IFRS 17 – IASB considers amending the standard

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The IASB's criteria aim to balance the potential benefits and drawbacks of amending IFRS 17

Insurers' concerns and implementation challenges give much for the Board to think about

Highlights

– Setting the criteria for amending IFRS 17

– Concerns and implementation challenges discussed

– Considering the effective date

– Next steps

In the 17 months since IFRS 17 *Insurance Contracts* was first issued, the IASB has been monitoring and supporting its implementation and has learned much about stakeholders' concerns and implementation challenges.

At its October meeting, the Board undertook its first comprehensive update aimed at addressing these issues. Notably, they set criteria for evaluating possible amendments to IFRS 17, and also discussed concerns and challenges identified by insurers and other stakeholders.

The Board will be asked to consider at future meetings whether any of the concerns and implementation challenges indicate a need to amend IFRS 17, including its effective date.

Setting the criteria for amending IFRS 17

In evaluating potential amendments to IFRS 17, the Board aims to avoid making changes that would result in:

– significant loss of useful information;

– undue disruption to insurers' on-going implementation efforts; or

– undue delays to the effective date of IFRS 17, which addresses many inadequacies in the existing wide range of insurance accounting practices.

The Board believes that to avoid significant loss of useful information, any amendments should avoid:

- reducing the relevance and faithful representation of information in insurers' financial statements;
- reducing comparability or introducing internal inconsistency in IFRS standards, including IFRS 17; and
- reducing understandability by increasing complexity for financial statement users.

These criteria indicate that, before making any amendments, the Board will consider whether the potential drawbacks of amending IFRS 17 outweigh the potential benefits of relieving concerns and implementation challenges.

By setting the criteria above, the Board signals that it is potentially open to amending the standard if the benefits outweigh the drawbacks. However, a number of Board members observed that there will be a high hurdle for any changes to be made to IFRS 17 – i.e. meeting the criteria is necessary, but not sufficient on its own to warrant an amendment.

Concerns and implementation challenges discussed

The Board discussed 25 specific concerns and implementation challenges. They noted the staff's preliminary thoughts as to whether each topic should be explored further, and their assessment against the criteria for considering potential amendments.

The Board made no decisions as to specific potential amendments but the discussions indicate that some topics, particularly the following, may be explored further.

- Loans and other forms of credit that transfer insurance risk.
- Acquisition cash flows for renewals outside the contract boundary.
- Contractual service margin – coverage units in the general measurement model.
- Reinsurance contracts held – initial recognition when underlying insurance contracts are onerous.
- Separate presentation of groups of assets and groups of liabilities.
- The modified retrospective approach to transition.

Considering the effective date

The Board also noted the following stakeholder concerns regarding the effective date of IFRS 17.

Insufficient implementation time?

Some stakeholders expressed the view that there is insufficient time to implement IFRS 17 before its January 2021 effective date, suggesting that the date should be postponed by between one and three years.

Many stakeholders think that at least a one-year deferral would be helpful and many consider that it would be useful if any deferral could be communicated sooner rather than later. Some stakeholders expressed concerns that deferring the standard further could increase the costs of implementation without a corresponding benefit.

Temporary exemption from applying IFRS 9

Insurers whose activities are predominantly connected with insurance have been granted an optional temporary exemption from applying IFRS 9 *Financial Instruments* until 2021, subject to certain criteria being met.

Some stakeholders suggest that if IFRS 17's mandatory effective date were to be postponed, then the Board should also revise the fixed expiry date of the temporary exemption. This would avoid preparers and users of financial statements experiencing two sets of major accounting changes in a short period of time.

Some Board members appeared to be reluctant to change the expiry date of the temporary exemption.

Next steps

Should the Board eventually decide that there is a need to make amendments to IFRS 17, these would be subject to the Board's normal due process for amendments to standards, including developing an exposure draft.

Stay tuned for our next web article which will keep you up to date on the outcome of these important IFRS 17 discussions. The next Board meeting is currently scheduled for 12–16 November.

Visit **kpmg.com/ifrs17** to read all of our insights on the new insurance contracts standard.

You can also visit **kpmg.com/trg** to find out more about the implementation challenges discussed by the IASB's Transition Resource Group for Insurance Contracts.