March 2020

Insurance Accounting Alert

IFRS 17 deferred to 1 January 2023

What you need to know

The IASB has completed its planned re-deliberations on the Exposure Draft *Amendments to IFRS 17* (the ED) issued in June 2019. At its meeting on 17 March 2020, the IASB:

- Agreed to defer the effective date of IFRS 17 *Insurance Contracts* (IFRS 17) to annual reporting periods beginning on or after 1 January 2023
- Agreed to extend the fixed expiry date of the temporary exemption from applying IFRS 9 *Financial Instruments* (IFRS 9) for qualifying insurers (as contained in IFRS 4 *Insurance Contracts* (IFRS 4)), so that all entities must apply IFRS 9 for annual reporting periods beginning on or after 1 January 2023
- Gave the IASB staff permission to start the balloting process for finalising amendments to IFRS 17

The staff expects the amendments will be issued in the second quarter of 2020.

Overview

At its March 2020 Board meeting, the International Accounting Standards Board (IASB or the Board) completed its planned re-deliberations on the proposed amendments in the Exposure Draft *Amendments to IFRS 17 Insurance* Contracts (the ED), in line with the plan outlined in its November 2019 meeting.

The story so far

The IASB issued IFRS 17 in May 2017. Our publication, *Applying IFRS 17: A closer look at the new insurance contracts standard,* provides further details on the requirements: http://ey.com/Publication/vwLUAssets/ey-Applying-IFRS-17-Insurance-May-18/$FILE/ey-Applying-IFRS-17-Insurance-May-18.pdf

Having considered 25 concerns and implementation challenges arising since IFRS 17 *Insurance Contracts* (IFRS 17 or 'the standard') was issued, the IASB issued an ED in June 2019 proposing targeted amendments to the standard to respond to some, but not all, of those concerns and challenges: https://www.ifrs.org/projects/work-plan/amendments-to-ifrs-17/#published-documents

For further details of the IASB's exposure draft, and its subsequent discussions refer to our recent Insurance Accounting Alerts: https://ey.com/gl/en/issues/ifrs

Effective date of IFRS 17

The IASB agreed with the staff recommendation to defer the effective date of IFRS 17, including the amendments, by two years to annual reporting periods beginning on or after 1 January 2023. This new deferral of the effective date of IFRS 17 adds one year compared to the deferral to 1 January 2022 that was proposed in the ED. Early adoption is permitted, provided an entity also applies IFRS 9.

The staff believe this should allow enough time for an orderly introduction of the amended IFRS 17 globally. This will enable more entities to apply IFRS 17 at the same time, to the benefit of users of financial statements. It should also ease the implementation challenges some entities are facing, thereby improving the quality of initial application. The staff acknowledged that there are costs associated with further delays to implementation, particularly for users of financial statements and those entities that started implementation earlier.

The staff analysis noted that significant improvements to insurance accounting introduced by IFRS 17 are urgently needed. The staff was not convinced that entities require more than a one-year deferral of the effective date to be able to implement IFRS 17, the effects of disruption caused by the amendments to IFRS 17 having been anticipated in the proposed deferral of the effective date in the ED.

However, the staff acknowledged that implementation by 2022 would be demanding for some insurers and considered the feedback it received that more time is required for implementation to allow for a well controlled and robust implementation. This is due to matters such as:

- Challenges and delays in systems development
- Time required to determine appropriate application of IFRS 17 to the wide variety of insurance contracts and to resolve technical questions arising

- Time required to align regulatory reporting and taxation requirements with IFRS 17
- The need to prepare users of financial statements for the significant changes that will be introduced by IFRS 17
- The effect of proposed amendments to implementations already underway

The staff also considered that potential delays and uncertainties regarding endorsement mechanisms in some jurisdictions made it uncertain whether insurers would be able to initially apply IFRS 17 at the same time, if the IASB were to confirm a 2022 implementation date. It highlighted the potential risks of not having consistent effective dates around the world, including:

- The risk of confusion if users of financial statements receive the new information provided by IFRS 17 at different times
- The risk of disruption if those insurers that first apply IFRS 17 have to reconsider accounting policy judgements when others apply the standard at a later date
- The risk of operational complexities for entities reporting in jurisdictions with different effective dates

The Board voted 13 to 1 in favour of the staff recommendation.

Observations from the Board meeting

One Board member felt that 2023 would allow a reasonable amount of time for all insurers, including small insurance entities, to apply IFRS 17 properly and at the same time. Another noted that none of the reasons for a further delay were sufficient in themselves, but considering them in aggregate was persuasive. Another supported delay to 1 January 2023 by noting that there would be only six months between publication of the amended standard and the transition date of 1 January 2021, had the Board decided to keep the effective date of 1 January 2022 as proposed in the ED.

Temporary exemption from applying IFRS 9 in IFRS 4

The staff noted that any further extension to the temporary exemption (TE) from applying IFRS 9 in IFRS 4 is a question of balancing the need for improved information resulting from IFRS 9 against the benefit for entities to be able to apply IFRS 17 and IFRS 9 at the same time.

On one hand, an extension of the TE would delay the application of significant improvements to accounting requirements for financial instruments by insurers, who are often significant holders of financial assets. The staff believes this is particularly relevant in relation to the expected credit loss impairment model and associated disclosures. It is especially important to have better information about credit risk in the current low interest environment if insurers invest in lower quality assets to obtain higher yields. There would also be continued costs and complexities for users of financial statements arising from the use of different standards for financial instruments. Moreover, it is inefficient for the Board and stakeholders to require continued maintenance of IAS 39.

On the other hand, some respondents to the ED noted that it was essential to align the effective dates of IFRS 17 and IFRS 9. This would avoid the significant costs of having to make two significant sets of accounting changes in a short period of time and would also lead to improved information and avoid potential accounting mismatches given the inherent linkages between the two standards.

On balance, the staff believes that the benefits of extending the TE by a further a year to maintain alignment between IFRS 17 and IFRS 9 would outweigh the disadvantages of a further delay to the implementation of IFRS 9.

The Board voted 12 to 2 in favour of the staff recommendation.

Observations from the Board meeting

One Board member felt it was only logical to extend the TE given that the effective date of IFRS 17 was delayed, in part, to help small insurers to be ready in time. Another noted that requiring separate effective dates for IFRS 9 and IFRS 17 could disrupt implementation projects already underway. However, the IASB Chairman did express his concerns about extending the time that users of financial statements would be without a clear picture of the economic effects on insurers of their insurance contracts and financial instruments.

Due process steps and permission for balloting

The IASB gave the staff permission to begin the balloting process, in line with the plan to issue the final amended standard in the second quarter of 2020. It agreed that it is important that IFRS 17 is, and is seen to be, stable to allow enough time for its orderly introduction around the world.

The Board agreed with the staff recommendation that re-exposure of the amendments to IFRS 17 is not required. It has made tentative decisions during its re-deliberations to amend the proposals in the ED. However, these changes are in response to feedback and do not, in the Board's view, include any fundamental changes on which respondents have not had the opportunity to comment.

The Board voted unanimously in favour of the staff recommendation with no further comments.

Next steps

The staff plan to draft the amendments to IFRS 17 and bring any sweep issues identified during the balloting of the amendments for discussion at a future meeting. The staff expects the amendments will be issued in the second quarter of 2020, in line with the Board's plan as stated in the ED.

How we see it

The decision of the Board means preparers are effectively granted one year more to prepare for the initial application of IFRS 17 and IFRS 9, compared to the proposals in the Exposure Draft. Even though the Board decided not to make a change for some fundamental topics (e.g., the annual cohort requirement), there are still a number of changes made during the re-deliberation that will have a significant impact on implementation efforts. Particularly the decisions regarding the recovery of losses by reinsurance held, investment expenses included in fulfilment cash flows, recognition and impairment of assets arising from insurance acquisition cash flows, and the impact of the reporting frequency on the treatment of accounting estimates will require significant evaluation and may cause preparers to rethink some of their IFRS 17 solutions.

Preparers should therefore address the following key tasks in the near future:

- Reassess overall programme and workstream timeframes, as well as key milestones allowing for the new effective date for IFRS 17 and IFRS 9
- Update accounting policies and revisit policy choices in response to the revised standard
- Reassess the current status of system design and configuration requirements in response to the revised standard and any changes to accounting policies
- Align testing and parallel run strategy and planning, as well as building sufficient controls over the process
- Update and engage key stakeholders (including regulators, analysts, etc.) on next steps and expected impacts

Appendix

Topic (per Appendix A of February IASB agenda paper AP2)	Board's tentative decision: Confirm amendment as proposed in the ED	Board's tentative decision: Confirm proposed amendment with some changes	Board's tentative decision: Amendment not proposed in the ED
1A Scope exclusion for credit card contracts and other similar contracts that provide credit or payment arrangements that meet the definition of an insurance contract		January 2020	
1B Scope exclusion for loan contracts that meet the definition of an insurance contract	December 2019		
2 Expected recovery of insurance acquisition cashflows		December 2019, January 2020	
3 Contractual service margin attributable to investment-return service and investment-related service		December 2019, February 2020	
4 Reinsurance contracts held – recovery of losses on underlying insurance contracts		December 2019	
5 Presentation in the statement of financial position	December 2019		
6A Applicability of the risk mitigation option – reinsurance contracts held	December 2019		
6B Applicability of the risk mitigation option – non-derivative financial instruments at fair value through profit or loss			February 2020
7 Accounting policy choice relating to interim financial statements			January 2020
8A Effective date of IFRS 17		March 2020	
8B IFRS 9 temporary exemption in IFRS 4		March 2020	
9A Transition relief for contracts acquired	December 2019		
9B Transition relief for risk mitigation – application from the transition date	December 2019		
9C Transition relief for risk mitigation option – the option to apply the fair value approach	December 2019		
9D Transition relief for investment contracts with discretionary participation features			February 2020
9E Transition relief for identifying the date a reinsurance contract held was acquired			February2020
9F Transition relief relating to interim financial statements			February 2020
10 Minor amendments		February 2020	February 2020*

*Resolving an inconsistency in the requirements of IFRS 17 relating to policyholder taxes.

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