KPMG

IFRS®17 proposals – Outreach feedback

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Board provides feedback from stakeholder outreach – comment letter analysis due next month

Highlights

- Outreach activities were performed across various jurisdictions
- Feedback and suggestions on the proposals were supportive overall
- Some feedback was received on areas of concern outside the ED
- Next steps – Summary of comment letters expected in November

"It is encouraging to see the overall positive feedback received by the Board through its outreach activities and that the Board's objective continues to be to issue the final amendments by mid-2020. Despite discussion around deferring application a further year to 2023, there is no time to waste if insurers want to have a smooth transition process."

Joachim Kölschbach,
KPMG's Global IFRS Insurance Leader

Feedback from stakeholder outreach on the proposed amendments to the new insurance standard, IFRS 17, has now been published.

The outreach focused on entities issuing insurance contracts, but it also sought feedback from auditors, regulators, standard setters and users of financial statements. It was conducted by the International Accounting Standards Board (the Board) across various jurisdictions during the 90-day comment period on the exposure draft (ED) and summarised at the Board's October meeting.

The staff is expected to provide a summary of feedback from the comment letters on the ED at the November meeting.

Feedback and suggestions on the proposals

Most stakeholders agreed with the proposals in the ED, with some additional comments, as summarised below.

Amendment	Outreach feedback
Scope exclusion for credit cards and loans	Some stakeholders were concerned that the scope of the proposed amendment for credit cards was too narrow, whereas others were concerned about credit cards being measured at fair value through profit or loss under IFRS 9 *Financial Instruments*.

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Amendment	Outreach feedback
Expected recovery of insurance acquisition cashflows	Some stakeholders were concerned that the amendment would increase the ongoing costs of applying IFRS 17, and others encouraged the Board to provide guidance on how to: – allocate insurance acquisition cash flows to expected contract renewals; and – recognise any asset on transition.
Contractual service margin attributable to investment services	Some stakeholders believed that the criteria for when an investment-return service can exist are too narrow, specifically as they relate to the requirement for a right to withdraw or the existence of an investment component. Some stakeholders expressed concerns about the complexity of identifying coverage units for contracts with multiple services.
Reinsurance contracts held – recovery of losses	Most stakeholders expressed the view that the population of reinsurance contracts to which the proposed amendment would apply is too narrow – e.g. some believed that the amendment should apply to other types of reinsurance and not only proportionate as defined in the ED.
Presentation in the statement of financial position	Most stakeholders agreed that the proposed amendment would reduce implementation costs.
Applicability of the risk mitigation option	Some stakeholders believed that the risk mitigation option should be extended to all financial instruments used for the purpose of risk mitigation that are accounted for at fair value through profit or loss.
Effective date of IFRS 17 and temporary exemption from IFRS 9	Some stakeholders suggested deferring the effective date by two years to 1 January 2023 or setting different effective dates for large and smaller companies. Some insurance companies do not consider aligning IFRS 9 and IFRS 17 to be essential and some users were particularly concerned about further delaying IFRS 9.

Amendment	Outreach feedback
Transition reliefs	Many stakeholders would prefer an extension of the proposed relief to claims liabilities acquired in their settlement period after the date of transition to IFRS 17. This would enable existing insurance accounting practices for accounting for business combinations to continue. Some stakeholders would prefer the possibility of applying the risk mitigation option retrospectively on transition.
Minor amendments and terminology	Some stakeholders expressed concern about the editorial correction clarifying that the criteria for the variable fee approach would be assessed at the individual contract level. There were mixed views about the possibility of changing terminology – e.g. replacing 'coverage' with 'service' in the term 'coverage units'.

Feedback and suggestions on other areas of concern

The Board received some feedback on areas that were outside the scope of the ED.

Interim financial reporting

IAS®34 *Interim Financial Reporting* requires the frequency of an entity's reporting not to affect the measurement of its annual results. IFRS 17 includes an exception to this requirement, whereby the treatment of accounting estimates made in interim financial statements cannot be changed.

Many stakeholders are concerned that this requirement would result in a different calculation of the contractual service margin depending on whether and how frequently an entity prepares interim financial reports. This may impair comparability and could be costly to implement.

Annual cohorts

Under IFRS 17, contracts issued more than one year apart cannot be included in the same group. Some stakeholders expressed concern about this requirement, arguing that it would be costly to apply and, for specific contracts that share risks across generations, would not provide useful information.

Next steps

At the November meeting, the staff plans to provide the Board with:

– a summary of feedback from the comment letters on the ED; and

– a plan setting out the sequencing and grouping of topics for redeliberations.

Detailed analysis of feedback on specific topics will be presented to the Board when it redeliberates those topics at future meetings. The Board's objective remains to issue the final amendments to IFRS 17 in mid-2020.

You can read our coverage of the Board's proposed amendments and the TRG's discussions in our online magazine **Insurance – Transition to IFRS 17**.

Please watch this space for further updates and speak to your usual KPMG contact to find out more about the Board's deliberations.

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.

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