standards

Business combinations and consolidation

Presentation and disclosures

For access to an extensive range of accounting, auditing and financial reporting guidance and literature, visit KPMG's Accounting Research Online. This web-based subscription service can be a valuable tool for anyone who wants to stay informed in today's dynamic environment. For a free 15-day trial, go to aro.kpmg.com and register today.

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Acknowledgements

We would like to acknowledge the effort of the principal authors of this publication: Bryce Ehrhardt and Hagit Keren.

We would also like to thank the following reviewers for their input: Alan Goad, Joachim Kölschbach, Neil Parkinson and Chris Spall.

Publication name: *IFRS Newsletter: Insurance*

Publication number: Issue 56

Publication date: November 2016

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG International Standards Group is part of KPMG IFRG Limited.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

KPMG International Cooperative ("KPMG International") is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind KPMG International or any other member firm, in any manner whatsoever.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The *IFRS Newsletter: Insurance* contains links to third party websites not controlled by KPMG IFRG Limited. KPMG IFRG Limited accepts no responsibility for the content of such sites or that these links will continue to function. The use of third party content is to be governed by the terms of the site on which it is hosted and KPMG IFRG Limited accepts no responsibility for this.

Descriptive and summary statements in this newsletter may be based on notes that have been taken in observing various Board meetings. They are not intended to be a substitute for the final texts of the relevant documents or the official summaries of Board decisions which may not be available at the time of publication and which may differ. Companies should consult the texts of any requirements they apply, the official summaries of Board meetings, and seek the advice of their accounting and legal advisors.

kpmg.com/ifrs

***IFRS Newsletter: Insurance* is KPMG's update on accounting and reporting developments in the insurance sector.**

If you would like further information on any of the matters discussed in this Newsletter, please talk to your usual local KPMG contact or call any of KPMG firms' offices.