

International Accounting Standards Board  
IFRS Foundation  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
E14 4HD

24 September 2019

Dear IASB members,

### **Invitation to comment - Exposure Draft - *Amendments to IFRS 17***

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the Exposure Draft - *Amendments to IFRS 17* (the ED).

In May 2017, the International Accounting Standards Board (IASB or the Board) issued IFRS 17 *Insurance Contracts* (IFRS 17 or the standard). IFRS 17 will have a profound impact on the accounting for insurance contracts and is also expected to have a significant operational impact on entities issuing those contracts. Following the issuance of IFRS 17, stakeholders have raised several matters of concern regarding the conceptual application and practical implementation of the standard. Over the past few months, the IASB considered 25 of those matters and, after evaluating these against its criteria for potential changes, proposed 12 targeted amendments affecting eight areas of the standard.

As IFRS 17 will affect many stakeholders, including preparers, users, auditors and regulators, we agree with the IASB that a careful consideration of these concerns was warranted. We appreciate the significant efforts of the Board in evaluating the concerns raised by stakeholders.

Overall, we also agree with the targeted amendments that the Board proposes. In developing its proposed changes, the Board weighed the need to address stakeholder concerns against the risks of significant loss of information, undue disruption of ongoing implementation processes, and undue delay of the effective dates of both IFRS 17 and IFRS 9 *Financial Instruments* (IFRS 9). As such, the proposed changes are intended to help preparers to implement the standard in a way that results in improved decision-useful information, without causing unwarranted disturbance to preparations already made. However, we do raise some areas where we believe the Board should consider whether its proposed amendments will fully achieve their objectives. Further details on our responses to the amendments proposed in the ED are set out in Appendix 1 to this letter.

We understand why the Board is not planning to make changes for all matters of concern raised by constituents; the Board concluded that there are areas where potential changes would reduce usefulness of information and/or significantly disrupt implementation of

in-flight projects. However, at the same time we also observe that, for some of these matters (such as level of aggregation where it relates to contracts that are subject to 'mutualisation', transition, treatment of estimates in interim financial reporting, and risk mitigation), the Board made significant changes to the proposals included in the June 2013 Exposure Draft - *Insurance Contracts* (2013 ED) when developing the standard it issued in May 2017. These changes represented revisions of the proposals in the 2013 ED, driven by feedback from stakeholders and the Board's subsequent extensive outreach efforts. Accordingly, the post 2013 ED changes are seen as valid improvements, reflecting the Board's responsiveness to the feedback received. Nonetheless, we understand that stakeholders, particularly preparers, are concerned about certain areas of the standard affected by those changes. We also understand that some stakeholders are working on specific alternative proposals that would address their concerns.

We recommend that the Board take note of stakeholders' proposals on such matters and carefully assess, in light of the Board's consideration since the 2013 ED, whether such proposals merit further analysis. One area we would like to specifically bring to the attention of the IASB is the requirement for annual cohorts for contracts that are subject to 'mutualisation'. Our comments on this matter are included in Appendix 2. Other areas are incorporated in our responses in Appendix 1.

The ED also includes proposals for 15 minor amendments that are intended to address outcomes of IFRS 17 that the Board had not intended, as well as several editorial corrections. We agree with the approach of including these changes in the ED. Appendix 1 to this letter includes our detailed comments regarding these minor amendments and editorial corrections. We have also highlighted a number of additional editorial points for the Board's consideration.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

*Ernst + Young Global Limited*

Appendix 1: Responses to specific questions raised in the Exposure Draft *Amendments to IFRS 17*

Appendix 2: Observations regarding contracts subject to mutualisation

## Appendix 1: Responses to specific questions raised in the Exposure Draft *Amendments to IFRS 17*

### Question 1—Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30)

- (a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.  
**Do you agree with the proposed amendment? Why or why not?**

We agree, in principle, with the proposed amendment and think that banks and other non-insurers will welcome the opportunity to apply IFRS 9 *Financial Instruments* to certain credit card contracts that include the transfer of significant insurance risk. This proposed amendment acknowledges that there may be significant costs in implementing IFRS 17, without corresponding benefits, for entities that do not issue insurance contracts other than those referred to above. For such entities, applying IFRS 9 to these contracts would provide useful information and could avoid significant costs.

It is, however, important to note that the proposed change would appear to result in credit card arrangements that meet the definition of insurance contracts being brought into the scope of IFRS 9 in their entirety. This may result in a significant change compared to how banks currently account for such arrangements. Currently, insurance components can be separated voluntarily and accounted for under IFRS 4 *Insurance contracts* (IFRS 4). Without this separation, some credit card contracts may fail the solely payments of principle and interest (SPPI) test in IFRS 9. This would lead to such credit card arrangements being required to be measured at fair value through profit or loss in their entirety, which would result in significant measurement challenges, a loss of Expected Credit Loss (ECL) data, and more volatile reported financial performance in the financial statements.

We also note that, in paragraph 7(h), the ED refers specifically to credit card contracts. This would mean that the scope exclusion would not be available to any other products issued by banks including the same type of cover, such as, for example, charge cards. To avoid this inconsistent treatment, the standard should, in our view, provide a scope exclusion based on the underlying principle of not reflecting an assessment of the insurance risk associated with an individual customer in setting the price of a contract with that customer, rather than listing the specific product types. Using a principle as the basis for the scope exclusion also ensures that any future new products offering such cover would fit within this scope exclusion.

This principle should in our view only be applied to contracts that, without considering the insurance feature, would be within the scope of IFRS 9, to avoid the situation arising that any type of insurance contract that does not include assessment of the insurance risk associated with an individual customer (e.g., community-priced products) would automatically be scoped

into IFRS 9. We also recommend that the Board clarifies that pricing based on the law of large numbers applied to groups of similar policyholders exposed to similar risks should be considered as being consistent with setting a price that reflects an assessment of an individual policyholder's risk. This clarification would avoid too narrow an interpretation of the requirement for the assessment of individual policyholder's risk being reflected in setting a price with the customer.

**Question 1—Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9-BC30)**

- (b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)-(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

**Do you agree with the proposed amendment? Why or why not?**

We agree with the proposed scope amendment for the same reasons as explained under question 1(a) above. We also agree that it should be an entity's irrevocable choice. A choice will allow insurance entities to apply IFRS 17, and non-insurance entities (e.g., banks) to apply IFRS 9, consistent with how an entity typically regards and manages these contracts.

We also agree that this election should be made at the portfolio level to avoid the issue of inconsistency with IAS 8 *Accounting policies, changes in accounting estimates and errors* (IAS 8) for the consolidated financial statements of bancassurance conglomerates.

The proposed amendment is applicable for contracts that *"limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract"*. There could be instances where compensation is slightly higher than the amount required to settle (such as in cases with additional costs, charges or tax). We therefore consider it would be reasonable also to allow these contracts to apply the proposed optional scope exclusion.

**Question 2—Expected recovery of insurance acquisition cash flows  
(paragraphs 28A–28D, 105A–105C, B35A–B35C and BC31–BC49)**

Paragraphs 28A–28D and B35A–B35C propose that an entity:

- (a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;
- (b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and
- (c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

Paragraphs 105A–105C propose disclosures about such assets.

**Do you agree with the proposed amendments? Why or why not?**

We agree with the Board’s proposal to allocate a portion of acquisition cash flows to future renewals. This change results in a better alignment with the underlying economics of the business and should reduce the risk of recognising onerous groups of contracts for purely accounting reasons rather than economic reasons. For instance, commissions may be non-refundable with expected renewals being outside the initially written contract’s boundary (e.g., because the entity can reprice the contracts when they are renewed). Recognition of losses from onerous contracts in such circumstances may not reflect the economic substance, because renewals are expected even if the entity has no substantive right to compel the policyholder to renew.

We also believe that the proposed amendment brings the treatment of directly attributable acquisition costs under IFRS 17 closer to the treatment that applies to contracts in the scope of IFRS 15 *Revenue from contracts with customers* (IFRS 15). IFRS 15 requires an entity to recognise an asset for the incremental costs of obtaining a contract with a customer and to amortise this asset on a systematic basis. (Under IFRS 15, a non-refundable commission paid in anticipation of renewals would be amortised over a period, including anticipated renewal periods of the contract, provided it could be recoverable from the consideration less costs related to the contract.)

We do, however, observe that the wording of the proposed amendments may require further clarification to avoid potential interpretation issues, particularly regarding the application of the recoverability testing requirements for the assets for insurance acquisition cash flows. The wording in paragraph 28B of the ED appears to indicate that an entity establishes an asset for insurance acquisition cash flows for each related group, which could be an existing group already recognised and/or future groups of expected renewals outside the contract boundary of the existing contracts. The wording in paragraph B35B of the ED also appears to refer to two recoverability tests, one included in paragraph B35B(a) and one included in B35(b), that need to be applied to each of the assets for insurance acquisition cash flows. It is unclear from the proposed amendments what the exact role of these two tests is, and why two separate tests are needed. We recommend that the Board considers refining the requirements for recoverability testing, in particular, the level at which the test should be

performed. If the Board believes that there is indeed a need for two separate tests, the standard should articulate what the purpose of each test would be. We also recommend that the Board considers including an Illustrative Example that clarifies how the allocation of insurance acquisition cash flows to related groups of contracts should be performed, as well as how the resulting assets should be tested for recoverability.

In addition, we would like to mention the following specific drafting matters:

- We recommend clarifying that the wording *'insurance acquisition cash flows it expects to pay after the related group of insurance contracts is recognised'* in paragraph 28B(a) refers to the portion of costs allocated to that existing group on the basis of contracts issued only, rather than the entire amount of acquisition costs paid (some of which may relate to future renewals of contracts in the existing groups). This will avoid the situation where an entity cannot allocate any additional acquisition cash flows incurred relating to future renewals once a group has been recognised in the Statement of Financial Position. Not being able to allocate such cash flows to future groups could lead to the recognition of losses for the existing group, which is what, in our view, the Board intended to avoid.
- The current wording of paragraph 28A reads, as follows: *"An entity applying the premium allocation approach may recognise insurance acquisition cash flows as expenses applying paragraph 59(a). Otherwise, the entity shall allocate insurance acquisition cash flows to a group of insurance contracts on a systematic and rational basis applying paragraph B35A"*. We believe it would be clearer to start paragraph 28A with the second sentence, to clarify that this allocation applies to all contracts rather than just the PAA. We suggest the following wording for paragraph 28A: *"An entity shall allocate insurance acquisition cash flows to a group of insurance contracts on a systematic and rational basis applying paragraph B35A of the ED, unless it chooses to recognise them as expenses applying paragraph 59(a)."*
- We note that paragraph 38(b) refers to *"the derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows applying paragraph 28b"*. We believe that the word *"liability"* could be removed from this.
- Regarding paragraph 79, it appears that *'insurance acquisition'* is missing from the sentence *"and any assets or liabilities for cash flows related to portfolios of reinsurance contracts held"*.

Finally, we believe that it would also be helpful to include further clarification on how the amount deferred would be determined and included in the calculation of the IFRS 17 amounts on transition. Appendix C of IFRS 17 is currently silent on this matter.

**Question 3—Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44-45, 109 and 117(c)(v), Appendix A, paragraphs B119-B119B and BC50-BC66)**

- (a) Paragraphs 44, B119-B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Paragraph B119B specifies criteria for when contracts may provide an investment-return service.

**Do you agree with the proposed amendment? Why or why not?**

We support the Board's proposal to consider investment-type services (investment-return services for general model products and investment-related services for variable fee approach (VFA) products, respectively) as an explicit component of insurance contract services when determining the coverage units for the contractual service margin (CSM) release.

The requirement to include investment-related services in coverage units for contracts with direct participation features is consistent with the fundamental nature and overall economics of these products and the VFA model.

Some types of contracts without direct participation features provide similar investment-type services. This justifies the consideration of investment-return services when determining the CSM release pattern for contracts without direct participation features too. The proposed amendment will help in avoiding CSM release patterns that do not reflect the economics of the contract (e.g., by 'front-loading' the CSM release if the contract only provides insurance cover for a limited number of years while investment-type services are provided for a much longer period). By proposing this change, the Board is also responding to the views of stakeholders that these contracts can provide investment-type services as well as insurance coverage, and that the CSM release should reflect both.

We note that under the proposal in the ED the application of investment-return services for contracts without direct participation services is conditional upon the following:

- The contract including an investment component as defined in IFRS 17 or a right to withdraw an amount
- The entity expecting to generate a positive investment return for the policyholders
- The entity expecting to perform investment activity to generate that positive investment return

We observe that paragraph B119B of the ED mentions that, if the above three criteria are met, there may be investment-return services. This implies, that even if all the above criteria are met, the entity must make a judgement about whether the contract provides the

policyholder with investment-return services. We would assume the Board's intent in requiring the application of this judgement is to allow preparers to assess, notwithstanding the three criteria above, whether specific local product features and market situations mean that the contracts nevertheless do not include an investment-return service. We agree that the evaluation of whether an investment-return service exists, should be made based on specific facts and circumstances. However, the entity's judgement on whether the product provides investment- return services could have a significant impact on the pattern of release of CSM, and therefore the recognition of income. We recommend that the Board should require disclosure if, despite the three criteria being met, an entity has concluded that a product does not provide investment-return services, and the entity's reasons for concluding thus.

Concerning the drafting of the proposed amendment, paragraph B119A of the ED states that "... the period of investment-return service or investment-related service ends at or before the date that all amounts due to current policyholders relating to those services have been paid ...". In BC58, the Board explains what is meant by 'at or before the date that all amounts due to current policyholders have been paid ...'. As the determination of the period over which the investment-related services are provided is important for estimating the CSM release, we recommend that the explanation in paragraph BC58 of the ED is added to the application guidance in the standard.

**Question 3—Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44-45, 109 and 117(c)(v), Appendix A, paragraphs B119-B119B and BC50-BC66)**

- (b) Paragraphs 45, B119-B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

**Do you agree with the proposed amendment? Why or why not?**

As already explained in our response to Question 3(a) above, we agree with the proposed amendment as it reflects that contracts with direct participation features provide investment-related services by their nature.

**Question 3—Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44-45, 109 and 117(c)(v), Appendix A, paragraphs B119-B119B and BC50-BC66)**

- (c) Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c)(v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

**Do you agree with the proposed disclosure requirements? Why or why not?**

Users of financial statements are expected to benefit from information about which profit sources the CSM is derived from, and how the weighting between these profit sources is determined. We therefore support related disclosures to aid users in their understanding of the main drivers of profitability.

We note that paragraph 109 removes the option for an entity to provide a qualitative analysis (rather than quantitative) regarding expectations of when it expects to recognise the CSM remaining at the end of the reporting period. This proposed amendment is referred to in BC51, but it is not clear whether the Board intended to rule out any form of qualitative disclosure, as combining quantitative information with qualitative narratives may assist users in gaining an appropriate understanding of the expected CSM release.

**Question 4—Reinsurance contracts held—recovery of losses on underlying insurance contracts (paragraphs 62, 66A-66B, B119C-B119F and BC67-BC90)**

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

- (a) the loss recognised on the group of underlying insurance contracts; and
- (b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

**Do you agree with the proposed amendment? Why or why not?**

We agree with the proposal in the ED to adjust the CSM of proportionate reinsurance contracts held for losses recognised on initial recognition on onerous underlying groups of underlying insurance contracts issued. This reflects the economics of such reinsurance contracts, and also results in a consistent treatment for losses recognised on reinsured groups of onerous underlying insurance contracts on initial recognition and subsequent measurement dates.

We also agree that this approach should be limited to reinsurance contracts held where a direct contractual link between an initial onerous contract loss and the corresponding reinsurance recoveries under the reinsurance contracts exists (i.e., proportionate reinsurance contracts). This direct link offers a justification for taking a gain at initial recognition on reinsurance held, and also provides a clear basis for determining the amount of that gain with reference to the loss on the underlying direct insurance contracts issued.

The proposed definition of proportionate coverage in Appendix A of the ED is limited to contracts that provide reinsurance cover based on a fixed percentage of all claims incurred on a group of underlying insurance contracts. This definition excludes some types of reinsurance contract that are typically referred to as proportionate in the market. For example, reinsurance contracts that do not cover the whole group of the underlying contracts, reinsurance contracts that cover specific risks of the underlying contracts, and contracts that cover a fixed percentage of claims within a certain range (i.e., subject to deductibles and/or maximum limits). We also note that the Board's definition of 'proportionate' appears to have been narrowed compared to its articulation of 'proportionate' in the existing Basis for Conclusions (BC) of IFRS 17. BC304 of the standard mentions that proportionate reinsurance contracts are reinsurance contracts other than those covering aggregate losses from a group of underlying contracts that exceed a specified amount. We recommend the Board considers whether there are further types of reinsurance that, along the lines of BC304, cover losses on individual contracts within a group of underlying contracts based on a contractually determinable portion. In our view, all types of reinsurance cover where a direct link to losses on underlying contracts sufficiently holds should be captured by proportionate coverage.

The proposed amendments introduce paragraph 66(ba) to incorporate the recognition of initial gains from proportionate reinsurance contracts held in the measurement of the CSM. We assume, and ask the Board to clarify, that the effects of subsequent measurement are determined considering paragraph 66(c)(ii), for both proportionate and non-proportionate reinsurance. Related to this, we note that the proposed amendments introduce a loss recovery component for proportionate reinsurance contracts held in paragraphs 66A and 66B. However, we believe a loss recovery component would also be needed to the extent that changes stemming from paragraph 66(c)(ii) are recognised in profit or loss for non-proportionate cover.

We also agree with the proposed amendment to apply the above expanded exception to contracts that apply the PAA. While it is clear from the wording in the ED that the expansion of the exception in paragraph 66(ba) also applies to the PAA (as introduced by paragraph 70A), paragraph 70A does not cover the original paragraph 66(c)(ii) dealing with subsequent measurement. So, it appears that paragraph 66(c)(ii) does not apply to the PAA, but the expanded exception as set out in paragraph 66A (and 70A) does. Paragraph 70A, in our view, also needs to refer to paragraph 66B as well as explain how the amount would be run-off over time. We recommend the Board clarifies this through drafting of the final standard.

The proposed amendment results in the recognition of a gain at inception for the reinsurance recoverable. Even though, as explained above, we agree with this approach, we believe it is important that this recoverable that has been recognised is disclosed separately. We recommend, therefore, that the Board, in addition to its explanation in paragraph BC74 of the ED, refers to the disclosure of a loss recovery component in the final sentence of paragraph 98 (which clarifies how to adapt the disclosure requirements to reinsurance contracts held).

**Question 5—Presentation in the statement of financial position (paragraphs 78-79, 99, 132 and BC91-BC100)**

The proposed amendment to paragraph 78 would 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. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

**Do you agree with the proposed amendment? Why or why not?**

We agree with the proposal to change the required level of presentation in the statement of financial position from groups of insurance contracts to portfolios of insurance contracts. We also agree that the same change should be made for reinsurance contracts held. We believe that it is easier for preparers to associate the balances stemming from insurance contracts, like premium debtors and outstanding claims, to portfolios of contracts rather than to groups, and that allowing this does not result in significant loss of information for users of financial statements.

One additional presentational matter, which also affects measurement and disclosure, is the exception in paragraph B137 of IFRS 17 to the general principle in IAS 34 *Interim financial reporting* (IAS 34) that the frequency of reporting shall not affect an entity's annual results. Paragraph B137 of the standard requires that, notwithstanding the requirements of IAS 34, an entity shall not revisit the accounting estimates made in previous reporting periods for its insurance liabilities. We understand the IASB's motivations for introducing this exception. However, we also observe that it could have significant operational implications for entities, particularly for those that prepare reporting packages for interim financial reporting at a consolidated level, but apply an annual reporting basis in their individual IFRS financial statements. We therefore recommend, if the Board maintains the existing exception, that it provides relief to subsidiaries that are part of an IFRS reporting group by allowing them to determine their measurement under IFRS 17 on the basis of the frequency of reporting at the consolidated level.

**Question 6—Applicability of the risk mitigation option (paragraphs B116 and BC101-BC109)**

The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

**Do you agree with the proposed amendment? Why or why not?**

We agree with the proposed amendment to extend the risk mitigation option to include reinsurance contracts held as risk mitigating items.

This change would avoid accounting mismatches that would arise for situations where the effect of changes in financial risk of underlying variable fee contracts in a period adjusted the CSM of those contracts, but the corresponding changes in fulfilment cash flows of the reinsurance contracts an entity holds (to be measured under the general model) are recognised in the statement of profit or loss and other comprehensive income. As such, preparers would be able to show the economic effect of their risk mitigation strategies using reinsurance contracts in their accounting for insurance contracts under IFRS 17.

Preparers may also use other non-derivative items, such as fixed-income debt instruments, as part of their risk mitigation strategies for financial risk arising from insurance contracts. The Board's decision not to allow other non-derivative instruments to be used as risk mitigation items is driven by its view that the application of the risk mitigation approach should be limited. Not allowing non-derivative items under IFRS 17 would be stricter than the IFRS 9 requirements for hedge accounting, which allow non-derivative financial assets or some non-derivative financial liabilities measured at fair value through profit or loss to be designated as a hedging instrument for interest rate risk (see IFRS 9 paragraph 6.2.2.) Furthermore, paragraph BC108 of the ED notes that the Board believes hedge accounting may provide a solution for accounting mismatches related to non-derivative items used for risk mitigation. We understand the Board's intention to refer to hedge accounting as a means of resolving such mismatches. However, we do note that various issues need to be analysed when seeking to apply hedge accounting to insurance liabilities, in particular whether interest rate risk is an identifiable and reliably measurable component, and observe that practice is still developing in this area. We therefore recommend that the Board considers feedback from stakeholders on the mismatches that may arise under the VFA and the extent to which hedge accounting may or may not provide a solution in practice.

We also note that a similar observation on the use of hedge accounting would be relevant if the Board intended to see hedge accounting as a potential solution for mismatches that may occur for products accounted for under the general model, where companies apply economic risk mitigation strategies, but are not able to use specific risk mitigation accounting under IFRS 17.

**Question 7—Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs C1, [Draft] Amendments to IFRS 4 and BC110-BC118)**

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date.

(a) The proposed amendment to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

(b) The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

IFRS 17 is a complex standard that requires significant implementation effort. The Board re-opened certain areas of the standard and proposes some specific amendments. We agree with the proposal to defer the mandatory effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2022. This additional year strikes an appropriate balance between allowing preparers more time to establish a well-controlled and robust implementation, and the need for a timely introduction of a new comprehensive standard for insurance contracts. It also offers additional time for analysis and understanding of results under IFRS 17, and education of analysts and users of financial statements.

We also agree with the proposed amendment to extend the temporary exemption from applying IFRS 9 by one year, as an appropriate balance between allowing implementation at the same time as IFRS 17 and the urgent need to replace IAS 39 *Financial Instruments: recognition and measurement* (IAS 39) with IFRS 9.

**Question 8–Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119-BC146)**

- (a) Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired. Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims.  
**Do you agree with the proposed amendments? Why or why not?**

We agree with the proposed amendments relating to the liability for settlement of claims incurred before an insurance contract was acquired. We believe this relief is helpful to address stakeholder concerns that it may be impracticable on transition to distinguish between claims liabilities that arose from acquired contracts and those arising from issued contracts, also acknowledging that this distinction was not made under the IFRS 4 accounting model that applies before transition.

**Question 8–Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119-BC146)**

- (b) The proposed amendment to paragraph C3(b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option.  
**Do you agree with the proposed amendment? Why or why not?**

We agree with the proposed amendment which goes some way to address concerns raised by some stakeholders about the Board's decision to retain the existing requirements in IFRS 17 to prohibit retrospective application of the risk mitigation option at the date of initial application of IFRS 17. Applying the risk mitigation option from the transition date, rather than from the date of initial application of IFRS 17, would eliminate accounting mismatches in the comparative periods presented for companies that meet the requirements of the risk mitigation approach at the transition date.

**Question 8—Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119-BC146)**

- (c) Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.  
**Do you agree with the proposed amendment? Why or why not?**

To address concerns over the inability to apply the risk mitigation before transition, the Board proposes that a company that meets the requirements of the risk mitigation can apply the fair value approach to determine the CSM on transition. This would be the case even if it is able to apply the standard retrospectively. We agree with this change as it allows companies to avoid the distortions of a retrospective approach to estimating the CSM or loss component of the liability for remaining coverage (LFRC) at transition without retrospective application of the risk mitigation option in such cases. However, we also observe that this proposed solution leaves preparers with only the fair value approach to avoid these distortions. Some preparers may be able to meet the requirements of the risk mitigation approach before the transition date. In those cases, and only to the extent that documentation requirements in paragraph B116 of the standard are met, allowing retrospective application of the risk mitigation approach may offer another suitable transition measurement for the CSM. The availability of historical documentation supporting the requirements in B116 combined with an “all-or-nothing” approach (i.e., the risk mitigation must be applied for all hedging strategies if the required documentation exists) could, in our view, sufficiently mitigate the risk of hindsight.

As a general point regarding the application of IFRS 17 at transition, we note that the Board explains in paragraph BC143 of the ED, that modified retrospective application of the standard will unavoidably involve the use of estimates, following the principles of IAS 8. We agree that the use of estimates is an inherent part of applying the modifications of that approach. It may, in our view, be helpful to preparers to clarify, within the context of paragraph C6 of the standard, how estimates can be used by entities when generating historical information without undue cost and effort.

**Question 9—Minor amendments (BC147-BC163)**

This Exposure Draft also proposes minor amendments (see paragraphs BC147-BC163 of the Basis for Conclusions).  
**Do you agree with the Board’s proposals for each of the minor amendments described in this Exposure Draft? Why or why not?**

We agree overall with the minor amendments proposed by the Board and comment below, by exception, on the items where we have specific observations:

Para-graph	Minor Amendment	Comments
28, BC150	Recognition of contracts within a group	<p>We believe that paragraph 28 would flow better if the sentence beginning '<i>An entity shall add the contracts to the group in the reporting period in which the contracts meet one of the criteria set out in paragraph 25...</i>' were moved up in the paragraph and placed before '<i>An entity may include more contracts in the group after the reporting period subject to paragraphs 14-22</i>'.</p> <p>We note there are some differences between the proposed wording in the ED and the wording as stated in quotes in the BC of the ED. (e.g., compare BC150 of the ED with paragraph 28). For example, BC150 of the ED states that the ED proposes "<i>contracts that meet the criteria for recognition in paragraph 25</i>". Whereas in the ED itself, paragraph 28 refers to "<i>contracts that individually meet one of the criteria set out in paragraph 25</i>".</p>
B93- B95, BC151	Business combinations outside the scope of IFRS 3 <i>Business Combinations</i> (IFRS 3)	<p>We support the IASB's proposal to make paragraphs B93-B95 only applicable to business combinations that are within the scope of IFRS 3, and therefore, not to apply to business combinations under common control.</p> <p>However, business combinations are referred to in a few other paragraphs in the standard, notably paragraphs 5 and 39. The guidance in paragraph B5 of IFRS 17 could also be relevant within the context of a business combination. We therefore recommend including the exclusion of business combinations under common control in paragraph 5 of the scope section: "<i>All references in IFRS 17 to insurance contracts (... or a business combination <b>within the scope of IFRS 3</b> other than reinsurance contracts held</i> "</p> <p>As a broader point regarding acquired contracts, the Board decided to retain the consequential amendment that removes the exception in IFRS 3 from determining the classification as an insurance contract based on terms and conditions at the acquisition date for business combinations occurring after the date of initial application. Furthermore, the Board decided not to extend the relief from reassessing claims liabilities acquired in their settlement period for contracts acquired after transition. Whilst we understand the technical arguments underlying the Board's position, we would recommend the Board to consider the feedback from users of financial statements about the extent to which reassessing acquired contracts would provide useful information. This matter, in our</p>

Para-graph	Minor Amendment	Comments
		view, concerns contracts acquired as part of a business combination as well as contracts acquired in a portfolio transfer.
<b>B128, BC161</b>	<b>Treatment of changes in underlying items</b>	<p>This amendment proposes presenting changes in underlying items as part of insurance finance income and expense, even if the underlying items do not relate to financial items themselves. With this change, the IASB intends to demonstrate that the return from any category of underlying items that is accreted to the insurance liability represents finance income. Whilst we understand this results in a consistent presentation of all the returns from underlying items that are accreted to the insurance liability, we also note the change has a strong effect on how the sources of earnings are reflected in the financial statements of the entity. It is therefore important for the Board to take the views of users into account on what they would consider as the most decision-useful depiction of the sources of earnings underlying insurer's reported performance.</p> <p>Furthermore, we recommend that the Board clarifies what is meant by '<i>additions</i>' and '<i>withdrawals</i>' in the proposed wording of paragraph B128(c) of the ED, for example, by inserting specific examples of such items.</p>

#### Question 10–Terminology

This Exposure Draft proposes to add to Appendix A of IFRS 17 the definition 'insurance contract services' to be consistent with other proposed amendments in this Exposure Draft.

In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. If that change is made, those terms would become 'service units', 'service period' and 'liability for remaining service', respectively, throughout IFRS 17.

**Would you find this change in terminology helpful? Why or why not?**

As explained in our response to question 3, we agree with the Board's proposal to include investment-type services as an explicit service element of insurance contracts. The introduction of insurance contract services, and their definition, as included in Appendix A, are a logical consequence of this proposal. Another logical consequence, in our view, would

be to consistently change the terminology, as suggested in this question. This would result in a clear and consistent articulation of the Board's view on services provided under an insurance contract for all relevant aspects of IFRS 17's measurement model, including not only the CSM release, but also other elements like contract boundaries and experience adjustments.

We do, however, observe that paragraph 83 of IFRS 17, as issued in 2017, states that insurance revenue shall depict the provision of "*coverage and other services arising from the group of insurance contracts...*". The proposed amendment to paragraph 83 to refer to the "*provision of insurance contract services ...*" and the corresponding defined term in Appendix A of "*insurance contract services*" now seems to be referring to insurance coverage services and investment-return/related services in an exhaustive manner. We believe that it was not the intent of the Board to limit non-distinct services provided under an insurance contract in this way. We therefore suggest that the Board clarifies its intention that the notions of insurance coverage services and investment type services are intended to capture any non-distinct services provided by insurance contracts.

#### Additional editorial matters

In the table below, we include additional editorial matters, relating to both editorial changes in the ED and additional wording matters of the original standard, that we have identified and would like to bring to the attention to the Board.

Paragraph	Editorial comment
97(b) - Explanation of recognised amounts	Paragraph 97(b) has been amended to state that under the PAA, an entity shall disclose "whether it makes an adjustment for the time value of money and the effect of financial risk applying paragraphs 56 and 57(b)..." The reference to paragraph 59(b) has been deleted. It appears that the reference to paragraph 57(b) is incorrect - as paragraph 57(b) applies only to onerous contracts, and this should be 59(b).
Appendix A: Liability for remaining coverage	In first line of (b) the word 'insurance' appears to be missing before 'contracts': " <i>pay amounts under existing contracts that are not included in (a)...</i> "
Appendix A: Liability for incurred claims	Paragraph b refers to an entity's obligation to: " <i>pay amounts under existing insurance contracts that are not included in (a) for which an entity no longer provides an investment-return service or an investment related service</i> ". The meaning of this new sub-paragraph is not entirely clear. It would be helpful to include examples of these.
B124(a)	To clarify that cash flows according to paragraph B65(j) of the standard should be excluded from revenue as well.
B126	For contracts accounted under the PAA, an entity may also receive amounts in a fiduciary capacity. We recommend clarifying, in paragraph B126 of the standard that such amounts should not be reported as insurance revenue

	analogous to B123(a)(iii), which requires premium-related cash flows collected in a fiduciary capacity should be excluded from revenue.												
Appendix D: IFRS 9 Para 2.1 e (iii)	The new first sentence regarding financial guarantees appears to scope in financial guarantees that are held (rather than just applying to accounting applied by the issuer of the guarantee). As worded, it could be inferred from the ED that the accounting applies to guarantees generally, including the accounting for guarantees held. We believe this is an error in the drafting of the proposed amendments and should be adjusted.												
Illustrative Example 8	Illustrative Example 8 shows no release of CSM for the reporting period in which a loss component is fully reversed and a CSM is reinstated. This is inconsistent with the wording in paragraph 44, which implies that the CSM release is the final step after all other adjustments to the CSM have taken place.												
IE212	<p>In view of the reinsurance contract asset, an amount of 3 is shown as recognition of loss and recovery of loss. However, this is only the amount according to B119F(b), whereas the amount according to B119F(a) is missing: Using an allocation factor for the loss component of the underlying contracts of 0,3 the (sample) the journal entries for such a recognition would be, as follows:</p> <table border="1"> <thead> <tr> <th>Transaction</th> <th>Account</th> <th>Dr</th> <th>Cr</th> </tr> </thead> <tbody> <tr> <td>end of year 2 - derecognise asset for remaining coverage (ARC) for recoveries expected to be incurred in the period as services have been received applying IFRS 17.B119F(a)</td> <td>ARC - estimates of present value of future cash flows reinsurance income/release of loss recovery component reinsurance expense</td> <td>9(=100*0,3*0,3)</td> <td>90</td> </tr> <tr> <td></td> <td></td> <td>81</td> <td></td> </tr> </tbody> </table>	Transaction	Account	Dr	Cr	end of year 2 - derecognise asset for remaining coverage (ARC) for recoveries expected to be incurred in the period as services have been received applying IFRS 17.B119F(a)	ARC - estimates of present value of future cash flows reinsurance income/release of loss recovery component reinsurance expense	9(=100*0,3*0,3)	90			81	
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		81											
Basis for Conclusions (in general)	For completeness, we note that there will be changes required to the Basis for Conclusions of the standard as a result of the proposed amendments in the ED and that these amendments to the BC have not been outlined in the ED. For example, BC 315 of the standard would need to change or be amended in light of the proposed amendments outlined in Question 4 and BC87-BC90 of the ED.												
BC31	The last sentence of BC31 of the ED contains an incorrect reference: " <i>are addressed in paragraph 65(a) of IFRS 17</i> ". This should read 65(b) instead.												
BC 148(a)	Paragraph BC 148(a) of the ED, which refers to the deletion of two words in paragraph 27, seems to be erroneous as paragraph 27 has been removed in its entirety. Paragraph BC148(b) of the ED seems correct.												

## Appendix 2: Observations regarding contracts subject to mutualisation

Considering the requirement in paragraph 22 of IFRS 17 that an entity may not include contracts issued more than one year apart in the same group (annual cohorts' requirement), EY supports the objective of the Board to:

- Recognise profits from contracts as services are provided,
- Account for losses from onerous contracts in a timely manner, and
- Report timely information about changes in the expected profitability from insurance contracts (paragraph BC165 of the ED).

These objectives should in our view apply to all types of products covered by IFRS 17.

In some jurisdictions, products are issued that are designed in such a way that policyholders collectively share in some (or all) of the risks of a group of contracts, and the shareholder (insurer) is only affected to the extent that policyholders collectively no longer absorb losses. This type of business is often referred to as 'mutualised business'. We observe that, in a number of jurisdictions where such products are issued, concern has been expressed by stakeholders that the application of the annual cohort requirement to these types of products would cause complexities that, in their view, would be unwarranted. For example, contractual terms and discretionary features require the application of mechanisms for determining the sharing of benefits among generations of policyholders (sometimes referred to as 'intertemporal mutualisation'). Against the backdrop of such mechanisms, allocating IFRS 17 fulfilment cash flows to individual underlying annual cohorts may, according to these stakeholders, not be achieved without a high degree of arbitrariness and undue complexity. In that context, annual cohorts are seen by them as a costly and artificial allocation of benefits between annual groups that does not reflect the contractual and economic features of the contracts. These stakeholders believe that the objective of appropriately depicting trends in an entity's profit over time may be achievable through means other than a strict application of the annual cohorts requirement.

We note that different solutions have been suggested by stakeholders, from further clarifying paragraph BC138 of the standard and/or elevating it into the standard itself, to removing the annual cohort requirement for mutualised business but requiring additional disclosures about profitability over time. We recommend that the Board carefully considers these proposals on their merits, to explore whether a pragmatic balance can be found between achieving the aforementioned objectives of the Board for mutualised products, and a pragmatic approach that will result in consistency among preparers for the same types of contracts and maintain auditability by the audit profession.