

IFRS 17 Transition Resource Group

April meeting summary

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The April meeting is the last scheduled meeting for the TRG. This reflects the limited number of submissions that meet the TRG's criteria.

The IFRS 17 Transition Resource Group ("TRG") met at the offices of the International Accounting Standards Board ("IASB") on April 4. This paper summarises the two agenda papers and their discussion by the TRG¹. The IASB staff ("the Staff") will publish their official summary of the meeting in the coming weeks.

The IASB received 46 new submissions for consideration at the September TRG meeting. Three of the submissions were considered in Agenda Paper 01 ("AP01") with the others captured by Agenda Paper 02 ("AP02"), which briefly describes each submission and provides clarifications for some examples.

Due to the low number of relevant submissions, the TRG has not scheduled any further meetings. However, it will not be dissolved as further issues may arise.

The Staff emphasised that issues arising from the upcoming² exposure of amendments to the IFRS 17 Standard should be raised via comment letters to the IASB and not to the TRG.

Investment components within an insurance contract [AP01]

The first agenda paper considered:

- determining whether a contract includes an investment component;
- the assessment of whether the investment component is distinct; and
- methods for determining the amount of the investment component.

¹ The views expressed in this paper are based on the authors' observations from the TRG meeting. The IASB Staff's official summary may differ from the views expressed here.

To determine whether a contract has an investment component, the paper highlighted that paragraph BC34 of the Basis for Conclusions on IFRS 17 explained that the investment component is the amount payable to a policyholder 'in all circumstances'.

The Staff have recommended an improvement to the Standard to include 'in all circumstances' in the definition of investment component in Appendix A.

The suggested amendment was considered helpful by some members of the TRG, but confusing for others. Board members noted that as 'in all circumstances' was already within the Basis for Conclusions, this amendment should not change the interpretation of IFRS 17 and would provide important clarification to a number of stakeholders that have separately expressed confusion around the definition.

To determine whether the investment component is distinct, which would require separation as per paragraph 11(b) of the Standard, there are two main requirements that the paper reiterated. These are:

- the investment component is not highly interrelated with the insurance component; and
- a separate contract with equivalent terms to the investment component is sold, or could be sold, in the same market or jurisdiction.

TRG members noted that distinct investment components would be unusual as there is generally a link to the insurance contract as the components would typically terminate together.

Where non-distinct investment components exist, paragraph 85 of the Standard requires entities to exclude these amounts from insurance revenue and insurance service expenses in profit or loss. Therefore, the amount to exclude needs to be quantified at the point that payments to a policyholder are made. The paper notes that IFRS 17 does not specify how to do this, but the Staff suggest that a present value approach may be appropriate, in particular when the investment component is not clearly identified by the contractual terms (e.g. explicit surrender amounts or guaranteed payments). TRG members felt this was a helpful

² TRG staff indicated this would be in June.

approach but noted that it was not a requirement to use a present value approach.

After discussing the theory, the paper includes a number of examples of assessing the existence and amount of investment components for a number of different fact patterns that were submitted to the TRG.

Reporting on other questions submitted [AP02]

The second agenda paper considered issues raised in 43 other submissions that, in the Staff's view, either:

- can be answered applying only the words in IFRS 17 (in other words, the Staff believe there is no ambiguity around the interpretation of the words);
- do not meet the submission criteria; or
- are being considered through a process other than a TRG discussion.

Overall, the TRG felt that the clarifications given were generally considered helpful and provided useful approaches for practitioners.

One TRG member noted that an example of paragraph B101(c) being applied would be helpful in addition to the example given for S115 (Submission 115). Paragraph B101(c) requires that for an insurance contract to have direct participation features, an entity should expect a substantial proportion of changes in the amounts paid to a policyholder to vary with the change in fair value of underlying items.

S118 relates to the effect of reinsurance on the risk adjustment of the underlying insurance contracts, if the existence of reinsurance is considered by the entity when determining the compensation it requires for the non-financial risk of the contract. The Staff clarified that both the cost and benefit of the reinsurance should be reflected in the risk adjustment of the underlying contract. In addition, the risk adjustment of the reinsurance contract should reflect the risk being transferred. Some TRG members disagreed with the treatment of the example given in the paper.

Several TRG members expressed concern relating to S122 which relates to the application of inflation to cashflows that are not contractually linked to an index. An example of expense assumptions containing an inflation assumption linked to an implied inflation curve was discussed. The Staff view was that changes in fulfillment cashflows relating to changes in these assumptions would be considered changes related to financial risk

and therefore not adjust the CSM under the General Model. Some TRG members took a different view to that of the Staff.

The response to S101, S120 and S124 highlighted a planned annual improvement being suggested by the Staff to clarify the implications on the CSM of choosing to disaggregate the change in the risk adjustment between insurance service result and insurance finance income or expenses (as permitted in paragraph 81).

The response to S104 also highlighted a planned annual improvement to clarify paragraphs 48(a) and 50(b) of the Standard. This requires changes in the risk adjustment that relate to future service being allocated to the loss component.

Conclusion

This TRG meeting only discussed one detailed paper on the topic of investment components, which is closely related to one of the proposed annual improvements that the Staff consider to be a clarification to the definition. Some TRG members indicated that this clarification might lead to changes in their ongoing implementation particularly around disclosure.

Given the limited number of submissions that require TRG discussion, there are currently no future scheduled TRG meetings. However, submissions that meet the applicable criteria are still welcome and the TRG will remain active, as it may be needed to discuss future issues.

Issues arising from the upcoming exposure of amendments to the IFRS 17 Standard should be raised via comment letters to the IASB and not to the TRG.



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