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IFRS 17 – Further key amendments proposed

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Proposals target loan contracts and transition requirements

Highlights

- Two further potential amendments to the requirements of IFRS 17
- For loans that transfer significant insurance risk, lenders would be permitted to apply either IFRS 17 or IFRS 9
- Proposals for practical relief on transition requirements for acquired claims liabilities
- Next steps – Further topics to be discussed in March, exposure draft due mid-2019.

The International Accounting Standards Board (the Board) continues to address insurers' and other stakeholders' concerns and implementation challenges.

At its February meeting, the Board voted to propose two more amendments to IFRS 17 *Insurance Contracts*. This is the fourth consecutive meeting at which they have proposed narrow scope amendments to the standard.

The Board's discussion at the meeting focused on loans that transfer significant insurance risk and several topics around transition requirements. The Board aims to provide practical relief for insurers and other financial statement preparers by amending IFRS 17 in two areas:

- loans that transfer significant insurance risk; and
- transition requirements for acquired claims liabilities.

Although the Board decided not to propose further amendments with respect to the transition requirements, the discussion provided some clarity about using estimates on transition.

"Both insurers and banks are likely to be pleased with the Board's decisions on loans that transfer significant insurance risk, an area in which many lenders may have been required to apply IFRS 17 to some of their loans. However, insurers' responses to the Board's decisions on transition requirements may be more mixed."

Joachim Kölschbach,
KPMG's global IFRS insurance leader

What has the Board proposed?

Loans that transfer significant insurance risk

The Board proposes amending IFRS 17 and IFRS 9 Financial Instruments to allow lenders to apply either standard to loans for which the only insurance cover is for the settlement of some or all of the borrower's obligations under the loan. **Find out more ▸**

Ms Mary H Trussell
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"The Board's decisions on the transition requirements could get a mixed reaction from insurers. On the positive side, the targeted amendment for acquired claims liabilities may alleviate some of the pressure on data availability on transition to IFRS 17. However, insurers may be less pleased with the Board's decisions not to add more flexibility to the transition requirements in other areas."

Mary Trussell,
KPMG's Global Lead,
Insurance Accounting Change

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Transition requirements – additional practical relief for acquired claims liabilities

The Board also proposes that a specified modification be added to the modified retrospective approach to transition for the treatment of liabilities that relate to the settlement of claims incurred before an insurance contract was acquired by the insurer through a business combination or portfolio transfer. Under the amendment, these liabilities would be accounted for as a liability for incurred claims. The fair value approach to transition would be similarly amended. **Find out more ▶**

Transition requirements – Further Board discussions

The Board discussed a number of aspects of the transition requirements but decided not to make further amendments at this time. **Find out more ▶**

What are the implications?

Under the proposal for loans that transfer significant insurance risk, banks and insurers could choose the accounting model that is most appropriate for them. Banks in particular would benefit from significant practical relief, as they would not need to modify the relevant systems and processes to support IFRS 17 implementation.

The proposal to simplify the accounting for acquired claims liabilities would provide a meaningful practical solution for insurers on transition and may reduce their related implementation costs.

Although the proposed amendment would help, applying the transition requirements of IFRS 17 will remain a complex exercise. While the Board indicated that they would like to explore other ways to address insurers' concerns about the transition requirements, it is never too early to start assessing whether:

- the right data is available to apply the different transition approaches; and
- what the potential impact could be, both upon transition and afterwards.

Next steps

These proposed amendments complement the Board's tentative decisions to:

- **defer the effective date** of IFRS 17 to January 2022;
- **extend the temporary exemption from applying IFRS 9** to January 2022;
- **propose an amendment** to IFRS 17's balance sheet presentation requirements; and
- **propose amendments to four other important areas** of the standard last month.

All of these actions are subject to the Board's normal due process, which requires that an exposure draft be published followed by a public comment period.

The Board has now covered most of the 25 areas of IFRS 17 in which it decided to explore making amendments to address stakeholders' concerns and implementation challenges. The Board is expected to discuss the remaining topics and potential sweep issues at their March 2019 meeting, while an exposure draft of the amendments to IFRS 17 is expected in mid-2019.

Stay tuned for our next web article, which will keep you up to date on the outcome of these important discussions.

Find out more

Visit **home.kpmg/ifrs17** to read all of our insights on the new insurance contracts standard. Also, our insights on insurers' progress with IFRS 17 and IFRS 9 implementation can be found on our **In it to win it** web page.