

EXPOSURE DRAFT

PUBLIC BENEFIT ENTITY INTERNATIONAL FINANCIAL REPORTING STANDARD 17 INSURANCE CONTRACTS (PBE IFRS 17)

Issued [Date]

This [draft]¹ Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in paragraphs 132.1 to 132.2.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This New Zealand Tier 1 and Tier 2 Public Benefit Entity Accounting Standard has been issued to align the requirements for insurance contracts for Tier 1 and Tier 2 public benefit entities with the requirements for Tier 1 and Tier 2 for-profit entities applying New Zealand Equivalent to International Financial Reporting Standard 17 *Insurance Contracts* (NZ IFRS 17).

This Standard, when applied, supersedes PBE IFRS 4 *Insurance Contracts*.

This is not the official version of NZASB Exposure Draft 2018-7.

This version shows, in marked-up form, the changes proposed to the underlying text. In the case of the body of the proposed PBE IFRS 17 and most of the application guidance, the underlying text comes from IFRS 17 *Insurance Contracts*. Paragraphs 3(d) and AG1.1–AG1.6 are based on the relevant paragraphs from forthcoming IPSAS 42 *Social Benefits*.

This version also includes editorial corrections to IFRS 17 as agreed by the IASB at its meeting in June 2018. Those corrections are shaded in ED PBE IFRS 17.

¹ References to “this Standard” throughout this Exposure Draft should be read as referring to “this draft Standard”.

PBE IFRS 17 INSURANCE CONTRACTS

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PBE IFRS 17 INSURANCE CONTRACTS

CONTENTS

	from paragraph
Objective	1
Scope	2.1
Combination of Insurance Contracts	9
Separating Components from an Insurance Contract	10
Definitions	13.1
Level of Aggregation or Insurance Contracts	14
Recognition	25
Measurement	29
Measurement at Initial Recognition	32
Subsequent Measurement	40
Onerous Contracts	47
Premium Allocation Approach	53
Reinsurance Contracts Held	60
Investment Contracts with Discretionary Participation Features	71
Modification and Derecognition	72
Modification of an Insurance Contract	72
Derecognition	74
Presentation in the Statement of Financial Position	78
Recognition and Presentation in the Statement(s) of Financial Performance	80
Insurance Service Result	83
Insurance Finance Income Revenue or Expenses	87
Disclosure	93
Explanation of Recognised Amounts	97
Significant Judgements in Applying <u>PBE IFRS 17</u>	117
Nature and Extent of Risks that Arise from Contracts within the Scope of <u>PBE IFRS 17</u>	121
Effective Date and Transition	<u>132.1</u>
Effective Date	<u>132.1</u>
Transitional Provisions	<u>132.3</u>
Withdrawal and Replacement of PBE IFRS 4 <i>Insurance Contracts</i>	<u>132.34</u>
Appendix A: [Not used]	
Appendix B: Application Guidance	
Appendix C: [Not used]	
Appendix D: Amendments to Other Standards	
Basis for Conclusions	
History of Amendments	

The following is available within New Zealand on the XRB website as additional material

IASB Basis for Conclusions

IASB Illustrative Examples

Public Benefit Entity International Financial Reporting Standard 17 *Insurance Contracts* ([PBE IFRS 17](#)) is set out in paragraphs 1–~~1632~~ and Appendices A–D. PBE IFRS 17 is based on International Financial Reporting Standard 17 *Insurance Contracts* issued by the International Accounting Standards Board and NZ IFRS 17 *Insurance Contracts*. All the paragraphs have equal authority. PBE IFRS 17 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IFRS 17, the IASB’s Basis for Conclusions on IFRS 17, the *Public Benefit Entities’ Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

For information only

Objective

1. **PBE IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The objective of PBE IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.**
2. An entity shall consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying PBE IFRS 17. A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (i.e., no discernible effect on the economics of the contract). Implied terms in a contract include those imposed by law or regulation. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services).

Scope

2.1 This Standard applies to Tier 1 and Tier 2 public benefit entities.

3. An entity shall apply PBE IFRS 17 to:
 - (a) Insurance contracts, including reinsurance contracts, it issues;
 - (b) Reinsurance contracts it holds; ~~and~~
 - (c) Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts; ~~and~~
 - (d) Schemes where:
 - (i) The scheme is intended to be fully funded from contributions and levies (paragraphs AG1.1–AG1.4 provide additional guidance); and
 - (ii) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis (paragraphs AG1.5–AG1.6 provide additional guidance).
4. All references in PBE IFRS 17 to insurance contracts also apply to:
 - (a) Reinsurance contracts held, except:
 - (i) For references to insurance contracts issued; and
 - (ii) As described in paragraphs 60–70.
 - (b) Investment contracts with discretionary participation features as set out in paragraph 3(c), except for the reference to insurance contracts in paragraph 3(c) and as described in paragraph 71.
5. All references in PBE IFRS 17 to insurance contracts issued also apply to insurance contracts acquired by the entity in a transfer of insurance contracts or a business combination other than reinsurance contracts held.
6. ~~Appendix A Paragraph 13.1~~ defines an insurance contract and paragraphs ~~AGB2–AGB30 of Appendix B~~ provide guidance on the definition of an insurance contract.
7. An entity shall not apply PBE IFRS 17 to:
 - (a) Warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see ~~IFRS 15 Revenue from Contracts with Customers~~ PBE IPSAS 9 Revenue from Exchange Transactions and PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets).

- (b) Employers' assets and liabilities from employee benefit plans (see PBE IPSAS 139 Employee Benefits and IFRS 2 Share-based Payment) and retirement benefit obligations reported by defined benefit retirement plans (see the relevant international or national standard dealing with reporting by retirement benefit plans IAS 26 Accounting and Reporting by Retirement Benefit Plans).
 - (c) Contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, ~~variable and other~~ contingent lease payments and similar items: see IFRS 15 PBE IPSAS 9, PBE IPSAS 13 Leases and PBE IPSAS 31 IAS 38 Intangible Assets and IFRS 16 Leases).
 - (d) Residual value guarantees provided by a manufacturer, dealer or retailer and a lessee's residual value guarantees when they are embedded in a lease (see IFRS 15 and IFRS 16 PBE IPSAS 13).
 - (e) Financial guarantee contracts, unless the issuer has previously ~~asserted explicitly that it regards such contracts as insurance contracts and has used~~ applied accounting applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts. The issuer shall choose to apply either PBE IFRS 17 or PBE IPSAS 328 Financial Instruments: Presentation, IFRS 7 PBE IPSAS 30 Financial Instruments: Disclosures and PBE IPSAS 41 IFRS 9 Financial Instruments to such financial guarantee contracts. The issuer may make that choice contract by contract, but the choice for each contract is irrevocable.
 - (f) Contingent consideration payable or receivable in a business combination (see PBE IFRS 3 Business Combinations).²
 - (g) Insurance contracts in which the entity is the policyholder, unless those contracts are reinsurance contracts held (see paragraph 3(b)).
8. Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. An entity may choose to apply IFRS 15 PBE IPSAS 9 instead of PBE IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are:
- (a) The entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
 - (b) The contract compensates the customer by providing services, rather than by making cash payments to the customer; and
 - (c) The insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

Combination of Insurance Contracts

9. A set or series of insurance contracts with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it may be necessary to treat the set or series of contracts as a whole. For example, if the rights or obligations in one contract do nothing other than entirely negate the rights or obligations in another contract entered into at the same time with the same counterparty, the combined effect is that no rights or obligations exist.

Separating Components from an Insurance Contract (paragraphs AGB31–BAG35)

10. An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an investment component or a service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.
11. An entity shall:
- (a) Apply PBE IPSAS 41 IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative.

² NZASB ED 2018-4 PBE IPSAS 40 PBE Combinations sets out proposals for a PBE Standard which would supersede PBE IFRS 3. If that Standard is finalised before this Standard, paragraph 7(f) would refer to PBE IPSAS 40 PBE Combinations rather than to PBE IFRS 3.

- (b) Separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs ~~BAG31–BAG32~~). The entity shall apply ~~IFRS 9~~PBE IPSAS 41 to account for the separated investment component.
12. After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer distinct goods or non-insurance services to a policyholder ~~, applying paragraph 7 of IFRS 15. The entity shall account for such promises applying IFRS 15. In applying paragraph 7 of IFRS 15~~ To separate the promise, the entity shall apply paragraphs ~~BAG33–BAG35~~ of PBE IFRS 17 and, on initial recognition, shall:
- (a) ~~Apply IFRS 15 to a~~ attribute the cash inflows between the insurance component and any promises to provide distinct goods or non-insurance services; and
- (b) Attribute the cash outflows between the insurance component and any promised goods or non-insurance services accounted for ~~applying IFRS 15~~ so that:
- (i) Cash outflows that relate directly to each component are attributed to that component; and
- (ii) Any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows the entity would expect to arise if that component were a separate contract.
13. After applying paragraphs 11–12, an entity shall apply PBE IFRS 17 to all remaining components of the host insurance contract. Hereafter, all references in PBE IFRS 17 to embedded derivatives refer to derivatives that have not been separated from the host insurance contract and all references to investment components refer to investment components that have not been separated from the host insurance contract (except those references in paragraphs ~~BAG31–BAG32~~).

Definitions

- 13.1 The following terms are used in this Standard with the meanings specified:

The **contractual service margin** is a component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned ~~profit surplus~~ the entity will recognise as it provides services under the insurance contracts in the group.

~~For insurance contracts without direct participation features, the~~ **coverage period** is the period during which the entity provides coverage for insured events. This period includes the coverage that relates to all premiums within the boundary of the insurance contract. ~~For insurance contracts with direct participation features, the period during which the entity provides coverage for insured events or investment-related services. This period includes the coverage for insured events or investment-related services that relates to all premiums within the boundary of the insurance contract.~~

Experience adjustment: A difference between:

- (a) For premium receipts (and any related cash flows such as insurance acquisition cash flows and insurance premium taxes)—the estimate at the beginning of the period of the amounts expected in the period and the actual cash flows in the period; or
- (b) For insurance service expenses (excluding insurance acquisition expenses)—the estimate at the beginning of the period of the amounts expected to be incurred in the period and the actual amounts incurred in the period.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Fulfilment cash flows is an explicit, unbiased and probability-weighted estimate (~~ie.e.~~ expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk.

A **group of insurance contracts** is a set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts written within a period of no longer than one year and that, at initial recognition:

- (a) Are onerous, if any;
- (b) Have no significant possibility of becoming onerous subsequently, if any; or
- (c) Do not fall into either (a) or (b), if any.

Insurance acquisition cash flows are cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.

An **insurance contract** is a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

An **insurance contract with direct participation features** is an insurance contract for which, at inception:

- (a) The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- (b) The entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- (c) The entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

An **insurance contract without direct participation features** is an insurance contract that is not an insurance contract with direct participation features.

Insurance risk is risk, other than financial risk, transferred from the holder of a contract to the issuer.

An **insured event** is an uncertain future event covered by an insurance contract that creates insurance risk.

Investment component: The amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur.

An **investment contract with discretionary participation features** is a financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:

- (a) That are expected to be a significant portion of the total contractual benefits;
- (b) The timing or amount of which are contractually at the discretion of the issuer; and
- (c) That are contractually based on:
 - (i) The returns on a specified pool of contracts or a specified type of contract;
 - (ii) Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - (iii) The **profit or loss surplus or deficit** of the entity or fund that issues the contract.

Liability for incurred claims: An entity's obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses.

Liability for remaining coverage: An entity's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (i.e., the obligation that relates to the unexpired portion of the coverage period).

Non-performance risk is the risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

A **policyholder** is a party that has a right to compensation under an insurance contract if an insured event occurs.

Portfolio of insurance contracts: Insurance contracts subject to similar risks and managed together.

A **reinsurance contract** is an insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).

Risk adjustment for non-financial risk: is the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

Underlying items are items that determine some of the amounts payable to a policyholder. Underlying items can comprise any items; for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Level of Aggregation of Insurance Contracts

14. An entity shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines (for example single premium fixed annuities compared with regular term life assurance) would not be expected to have similar risks and hence would be expected to be in different portfolios.
15. Paragraphs 16–24 apply to insurance contracts issued. The requirements for the level of aggregation of reinsurance contracts held are set out in paragraph 61.
16. An entity shall divide a portfolio of insurance contracts issued into a minimum of of:
 - (a) A group of contracts that are onerous at initial recognition, if any;
 - (b) A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
 - (c) A group of the remaining contracts in the portfolio, if any.
17. If an entity has reasonable and supportable information to conclude that a set of contracts will all be in the same group applying paragraph 16, it may measure the set of contracts to determine if the contracts are onerous (see paragraph 47) and assess the set of contracts to determine if the contracts have no significant possibility of becoming onerous subsequently (see paragraph 19). If the entity does not have reasonable and supportable information to conclude that a set of contracts will all be in the same group, it shall determine the group to which contracts belong by considering individual contracts.
18. For contracts issued to which an entity applies the premium allocation approach (see paragraphs 53–59), the entity shall assume no contracts in the portfolio are onerous at initial recognition, unless facts and circumstances indicate otherwise. An entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.
19. For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–59), an entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:
 - (a) Based on the likelihood of changes in assumptions which, if they occurred, would result in the contracts becoming onerous.

- (b) Using information about estimates provided by the entity's internal reporting. Hence, in assessing whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:
- (i) An entity shall not disregard information provided by its internal reporting about the effect of changes in assumptions on different contracts on the possibility of their becoming onerous; but
 - (ii) An entity is not required to gather additional information beyond that provided by the entity's internal reporting about the effect of changes in assumptions on different contracts.
20. If, applying paragraphs 14–19, contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. The entity shall not apply this paragraph by analogy to other items.
21. An entity is permitted to subdivide the groups described in paragraph 16. For example, an entity may choose to divide the portfolios into:
- (a) More groups that are not onerous at initial recognition—if the entity's internal reporting provides information that distinguishes:
 - (i) Different levels of profitability; or
 - (ii) Different possibilities of contracts becoming onerous after initial recognition; and
 - (b) More than one group of contracts that are onerous at initial recognition—if the entity's internal reporting provides information at a more detailed level about the extent to which the contracts are onerous.
22. **An entity shall not include contracts issued more than one year apart in the same group. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.**
23. A group of insurance contracts shall comprise a single contract if that is the result of applying paragraphs 14–22.
24. An entity shall apply the recognition and measurement requirements of PBE IFRS 17 to the groups of contracts ~~issued~~ determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition, and shall not reassess the composition of the groups subsequently, except as set out in paragraph 28. To measure a group of contracts, an entity may estimate the fulfilment cash flows at a higher level of aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.

Recognition

25. **An entity shall recognise a group of insurance contracts it issues from the earliest of the following:**
- (a) **The beginning of the coverage period of the group of contracts;**
 - (b) **The date when the first payment from a policyholder in the group becomes due; and**
 - (c) **For a group of onerous contracts, when the group becomes onerous.**
26. If there is no contractual due date, the first payment from the policyholder is deemed to be due when it is received. An entity is required to determine whether any contracts form a group of onerous contracts applying paragraph 16 before the earlier of the dates set out in paragraphs 25(a) and 25(b) if facts and circumstances indicate there is such a group.
27. An entity shall recognise an asset or liability for any insurance acquisition cash flows relating to a group of ~~issued~~ insurance contracts issued or expected to be issued that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or ~~income-revenue~~ applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).

28. In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts ~~that meet the criteria set out in paragraph 25(a)–(c) applied to each contract issued by the end of the reporting period~~ and shall make estimates for the discount rates at the date of initial recognition (see paragraph ~~AGB~~73) and the coverage units provided in the reporting period (see paragraph ~~BAG~~119). An entity may ~~issue~~ include more contracts in the group after the end of a reporting period, subject to paragraphs 14–22. An entity shall add the contracts to the group in the reporting period in which the contracts ~~meet the criteria set out in paragraph 25(a)–(c) applied to each contract~~ are issued. This may result in a change to the determination of the discount rates at the date of initial recognition applying paragraph ~~BAG~~73. An entity shall apply the revised rates from the start of the reporting period in which the new contracts are added to the group.

Measurement (paragraphs ~~BAG~~36–~~BAG~~119)

29. An entity shall apply paragraphs 30–52 to all groups of insurance contracts within the scope of ~~PBE~~ IFRS 17, with the following exceptions:
- For groups of insurance contracts meeting either of the criteria specified in paragraph 53, an entity may simplify the measurement of the group using the premium allocation approach in paragraphs 55–59.
 - For groups of reinsurance contracts held, an entity shall apply paragraphs 32–46 as required by paragraphs 63–70. Paragraphs 45 (on insurance contracts with direct participation features) and 47–52 (on onerous contracts) do not apply to groups of reinsurance contracts held.
 - For groups of investment contracts with discretionary participation features, an entity shall apply paragraphs 32–52 as modified by paragraph 71.
30. When applying ~~PBE~~ ~~IPSAS 42+~~ *The Effects of Changes in Foreign Exchange Rates* to a group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the contractual service margin, as a monetary item.
31. In the financial statements of an entity that issues insurance contracts, the fulfilment cash flows shall not reflect the non-performance risk of that entity ~~(non-performance risk is defined in IFRS 13 Fair Value Measurement)~~.

Measurement on Initial Recognition (paragraphs ~~BAG~~36–~~BAG~~95)

32. **On initial recognition, an entity shall measure a group of insurance contracts at the total of:**
- The fulfilment cash flows, which comprise:**
 - Estimates of future cash flows (paragraphs 33–35);
 - An adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows (paragraph 36); and
 - A risk adjustment for non-financial risk (paragraph 37).
 - The contractual service margin, measured applying paragraphs 38–39.**

Estimates of Future Cash Flows (paragraphs ~~BAG~~36–~~BAG~~71)

33. **An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:**
- Incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs ~~BAG~~37–~~BAG~~41). To do this, an entity shall estimate the expected value (i.e., the probability-weighted mean) of the full range of possible outcomes.**

- (b) **Reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs [BAG42–BAG53](#)).**
 - (c) **Be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs [BAG54–BAG60](#)).**
 - (d) **Be explicit—the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph [BAG90](#)). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph [BAG46](#)).**
34. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services (see paragraphs [BAG61–BAG71](#)). A substantive obligation to provide services ends when:
- (a) The entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
 - (b) Both of the following criteria are satisfied:
 - (i) The entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
 - (ii) The pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.
35. An entity shall not recognise as a liability or as an asset any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract. Such amounts relate to future insurance contracts.

Discount Rates (paragraphs [BAG72–BAG85](#))

36. An entity shall adjust the estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows, to the extent that the financial risks are not included in the estimates of cash flows. The discount rates applied to the estimates of the future cash flows described in paragraph 33 shall:
- (a) **Reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;**
 - (b) **Be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and**
 - (c) **Exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.**

Risk Adjustment for Non-Financial Risk (paragraphs [BAG86–BAG92](#))

37. An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

Contractual Service Margin

38. The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned ~~profit~~ **surplus** the entity will recognise as it provides services in the future. An entity shall measure the contractual service margin on initial recognition of a

group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) applies, results in no ~~income-revenue~~ or expenses arising from:

- (a) The initial recognition of an amount for the fulfilment cash flows, measured by applying paragraphs 32–37;
 - (b) The derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows applying paragraph 27; and
 - (c) Any cash flows arising from the contracts in the group at that date.
39. For insurance contracts acquired in a transfer of insurance contracts or a business combination within the scope of PBE IFRS 3, an entity shall apply paragraph 38 in accordance with paragraphs ~~BAG93–BAG95~~.³

Subsequent Measurement

40. The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:
- (a) The liability for remaining coverage comprising:
 - (i) The fulfilment cash flows related to future service allocated to the group at that date, measured applying paragraphs 33–37 and ~~BAG36–BAG92~~;
 - (ii) The contractual service margin of the group at that date, measured applying paragraphs 43–46; and
 - (b) The liability for incurred claims, comprising the fulfilment cash flows related to past service allocated to the group at that date, measured applying paragraphs 33–37 and ~~BAG36–BAG92~~.
41. An entity shall recognise ~~income-revenue~~ and expenses for the following changes in the carrying amount of the liability for remaining coverage:
- (a) Insurance revenue—for the reduction in the liability for remaining coverage because of services provided in the period, measured applying paragraphs ~~BAG120–BAG124~~;
 - (b) Insurance service expenses—for losses on groups of onerous contracts, and reversals of such losses (see paragraphs 47–52); and
 - (c) Insurance finance ~~income-revenue~~ or expenses—for the effect of the time value of money and the effect of financial risk as specified in paragraph 87.
42. An entity shall recognise ~~income-revenue~~ and expenses for the following changes in the carrying amount of the liability for incurred claims:
- (a) Insurance service expenses—for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;
 - (b) Insurance service expenses—for any subsequent changes in fulfilment cash flows relating to incurred claims and incurred expenses; and
 - (c) Insurance finance ~~income-revenue~~ or expenses—for the effect of the time value of money and the effect of financial risk as specified in paragraph 87.

Contractual Service Margin (paragraphs ~~BAG96–BAG119~~)

43. The contractual service margin at the end of the reporting period represents the ~~profit-surplus~~ in the group of insurance contracts that has not yet been recognised in ~~profit-or-loss~~ surplus or deficit because it relates to the future service to be provided under the contracts in the group.

³ NZASB ED 2018-4 PBE IPSAS 40 *PBE Combinations* sets out proposals for a PBE Standard which would supersede PBE IFRS 3. If that Standard is finalised before this Standard, paragraph 39 would refer to PBE IPSAS 40 rather than to PBE IFRS 3.

44. For insurance contracts without direct participation features, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:
- (a) The effect of any new contracts added to the group (see paragraph 28);
 - (b) Interest accreted on the carrying amount of the contractual service margin during the reporting period, measured at the discount rates specified in paragraph ~~BAG~~72(b);
 - (c) The changes in fulfilment cash flows relating to future service as specified in paragraphs ~~BAG~~96–~~BAG~~100, except to the extent that:
 - (i) Such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48(a)); or
 - (ii) Such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).
 - (d) The effect of any currency exchange differences on the contractual service margin; and
 - (e) The amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph ~~BAG~~119.
45. For insurance contracts with direct participation features (see paragraphs ~~BAG~~101–~~BAG~~118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:
- (a) The effect of any new contracts added to the group (see paragraph 28);
 - (b) The entity's share of the change in the fair value of the underlying items (see paragraph ~~AGB~~104(b)(i)), except to the extent that:
 - (i) Paragraph ~~BAG~~115 (on risk mitigation) applies;
 - (ii) The entity's share of a decrease in the fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or
 - (iii) The entity's share of an increase in the fair value of the underlying items reverses the amount in (ii).
 - (c) The changes in fulfilment cash flows relating to future service, as specified in paragraphs ~~BAG~~101–~~BAG~~118, except to the extent that:
 - (i) Paragraph ~~BAG~~115 (on risk mitigation) applies;
 - (ii) Such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or
 - (iii) Such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).
 - (d) The effect of any currency exchange differences arising on the contractual service margin; and
 - (e) The amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period, applying paragraph ~~BAG~~119.
46. Some changes in the contractual service margin offset changes in the fulfilment cash flows for the liability for remaining coverage, resulting in no change in the total carrying amount of the liability for remaining coverage. To the extent that changes in the contractual service margin do not offset changes

in the fulfilment cash flows for the liability for remaining coverage, an entity shall recognise ~~income revenue~~ and expenses for the changes, applying paragraph 41.

Onerous Contracts

47. An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. Applying paragraph 16(a), an entity shall group such contracts separately from contracts that are not onerous. To the extent that paragraph 17 applies, an entity may identify the group of onerous contracts by measuring a set of contracts rather than individual contracts. An entity shall recognise a loss in ~~profit or loss~~ surplus or deficit for the net outflow for the group of onerous contracts, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin of the group being zero.
48. A group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if the following amounts exceed the carrying amount of the contractual service margin:
- (a) Unfavourable changes in the fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows relating to future service; and
 - (b) For a group of insurance contracts with direct participation features, the entity's share of a decrease in the fair value of the underlying items.
- Applying paragraphs 44(c)(i), 45(b)(ii) and 45(c)(ii), an entity shall recognise a loss in ~~profit or loss~~ surplus or deficit to the extent of that excess.
49. An entity shall establish (or increase) a loss component of the liability for remaining coverage for an onerous group depicting the losses recognised applying paragraphs 47–48. The loss component determines the amounts that are presented in ~~profit or loss~~ surplus or deficit as reversals of losses on onerous groups and are consequently excluded from the determination of insurance revenue.
50. After an entity has recognised a loss on an onerous group of insurance contracts, it shall allocate:
- (a) The subsequent changes in fulfilment cash flows of the liability for remaining coverage specified in paragraph 51 on a systematic basis between:
 - (i) The loss component of the liability for remaining coverage; and
 - (ii) The liability for remaining coverage, excluding the loss component.
 - (b) Any subsequent decrease in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows relating to future service and any subsequent increases in the entity's share in the fair value of the underlying items solely to the loss component until that component is reduced to zero. Applying paragraphs 44(c)(ii), 45(b)(iii) and 45(c)(iii), an entity shall adjust the contractual service margin only for the excess of the decrease over the amount allocated to the loss component.
51. The subsequent changes in the fulfilment cash flows of the liability for remaining coverage to be allocated applying paragraph 50(a) are:
- (a) Estimates of the present value of future cash flows for claims and expenses released from the liability for remaining coverage because of incurred insurance service expenses;
 - (b) Changes in the risk adjustment for non-financial risk recognised in ~~profit or loss~~ surplus or deficit because of the release from risk; and
 - (c) Insurance finance ~~income~~ revenue or expenses.
52. The systematic allocation required by paragraph 50(a) shall result in the total amounts allocated to the loss component in accordance with paragraphs 48–50 being equal to zero by the end of the coverage period of a group of contracts.

Premium Allocation Approach

53. An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:
- (a) The entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or
 - (b) The coverage period of each contract in the group (including coverage arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.
54. The criterion in paragraph 53(a) is not met if at the inception of the group an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:
- (a) The extent of future cash flows relating to any derivatives embedded in the contracts; and
 - (b) The length of the coverage period of the group of contracts.
55. Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:
- (a) On initial recognition, the carrying amount of the liability is:
 - (i) The premiums, if any, received at initial recognition;
 - (ii) Minus any insurance acquisition cash flows at that date, unless the entity chooses to recognise the payments as an expense applying paragraph 59(a); and
 - (iii) Plus or minus any amount arising from the derecognition at that date of the asset or liability recognised for insurance acquisition cash flows applying paragraph 27.
 - (b) At the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:
 - (i) Plus the premiums received in the period;
 - (ii) Minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a);
 - (iii) Plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a);
 - (iv) Plus any adjustment to a financing component, applying paragraph 56;
 - (v) Minus the amount recognised as insurance revenue for coverage provided in that period (see paragraph ~~BAG~~126); and
 - (vi) Minus any investment component paid or transferred to the liability for incurred claims.
56. If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the coverage and the related premium due date is no more than a year.
57. If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an entity shall calculate the difference between:
- (a) The carrying amount of the liability for remaining coverage determined applying paragraph 55; and
 - (b) The fulfilment cash flows that relate to remaining coverage of the group, applying paragraphs 33–37 and ~~BAG~~36–~~BAG~~92. However, if, in applying paragraph 59(b), the entity does not adjust the

liability for incurred claims for the time value of money and the effect of financial risk, it shall not include in the fulfilment cash flows any such adjustment.

58. To the extent that the fulfilment cash flows described in paragraph 57(b) exceed the carrying amount described in paragraph 57(a), the entity shall recognise a loss in ~~profit or loss~~ surplus or deficit and increase the liability for remaining coverage.
59. In applying the premium allocation approach, an entity:
- (a) May choose to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year.
 - (b) Shall measure the liability for incurred claims for the group of insurance contracts at the fulfilment cash flows relating to incurred claims, applying paragraphs 33–37 and ~~BAG36–BAG92~~. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.

Reinsurance Contracts Held

60. The requirements in PBE IFRS 17 are modified for reinsurance contracts held, as set out in paragraphs 61–70.
61. An entity shall divide portfolios of reinsurance contracts held applying paragraphs 14–24, except that the references to onerous contracts in those paragraphs shall be replaced with a reference to contracts on which there is a net gain on initial recognition. For some reinsurance contracts held, applying paragraphs 14–24 will result in a group that comprises a single contract.

Recognition

62. Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held:
- (a) If the reinsurance contracts held provide proportionate coverage—at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the later; and
 - (b) In all other cases—from the beginning of the coverage period of the group of reinsurance contracts held.

Measurement

63. In applying the measurement requirements of paragraphs 32–36 to reinsurance contracts held, to the extent that the underlying contracts are also measured applying those paragraphs, the entity shall use consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of the future cash flows for the group(s) of underlying insurance contracts. In addition, the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.
64. Instead of applying paragraph 37, an entity shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts.
65. The requirements of paragraph 38 that relate to determining the contractual service margin on initial recognition are modified to reflect the fact that for a group of reinsurance contracts held there is no unearned ~~profit surplus~~ but instead a net cost or net gain on purchasing the reinsurance. Hence, on initial recognition:
- (a) The entity shall recognise any net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin measured at an amount equal to the sum of the fulfilment cash flows, the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held, and any cash flows arising at that date; unless

- (b) The net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts, in which case, notwithstanding the requirements of paragraph **BAG**5, the entity shall recognise such a cost immediately in ~~profit or loss~~ surplus or deficit as an expense.
66. Instead of applying paragraph 44, an entity shall measure the contractual service margin at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for:
- (a) The effect of any new contracts added to the group (see paragraph 28);
- (b) Interest accreted on the carrying amount of the contractual service margin, measured at the discount rates specified in paragraph **BAG**72(b);
- (c) Changes in the fulfilment cash flows to the extent that the change:
- (i) Relates to future service; unless
- (ii) The change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts.
- (d) The effect of any currency exchange differences arising on the contractual service margin; and
- (e) The amount recognised in ~~profit or loss~~ surplus or deficit because of services received in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of reinsurance contracts held, applying paragraph **BAG**119.
67. Changes in the fulfilment cash flows that result from changes in the risk of non-performance by the issuer of a reinsurance contract held do not relate to future service and shall not adjust the contractual service margin.
68. Reinsurance contracts held cannot be onerous. Accordingly, the requirements of paragraphs 47–52 do not apply.

Premium Allocation Approach for Reinsurance Contracts Held

69. An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group:
- (a) The entity reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 63–68; or
- (b) The coverage period of each contract in the group of reinsurance contracts held (including coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.
70. An entity cannot meet the condition in paragraph 69(a) if, at the inception of the group, an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the asset for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:
- (a) The extent of future cash flows relating to any derivatives embedded in the contracts; and
- (b) The length of the coverage period of the group of reinsurance contracts held.

Investment Contracts with Discretionary Participation Features

71. An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements in **PBE** IFRS 17 for insurance contracts are modified for investment contracts with discretionary participation features as follows:
- (a) The date of initial recognition (see paragraph 25) is the date the entity becomes party to the contract.

- (b) The contract boundary (see paragraph 34) is modified so that cash flows are within the contract boundary if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.
- (c) The allocation of the contractual service margin (see paragraphs 44(e) and 45(e)) is modified so that the entity shall recognise the contractual service margin over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.

Modification and Derecognition

Modification of an Insurance Contract

72. If the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying **PBE IFRS 17** or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:
- (a) If the modified terms had been included at contract inception:
 - (i) The modified contract would have been excluded from the scope of **PBE IFRS 17**, applying paragraphs 3–8;
 - (ii) An entity would have separated different components from the host insurance contract applying paragraphs 10–13, resulting in a different insurance contract to which **PBE IFRS 17** would have applied;
 - (iii) The modified contract would have had a substantially different contract boundary applying paragraph 34; or
 - (iv) The modified contract would have been included in a different group of contracts applying paragraphs 14–24.
 - (b) The original contract met the definition of an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or
 - (c) The entity applied the premium allocation approach in paragraphs 53–59 or paragraphs 69–70 to the original contract, but the modifications mean that the contract no longer meets the eligibility criteria for that approach in paragraph 53 or paragraph 69.
73. If a contract modification meets none of the conditions in paragraph 72, the entity shall treat changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows by applying paragraphs 40–52.

Derecognition

74. **An entity shall derecognise an insurance contract when, and only when:**
- (a) **It is extinguished, i.e., when the obligation specified in the insurance contract expires or is discharged or cancelled; or**
 - (b) **Any of the conditions in paragraph 72 are met.**
75. When an insurance contract is extinguished, the entity is no longer at risk and is therefore no longer required to transfer any economic resources to satisfy the insurance contract. For example, when an entity buys reinsurance, it shall derecognise the underlying insurance contract(s) when, and only when, the underlying insurance contract(s) is or are extinguished.
76. An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in **PBE IFRS 17**:
- (a) The fulfilment cash flows allocated to the group are adjusted to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognised from the group, applying paragraphs 40(a)(i) and 40(b);

- (b) The contractual service margin of the group is adjusted for the change in fulfilment cash flows described in (a), to the extent required by paragraphs 44(c) and 45(c), unless paragraph 77 applies; and
 - (c) The number of coverage units for expected remaining coverage is adjusted to reflect the coverage units derecognised from the group, and the amount of the contractual service margin recognised in ~~profit or loss~~ surplus or deficit in the period is based on that adjusted number, applying paragraph ~~BAG~~ 119.
77. When an entity derecognises an insurance contract because it transfers the contract to a third party or derecognises an insurance contract and recognises a new contract applying paragraph 72, the entity shall instead of applying paragraph 76(b):
- (a) Adjust the contractual service margin of the group from which the contract has been derecognised, to the extent required by paragraphs 44(c) and 45(c), for the difference between (i) and either (ii) for contracts transferred to a third party or (iii) for contracts derecognised applying paragraph 72:
 - (i) The change in the carrying amount of the group of insurance contracts resulting from the derecognition of the contract, applying paragraph 76(a).
 - (ii) The premium charged by the third party.
 - (iii) The premium the entity would have charged had it entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.
 - (b) Measure the new contract recognised applying paragraph 72 assuming that the entity received the premium described in (a)(iii) at the date of the modification.

Presentation in the Statement of Financial Position

78. **An entity shall present separately in the statement of financial position the carrying amount of groups of:**
- (a) **Insurance contracts issued that are assets;**
 - (b) **Insurance contracts issued that are liabilities;**
 - (c) **Reinsurance contracts held that are assets; and**
 - (d) **Reinsurance contracts held that are liabilities.**
79. An entity shall include any assets or liabilities for insurance acquisition cash flows recognised applying paragraph 27 in the carrying amount of the related groups of insurance contracts issued, and any assets or liabilities for cash flows related to groups of reinsurance contracts held (see paragraph ~~65~~(a)) in the carrying amount of the groups of reinsurance contracts held.

Recognition and Presentation in the Statement(s) of Financial Performance of Comprehensive Revenue and Expense (paragraphs ~~BAG~~120–~~BAG~~136)

80. **Applying paragraphs 41 and 42, an entity shall disaggregate the amounts recognised in the statement(s) of ~~profit or loss and other comprehensive income~~ revenue and expense (hereafter referred to as the statement(s) of financial performance) into:**
- (a) **An insurance service result (paragraphs 83–86), comprising insurance revenue and insurance service expenses; and**
 - (b) **Insurance finance income or expenses (paragraphs 87–92).**
81. An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. If an entity does not make such a disaggregation, it shall include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.
82. **An entity shall present income or expenses from reinsurance contracts held separately from the expenses or income from insurance contracts issued.**

Insurance Service Result

83. An entity shall present in ~~profit or loss~~**surplus or deficit** insurance revenue arising from the groups of insurance contracts issued. Insurance revenue shall depict the provision of coverage and other services arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Paragraphs ~~BAG120–BAG127~~ specify how an entity measures insurance revenue.
84. An entity shall present in ~~profit or loss~~**surplus or deficit** insurance service expenses arising from a group of insurance contracts issued, comprising incurred claims (excluding repayments of investment components), other incurred insurance service expenses and other amounts as described in paragraph 103(b).
85. Insurance revenue and insurance service expenses presented in ~~profit or loss~~**surplus or deficit** shall exclude any investment components. An entity shall not present premium information in ~~profit or loss~~**surplus or deficit** if that information is inconsistent with paragraph 83.
86. An entity may present the ~~income~~**revenue** or expenses from a group of reinsurance contracts held (see paragraphs 60–70), other than insurance finance ~~income~~**revenue** or expenses, as a single amount; or the entity may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount. If an entity presents separately the amounts recovered from the reinsurer and an allocation of the premiums paid, it shall:
- Treat reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held;
 - Treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer; and
 - Not present the allocation of premiums paid as a reduction in revenue.

Insurance Finance ~~Income~~Revenue or Expenses (see paragraphs BAG128–BAG136)

87. Insurance finance ~~income~~**revenue** or expenses comprises the change in the carrying amount of the group of insurance contracts arising from:
- The effect of the time value of money and changes in the time value of money; and
 - The effect of financial risk and changes in financial risk; but
 - Excluding any such changes for groups of insurance contracts with direct participation features that would adjust the contractual service margin but do not do so when applying paragraphs 45(b)(ii), 45(b)(iii), 45(c)(ii) or 45(c)(iii). These are included in insurance service expenses.
88. Unless paragraph 89 applies, an entity shall make an accounting policy choice between:
- Including insurance finance ~~income~~**revenue** or expenses for the period in ~~profit or loss~~**surplus or deficit**; or
 - Disaggregating insurance finance ~~income~~**revenue** or expenses for the period to include in ~~profit or loss~~**surplus or deficit** an amount determined by a systematic allocation of the expected total insurance finance ~~income~~**revenue** or expenses over the duration of the group of contracts, applying paragraphs ~~BAG130–BAG133~~.
89. For insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:
- Including insurance finance ~~income~~**revenue** or expenses for the period in ~~profit or loss~~**surplus or deficit**; or
 - Disaggregating insurance finance ~~income~~**revenue** or expenses for the period to include in ~~profit or loss~~**surplus or deficit** an amount that eliminates accounting mismatches with ~~income~~**revenue** or expenses included in ~~profit or loss~~**surplus or deficit** on the underlying items held, applying paragraphs ~~BAG134–BAG136~~.

90. If an entity chooses the accounting policy set out in paragraph 88(b) or in paragraph 89(b), it shall include in other comprehensive ~~income~~ **revenue and expense** the difference between the insurance finance ~~income~~ **revenue** or expenses measured on the basis set out in those paragraphs and the total insurance finance ~~income~~ **revenue** or expenses for the period.
91. If an entity transfers a group of insurance contracts or derecognises an insurance contract applying paragraph 77:
- It shall reclassify to ~~profit or loss~~ **surplus or deficit** as a reclassification adjustment (see PBE IPSAS 1 Presentation of Financial Statements Reports) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive ~~income~~ **revenue and expense** because the entity chose the accounting policy set out in paragraph 88(b).
 - It shall not reclassify to ~~profit or loss~~ **surplus or deficit** as a reclassification adjustment (see PBE IPSAS 1) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive ~~income~~ **revenue and expense** because the entity chose the accounting policy set out in paragraph 89(b).
92. Paragraph 30 requires an entity to treat an insurance contract as a monetary item under PBE IPSAS 421 for the purpose of translating foreign exchange items into the entity's functional currency. An entity includes exchange differences on changes in the carrying amount of groups of insurance contracts in the statement of ~~profit or loss~~ **surplus or deficit**, unless they relate to changes in the carrying amount of groups of insurance contracts included in other comprehensive ~~income~~ **revenue and expense** applying paragraph 90, in which case they shall be included in other comprehensive ~~income~~ **revenue and expense**.

Disclosure

93. The objective of the disclosure requirements is for an entity to disclose information in the notes that, together with the information provided in the statement of financial position, ~~statement(s) of financial performance~~ **comprehensive revenue and expense** and ~~statement of cash flow~~ **statement**, gives a basis for users of financial statements to assess the effect that contracts within the scope of PBE IFRS 17 have on the entity's financial position, financial performance and cash flows. To achieve that objective, an entity shall disclose qualitative and quantitative information about:
- The amounts recognised in its financial statements for contracts within the scope of PBE IFRS 17 (see paragraphs 97–116);
 - The significant judgements, and changes in those judgements, made when applying PBE IFRS 17 (see paragraphs 117–120); and
 - The nature and extent of the risks from contracts within the scope of PBE IFRS 17 (see paragraphs 121–132).
94. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. If the disclosures provided, applying paragraphs 97–132, are not enough to meet the objective in paragraph 93, an entity shall disclose additional information necessary to meet that objective.
95. An entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.
96. Paragraphs ~~2945–4734~~ of PBE IPSAS 1 set out requirements relating to materiality and aggregation of information. Examples of aggregation bases that might be appropriate for information disclosed about insurance contracts are:
- Type of contract (for example, major product lines); **or**
 - Geographical area (for example, country or region); ~~or~~
 - ~~[Not used]~~ **reportable segment, as defined in IFRS 8 Operating Segments.**

Explanation of Recognised Amounts

97. Of the disclosures required by paragraphs 98–109, only those in paragraphs 98–100 and 102–105 apply to contracts to which the premium allocation approach has been applied. If an entity uses the premium allocation approach, it shall also disclose:
- (a) Which of the criteria in paragraphs 53 and 69 it has satisfied;
 - (b) Whether it makes an adjustment for the time value of money and the effect of financial risk applying paragraphs 56 and 57(b); and
 - (c) The method it has chosen to recognise insurance acquisition cash flows applying paragraph 59(a).
98. An entity shall disclose reconciliations that show how the net carrying amounts of contracts within the scope of PBE IFRS 17 changed during the period because of cash flows and ~~income~~ revenue and expenses recognised in the statement(s) of ~~financial performance~~ comprehensive revenue and expense. Separate reconciliations shall be disclosed for insurance contracts issued and reinsurance contracts held. An entity shall adapt the requirements of paragraphs 100–109 to reflect the features of reinsurance contracts held that differ from insurance contracts issued; for example, the generation of expenses or reduction in expenses rather than revenue.
99. An entity shall provide enough information in the reconciliations to enable users of financial statements to identify changes from cash flows and amounts that are recognised in the statement(s) of comprehensive revenue and expense ~~financial performance~~. To comply with this requirement, an entity shall:
- (a) Disclose, in a table, the reconciliations set out in paragraphs 100–105; and
 - (b) For each reconciliation, present the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for groups of contracts that are assets and a total for groups of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78.
100. An entity shall disclose reconciliations from the opening to the closing balances separately for each of:
- (a) The net liabilities (or assets) for the remaining coverage component, excluding any loss component.
 - (b) Any loss component (see paragraphs 47–52 and 57–58).
 - (c) The liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose separate reconciliations for:
 - (i) The estimates of the present value of the future cash flows; and
 - (ii) The risk adjustment for non-financial risk.
101. For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of:
- (a) The estimates of the present value of the future cash flows;
 - (b) The risk adjustment for non-financial risk; and
 - (c) The contractual service margin.
102. The objective of the reconciliations in paragraphs 100–101 is to provide different types of information about the insurance service result.
103. An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to insurance services, if applicable:
- (a) Insurance revenue.
 - (b) Insurance service expenses, showing separately:
 - (i) Incurred claims (excluding investment components) and other incurred insurance service expenses;

- (ii) Amortisation of insurance acquisition cash flows;
 - (iii) Changes that relate to past service, i.e., changes in fulfilment cash flows relating to the liability for incurred claims; and
 - (iv) Changes that relate to future service, i.e., losses on onerous groups of contracts and reversals of such losses.
- (c) Investment components excluded from insurance revenue and insurance service expenses.
104. An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to insurance services, if applicable:
- (a) Changes that relate to future service, applying paragraphs ~~BAG96~~–~~BAG118~~, showing separately:
 - (i) Changes in estimates that adjust the contractual service margin;
 - (ii) Changes in estimates that do not adjust the contractual service margin, i.e., losses on groups of onerous contracts and reversals of such losses; and
 - (iii) The effects of contracts initially recognised in the period.
 - (b) Changes that relate to current service, i.e.,:
 - (i) The amount of the contractual service margin recognised in ~~profit or loss~~surplus or deficit to reflect the transfer of services;
 - (ii) The change in the risk adjustment for non-financial risk that does not relate to future service or past service; and
 - (iii) Experience adjustments (see paragraphs ~~B96(a)~~, ~~BAG97(c)~~ and ~~BAG113(a)~~), excluding amounts relating to the risk adjustment included in (ii).
 - (c) Changes that relate to past service, i.e., changes in fulfilment cash flows relating to incurred claims (see paragraphs ~~BAG97(b)~~ and ~~BAG113(a)~~).
105. To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to insurance services provided in the period, if applicable:
- (a) Cash flows in the period, including:
 - (i) Premiums received for insurance contracts issued (or paid for reinsurance contracts held);
 - (ii) Insurance acquisition cash flows; and
 - (iii) Incurred claims paid and other insurance service expenses paid for insurance contracts issued (or recovered under reinsurance contracts held), excluding insurance acquisition cash flows.
 - (b) The effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;
 - (c) Insurance finance ~~income~~revenue or expenses; and
 - (d) Any additional line items that may be necessary to understand the change in the net carrying amount of the insurance contracts.
106. For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognised in the period comprising:
- (a) The amounts relating to the changes in the liability for remaining coverage as specified in paragraph ~~BAG124~~, separately disclosing:
 - (i) The insurance service expenses incurred during the period as specified in paragraph ~~BAG124(a)~~;
 - (ii) The change in the risk adjustment for non-financial risk, as specified in paragraph ~~BAG124(b)~~; and
 - (iii) The amount of the contractual service margin recognised in ~~profit or loss~~surplus or deficit because of the transfer of services in the period, as specified in paragraph ~~BAG124(c)~~.

- (b) The allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows.
107. For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognised in the period, showing their effect at initial recognition on:
- The estimates of the present value of future cash outflows, showing separately the amount of the insurance acquisition cash flows;
 - The estimates of the present value of future cash inflows;
 - The risk adjustment for non-financial risk; and
 - The contractual service margin.
108. In the disclosures required by paragraph 107, an entity shall separately disclose amounts resulting from:
- Contracts acquired from other entities in transfers of insurance contracts or business combinations; and
 - Groups of contracts that are onerous.
109. For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose an explanation of when it expects to recognise the contractual service margin remaining at the end of the reporting period in ~~profit or loss~~ ~~surplus or deficit~~, either quantitatively, in appropriate time bands, or by providing qualitative information. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.

Insurance Finance ~~Income~~ Revenue or Expenses

110. An entity shall disclose and explain the total amount of insurance finance ~~income~~ revenue or expenses in the reporting period. In particular, an entity shall explain the relationship between insurance finance ~~income~~ revenue or expenses and the investment return on its assets, to enable users of its financial statements to evaluate the sources of finance ~~income~~ revenue or expenses recognised in ~~profit or loss~~ ~~surplus or deficit~~ and other comprehensive ~~income~~ revenue and expense.
111. For contracts with direct participation features, the entity shall describe the composition of the underlying items and disclose their fair value.
112. For contracts with direct participation features, if an entity chooses not to adjust the contractual service margin for some changes in the fulfilment cash flows, applying paragraph **BAG**115, it shall disclose the effect of that choice on the adjustment to the contractual service margin in the current period.
113. For contracts with direct participation features, if an entity changes the basis of disaggregation of insurance finance ~~income~~ revenue or expenses between ~~profit or loss~~ ~~surplus or deficit~~ and other comprehensive ~~income~~ revenue and expense, applying paragraph **BAG**135, it shall disclose, in the period when the change in approach occurred:
- The reason why the entity was required to change the basis of disaggregation;
 - The amount of any adjustment for each financial statement line item affected; and
 - The carrying amount of the group of insurance contracts to which the change applied at the date of the change.

Transition Amounts

114. An entity shall provide disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach (see paragraphs ~~€132.6–€132.19~~) or the fair value approach (see paragraphs ~~€132.20–€132.24~~) on the contractual service margin and insurance revenue in subsequent periods. Hence an entity shall disclose

the reconciliation of the contractual service margin applying paragraph 101(c), and the amount of insurance revenue applying paragraph 103(a), separately for:

- (a) Insurance contracts that existed at the transition date to which the entity has applied the modified retrospective approach;
 - (b) Insurance contracts that existed at the transition date to which the entity has applied the fair value approach; and
 - (c) All other insurance contracts.
115. For all periods in which disclosures are made applying paragraphs 114(a) or 114(b), to enable users of financial statements to understand the nature and significance of the methods used and judgements applied in determining the transition amounts, an entity shall explain how it determined the measurement of insurance contracts at the transition date.
116. An entity that chooses to disaggregate insurance finance ~~income~~ revenue or expenses between ~~profit or loss~~ surplus or deficit and other comprehensive ~~income—revenue and expense~~ applies paragraphs ~~€132.18(b), €132.19(b), €132.24(b) and €132.24(c)~~ to determine the cumulative difference between the insurance finance ~~income~~ revenue or expenses that would have been recognised in ~~profit or loss~~ surplus or deficit and the total insurance finance ~~income~~ revenue or expenses at the transition date for the groups of insurance contracts to which the disaggregation applies. For all periods in which amounts determined applying these paragraphs exist, the entity shall disclose a reconciliation from the opening to the closing balance of the cumulative amounts included in other comprehensive ~~income—revenue and expense~~ for financial assets measured at fair value through other comprehensive ~~revenue and expense~~ income related to the groups of insurance contracts. The reconciliation shall include, for example, gains or losses recognised in other comprehensive ~~income—revenue and expense~~ in the period and gains or losses previously recognised in other comprehensive ~~income—revenue and expense~~ in previous periods reclassified in the period to ~~profit or loss~~ surplus or deficit.

Significant Judgements in Applying PBE IFRS 17

117. An entity shall disclose the significant judgements and changes in judgements made in applying PBE IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:
- (a) The methods used to measure insurance contracts within the scope of PBE IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.
 - (b) Any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected.
 - (c) To the extent not covered in (a), the approach used:
 - (i) To distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features (see paragraph BAG98);
 - (ii) To determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result;
 - (iii) To determine discount rates; and
 - (iv) To determine investment components.
118. If, applying paragraph 88(b) or paragraph 89(b), an entity chooses to disaggregate insurance finance ~~income~~ revenue or expenses into amounts presented in ~~profit or loss~~ surplus or deficit and amounts presented in other comprehensive ~~income—revenue and expense~~, the entity shall disclose an explanation of the methods used to determine the insurance finance ~~income~~ revenue or expenses recognised in ~~profit or loss~~ surplus or deficit.

119. An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.
120. An entity shall disclose the yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items, applying paragraph 36. When an entity provides this disclosure in aggregate for a number of groups of insurance contracts, it shall provide such disclosures in the form of weighted averages, or relatively narrow ranges.

Nature and Extent of Risks that arise from Contracts within the Scope of PBE IFRS 17

121. An entity shall disclose information that enables users of its financial statements to evaluate the nature, amount, timing and uncertainty of future cash flows that arise from contracts within the scope of PBE IFRS 17. Paragraphs 122–132 contain requirements for disclosures that would normally be necessary to meet this requirement.
122. These disclosures focus on the insurance and financial risks that arise from insurance contracts and how they have been managed. Financial risks typically include, but are not limited to, credit risk, liquidity risk and market risk.
123. If the information disclosed about an entity's exposure to risk at the end of the reporting period is not representative of its exposure to risk during the period, the entity shall disclose that fact, the reason why the period-end exposure is not representative, and further information that is representative of its risk exposure during the period.
124. For each type of risk arising from contracts within the scope of PBE IFRS 17, an entity shall disclose:
- (a) The exposures to risks and how they arise;
 - (b) The entity's objectives, policies and processes for managing the risks and the methods used to measure the risks; and
 - (c) Any changes in (a) or (b) from the previous period.
125. For each type of risk arising from contracts within the scope of PBE IFRS 17, an entity shall disclose:
- (a) Summary quantitative information about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to the entity's key management personnel.
 - (b) The disclosures required by paragraphs 127–132, to the extent not provided applying (a) of this paragraph.
126. An entity shall disclose information about the effect of the regulatory frameworks in which it operates; for example, minimum capital requirements or required interest-rate guarantees. If an entity applies paragraph 20 in determining the groups of insurance contracts to which it applies the recognition and measurement requirements of PBE IFRS 17, it shall disclose that fact.

All Types of Risk—Concentrations of Risk

127. An entity shall disclose information about concentrations of risk arising from contracts within the scope of PBE IFRS 17, including a description of how the entity determines the concentrations, and a description of the shared characteristic that identifies each concentration (for example, the type of insured event, industry, geographical area, or currency). Concentrations of financial risk might arise, for example, from interest-rate guarantees that come into effect at the same level for a large number of contracts. Concentrations of financial risk might also arise from concentrations of non-financial risk; for example, if an entity provides product liability protection to pharmaceutical companies and also holds investments in those companies.

Insurance and Market Risks—Sensitivity Analysis

128. An entity shall disclose information about sensitivities to changes in risk ~~exposures~~ variables arising from contracts within the scope of PBE IFRS 17. To comply with this requirement, an entity shall disclose:
- (a) A sensitivity analysis that shows how ~~profit or loss~~ surplus or deficit and equity would have been affected by changes in risk ~~exposures~~ variables that were reasonably possible at the end of the reporting period:
 - (i) For insurance risk—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; and
 - (ii) For each type of market risk—in a way that explains the relationship between the sensitivities to changes in risk ~~exposures~~ variables arising from insurance contracts and those arising from financial assets held by the entity.
 - (b) The methods and assumptions used in preparing the sensitivity analysis; and
 - (c) Changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis, and the reasons for such changes.
129. If an entity prepares a sensitivity analysis that shows how amounts different from those specified in paragraph 128(a) are affected by changes in risk ~~exposures~~ variables and uses that sensitivity analysis to manage risks arising from contracts within the scope of PBE IFRS 17, it may use that sensitivity analysis in place of the analysis specified in paragraph 128(a). The entity shall also disclose:
- (a) An explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the information provided; and
 - (b) An explanation of the objective of the method used and of any limitations that may result in the information provided.

Insurance Risk—Claims Development

130. An entity shall disclose actual claims compared with previous estimates of the undiscounted amount of the claims (i.e., claims development). The disclosure about claims development shall start with the period when the earliest material claim(s) arose and for which there is still uncertainty about the amount and timing of the claims payments at the end of the reporting period; but the disclosure is not required to start more than 10 years before the end of the reporting period. The entity is not required to disclose information about the development of claims for which uncertainty about the amount and timing of the claims payments is typically resolved within one year. An entity shall reconcile the disclosure about claims development with the aggregate carrying amount of the groups of insurance contracts, which the entity discloses applying paragraph 100(c).

Credit Risk—Other Information

131. For credit risk that arises from contracts within the scope of PBE IFRS 17, an entity shall disclose:
- (a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period, separately for insurance contracts issued and reinsurance contracts held; and
 - (b) Information about the credit quality of reinsurance contracts held that are assets.

Liquidity Risk—Other Information

132. For liquidity risk arising from contracts within the scope of PBE IFRS 17, an entity shall disclose:
- (a) A description of how it manages the liquidity risk.
 - (b) Separate maturity analyses for groups of insurance contracts issued that are liabilities and groups of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the groups for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59. The analyses may take the form of:
 - (i) An analysis, by estimated timing, of the remaining contractual undiscounted net cash flows; or

- (ii) An analysis, by estimated timing, of the estimates of the present value of the future cash flows.
- (c) The amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related groups of contracts, if not disclosed applying (b) of this paragraph.

Effective Date and Transition

Effective Date

€132.1 An entity shall apply **PBE IFRS 17** for annual ~~reporting financial statements covering periods beginning on or after [Date]1 January 2021~~. If an entity applies **PBE IFRS 17** earlier, it shall disclose that fact. Early application is permitted for entities that apply ~~IFRS 9/PBE IPSAS 41 Financial Instruments and IFRS 15 Revenue from Contracts with Customers~~ on or before the date of initial application of **PBE IFRS 17**.

€132.2 For the purposes of the transition requirements in paragraphs **€132.1** and **€132.3–€132.33**:

- (a) The date of initial application is the beginning of the annual reporting period in which an entity first applies **PBE IFRS 17**; and
- (b) The transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

Transition

€132.3 An entity shall apply **PBE IFRS 17** retrospectively unless impracticable, except that:

- (a) An entity is not required to present the quantitative information required by paragraph ~~2833~~(f) of **PBE IPSAS 38 Accounting Policies, Changes in Accounting Estimates and Errors**; and
- (b) An entity shall not apply the option in paragraph **BAG115** for periods before the date of initial application of **PBE IFRS 17**.

€132.4 To apply **PBE IFRS 17** retrospectively, an entity shall at the transition date:

- (a) Identify, recognise and measure each group of insurance contracts as if **PBE IFRS 17** had always applied;
- (b) Derecognise any existing balances that would not exist had **PBE IFRS 17** always applied; and
- (c) Recognise any resulting net difference in equity.

€132.5 If, and only if, it is impracticable for an entity to apply paragraph **€132.3** for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph **€132.4**(a):

- (a) The modified retrospective approach in paragraphs **€132.6–€132.19**, subject to paragraph **€132.6**(a); or
- (b) The fair value approach in paragraphs **€132.20–€132.24**.

Modified Retrospective Approach

€132.6 The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Accordingly, in applying this approach, an entity shall:

- (a) Use reasonable and supportable information. If the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it shall apply the fair value approach.
- (b) Maximise the use of information that would have been used to apply a fully retrospective approach, but need only use information available without undue cost or effort.

€132.7 Paragraphs €132.9–€132.19 set out permitted modifications to retrospective application in the following areas:

- (a) Assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition;
- (b) Amounts related to the contractual service margin or loss component for insurance contracts without direct participation features;
- (c) Amounts related to the contractual service margin or loss component for insurance contracts with direct participation features; and
- (d) Insurance finance ~~income~~ revenue or expenses.

€132.8 To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs €132.9–€132.19 only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at Inception or Initial Recognition

€132.9 To the extent permitted by paragraph €132.8, an entity shall determine the following matters using information available at the transition date:

- (a) How to identify groups of insurance contracts, applying paragraphs 14–24;
- (b) Whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs BAG101–BAG109; and
- (c) How to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs BAG98–BAG100.

€132.10 To the extent permitted by paragraph €132.8, an entity shall not apply paragraph 22 to divide groups into those that do not include contracts issued more than one year apart.

Determining the Contractual Service Margin or Loss Component for Groups of Insurance Contracts without Direct Participation Features

€132.11 To the extent permitted by paragraph €132.8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs €132.12–€132.16.

€132.12 To the extent permitted by paragraph €132.8, an entity shall estimate the future cash flows at the date of initial recognition of a group of insurance contracts as the amount of the future cash flows at the transition date (or earlier date, if the future cash flows at that earlier date can be determined retrospectively, applying paragraph €132.4(a)), adjusted by the cash flows that are known to have occurred between the date of initial recognition of a group of insurance contracts and the transition date (or earlier date). The cash flows that are known to have occurred include cash flows resulting from contracts that ceased to exist before the transition date.

€132.13 To the extent permitted by paragraph €132.8, an entity shall determine the discount rates that applied at the date of initial recognition of a group of insurance contracts (or subsequently):

- (a) Using an observable yield curve that, for at least three years immediately before the transition date, approximates the yield curve estimated applying paragraphs 36 and BAG72–BAG85, if such an observable yield curve exists.
- (b) If the observable yield curve in paragraph (a) does not exist, estimate the discount rates that applied at the date of initial recognition (or subsequently) by determining an average spread between an observable yield curve and the yield curve estimated applying paragraphs 36 and BAG72–BAG85, and applying that spread to that observable yield curve. That spread shall be an average over at least three years immediately before the transition date.

€132.14 To the extent permitted by paragraph €132.8, an entity shall determine the risk adjustment for non-financial risk at the date of initial recognition of a group of insurance contracts (or subsequently) by adjusting the risk adjustment for non-financial risk at the transition date by the expected release of risk

before the transition date. The expected release of risk shall be determined by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

€132.15 If applying paragraphs **€132.12–€132.14** results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:

- (a) If the entity applies **paragraph €132.13** to estimate the discount rates that apply on initial recognition, use those rates to accrete interest on the contractual service margin; and
- (b) To the extent permitted by **paragraph €132.8**, determine the amount of the contractual service margin recognised in **profit or loss surplus or deficit** because of the transfer of services before the transition date, by comparing the remaining coverage units at that date with the coverage units provided under the group of contracts before the transition date (see **paragraph BAG 119**).

€132.16 If applying paragraphs **€132.12–€132.14** results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs **€132.12–€132.14** and using a systematic basis of allocation.

Determining the Contractual Service Margin or Loss Component for Groups of Insurance Contracts with Direct Participation Features

€132.17 To the extent permitted by **paragraph €132.8**, for contracts with direct participation features an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:

- (a) The total fair value of the underlying items at that date; minus
- (b) The fulfilment cash flows at that date; plus or minus
- (c) An adjustment for:
 - (i) Amounts charged by the entity to the policyholders (including amounts deducted from the underlying items) before that date.
 - (ii) Amounts paid before that date that would not have varied based on the underlying items.
 - (iii) The change in the risk adjustment for non-financial risk caused by the release from risk before that date. The entity shall estimate this amount by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.
- (d) If (a)–(c) result in a contractual service margin—minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts, i.e., before any amounts that would have been recognised in **profit or loss surplus or deficit** for services provided. The entity shall estimate the amounts that would have been recognised in **profit or loss surplus or deficit** for services provided by comparing the remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or
- (e) If (a)–(c) result in a loss component—adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

Insurance Finance ~~Income~~ Revenue or Expenses

€132.18 For groups of insurance contracts that, applying **paragraph €132.10**, include contracts issued more than one year apart:

- (a) An entity is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs **BAG 72(b)–BAG 72(e)(ii)** and the discount rates at the date of the incurred claim specified in **paragraph BAG 72(e)(iii)** at the transition date instead of at the date of initial recognition or incurred claim.
- (b) If an entity chooses to disaggregate insurance finance **income revenue** or expenses between amounts included in **profit or loss surplus or deficit** and amounts included in other comprehensive **income revenue and expense** applying paragraphs **88(b)** or **89(b)**, the entity needs to determine

the cumulative amount of insurance finance ~~income~~revenue or expenses recognised in other comprehensive ~~income-revenue and expense~~ at the transition date to apply paragraph 91(a) in future periods. The entity is permitted to determine that cumulative ~~difference amount~~ either by applying paragraph ~~€132.19~~(b) or:

- (i) As nil, unless (ii) applies; and
- (ii) For insurance contracts with direct participation features to which paragraph ~~BAG~~134 applies, as equal to the cumulative amount recognised in other comprehensive ~~income-revenue and expense~~ on the underlying items.

~~€132.19~~For groups of insurance contracts that do not include contracts issued more than one year apart:

- (a) If an entity applies paragraph ~~€132.13~~ to estimate the discount rates that applied at initial recognition (or subsequently), it shall also determine the discount rates specified in paragraphs ~~BAG~~72(b)–~~BAG~~72(e) applying paragraph ~~€132.13~~; and
- (b) If an entity chooses to disaggregate insurance finance ~~income~~revenue or expenses between amounts included in ~~profit or loss~~surplus or deficit and amounts included in other comprehensive ~~income-revenue and expense~~, applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance ~~income~~revenue or expenses recognised in other comprehensive ~~income-revenue and expense~~ at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative ~~difference amount~~:
 - (i) For insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph ~~BAG~~131—if the entity applies paragraph ~~€132.13~~ to estimate the discount rates at initial recognition—using the discount rates that applied at the date of initial recognition, also applying paragraph ~~€132.13~~;
 - (ii) For insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph ~~BAG~~132—on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, i.e., as nil;
 - (iii) For insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph ~~BAG~~133—if the entity applies paragraph ~~€132.13~~ to estimate the discount rates at initial recognition (or subsequently)—using the discount rates that applied at the date of the incurred claim, also applying paragraph ~~€132.13~~; and
 - (iv) For insurance contracts with direct participation features to which paragraph ~~BAG~~134 applies—as equal to the cumulative amount recognised in other comprehensive ~~income-revenue and expense~~ on the underlying items.

Fair Value Approach

~~€132.20~~To apply the fair value approach, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. ~~In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 Fair Value Measurement (relating to demand features).~~

~~€132.21~~In applying the fair value approach, an entity may apply paragraph ~~€132.22~~ to determine:

- (a) How to identify groups of insurance contracts, applying paragraphs 14–24;
- (b) Whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs ~~BAG~~101–~~BAG~~109; and
- (c) How to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs ~~BAG~~98–~~BAG~~100.

~~€132.22~~An entity may choose to determine the matters in paragraph ~~€132.21~~ using:

- (a) Reasonable and supportable information for what the entity would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate; or

- (b) Reasonable and supportable information available at the transition date.

€132.23 In applying the fair value approach, an entity is not required to apply paragraph 22, and may include in a group contracts issued more than one year apart. An entity shall only divide groups into those including only contracts issued within a year (or less) if it has reasonable and supportable information to make the division. Whether or not an entity applies paragraph 22, it is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs ~~BAG72(b)–BAG72(e)(ii)~~ and the discount rates at the date of the incurred claim specified in paragraph ~~BAG72(e)(iii)~~ at the transition date instead of at the date of initial recognition or incurred claim.

€132.24 In applying the fair value approach, if an entity chooses to disaggregate insurance finance ~~income~~ revenue or expenses between ~~profit or loss~~ surplus or deficit and other comprehensive ~~income~~ revenue and expense, it is permitted to determine the cumulative amount of insurance finance ~~income~~ revenue or expenses recognised in other comprehensive ~~income~~ revenue and expense at the transition date:

- (a) Retrospectively—but only if it has reasonable and supportable information to do so; or
- (b) As nil—unless (c) applies; and
- (c) For insurance contracts with direct participation features to which paragraph ~~BAG~~134 applies—as equal to the cumulative amount recognised in other comprehensive ~~income~~ revenue and expense from the underlying items.

Comparative Information

€132.25 Notwithstanding the reference to the annual reporting period immediately preceding the date of initial application in paragraph ~~€132.2(b)~~, an entity may also present adjusted comparative information applying ~~PBE~~ IFRS 17 for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, the reference to ‘the beginning of the annual reporting period immediately preceding the date of initial application’ in paragraph ~~€132.2(b)~~ shall be read as ‘the beginning of the earliest adjusted comparative period presented’.

€132.26 An entity is not required to provide the disclosures specified in paragraphs 93–132 for any period presented before the beginning of the annual reporting period immediately preceding the date of initial application.

€132.27 If an entity presents unadjusted comparative information and disclosures for any earlier periods, it shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

€132.28 An entity need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies ~~PBE~~ IFRS 17. However, if an entity does not disclose that information, it shall disclose that fact.

Redesignation of Financial Assets

€132.29 At the date of initial application of ~~PBE~~ IFRS 17, an entity that had applied ~~IFRS 9~~ ~~PBE~~ IPSAS 41 to annual reporting periods before the initial application of ~~PBE~~ IFRS 17:

- (a) May reassess whether an eligible financial asset meets the condition in paragraph ~~40.1.2(a)~~ or paragraph ~~41.1.2A(a)~~ of ~~PBE~~ IPSAS 41 ~~IFRS 9~~. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of ~~PBE~~ IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of ~~PBE~~ IFRS 17.
- (b) Shall revoke its previous designation of a financial asset as measured at fair value through ~~profit or loss~~ surplus or deficit if the condition in paragraph ~~44.1.5~~ of ~~PBE~~ IPSAS 41 ~~IFRS 9~~ is no longer met because of the application of ~~PBE~~ IFRS 17.
- (c) May designate a financial asset as measured at fair value through ~~profit or loss~~ surplus or deficit if the condition in paragraph ~~44.1.5~~ of ~~PBE~~ IPSAS 41 ~~IFRS 9~~ is met.
- (d) May designate an investment in an equity instrument as at fair value through other comprehensive ~~income~~ revenue and expense applying paragraph ~~1065.7.5~~ of ~~PBE~~ IPSAS 41 ~~IFRS 9~~.

- (e) May revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive ~~revenue and expense~~~~income~~ applying paragraph ~~1065.7.5~~ of PBE IPSAS 41~~IFRS 9~~.

€132.30 An entity shall apply paragraph €132.29 on the basis of the facts and circumstances that exist at the date of initial application of PBE IFRS 17. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in ~~IFRS 9~~PBE IPSAS 41. The date of initial application for that purpose shall be deemed to be the date of initial application of PBE IFRS 17.

€132.31 An entity that applies paragraph €132.29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of ~~IFRS 9~~PBE IPSAS 41 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening ~~retained earnings~~~~accumulated comprehensive revenue and expense~~ (or other component of equity, as appropriate) at the date of initial application, any difference between:

- (a) The previous carrying amount of those financial assets; and
- (b) The carrying amount of those financial assets at the date of initial application.

€132.32 When an entity applies paragraph €132.29, it shall disclose in that annual reporting period for those financial assets by class:

- (a) If paragraph €132.29(a) applies—its basis for determining eligible financial assets;
- (b) If any of paragraphs €132.29(a)–€132.29(e) apply:
 - (i) The measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of PBE IFRS 17; and
 - (ii) The new measurement category and carrying amount of the affected financial assets determined after applying paragraph €132.29.
- (c) If paragraph €132.29(b) applies—the carrying amount of financial assets in the statement of financial position that were previously designated as measured at fair value through ~~profit or loss~~~~surplus or deficit~~ applying paragraph ~~44.1.5~~ of PBE IPSAS 41~~IFRS 9~~ that are no longer so designated.

€132.33 When an entity applies paragraph €132.29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

- (a) How it applied paragraph €132.29 to financial assets the classification of which has changed on initially applying PBE IFRS 17;
- (b) The reasons for any designation or de-designation of financial assets as measured at fair value through ~~profit or loss~~~~surplus or deficit~~ applying paragraph ~~44.1.5~~ of PBE IPSAS 41~~IFRS 9~~; and
- (c) Why the entity came to any different conclusions in the new assessment applying paragraphs ~~40.1.2(a)~~ or ~~41.1.2A(a)~~ of PBE IPSAS 41~~IFRS 9~~.

Withdrawal and Replacement of PBE IFRS 4

€132.34 PBE IFRS 17 supersedes PBE IFRS 4 Insurance Contracts.

Defined terms

[Not used]

For information only

Application Guidance

This Appendix is an integral part of PBE IFRS 17 Insurance Contracts

BAG1. This appendix provides guidance on the following:

- (a) Determining whether a scheme is intended to be fully funded from contributions and levies (see paragraphs AG1.1–AG1.4);
- (b) Determining whether an entity is managing a scheme in the same way as an insurer (see paragraphs AG1.5–AG1.6);
- (c) Definition of an insurance contract (see paragraphs ~~BAG2~~–~~BAG30~~);
- (~~bd~~) Separation of components from an insurance contract (see paragraphs ~~BAG31~~–~~BAG35~~);
- (~~ee~~) Measurement (see paragraphs ~~BAG36~~–~~BAG119~~);
- (~~df~~) Insurance revenue (see paragraphs ~~BAG120~~–~~BAG127~~);
- (~~eg~~) Insurance finance ~~income~~ revenue or expenses (see paragraphs ~~BAG128~~–~~BAG136~~); and
- (~~fg~~) Interim financial statements (see paragraph ~~BAG137~~).

Determining Whether a Scheme is Intended to be Fully Funded from Contributions and Levies (paragraph 3(d)(i))

AG1.1 A ~~social benefit~~ scheme is intended to be fully funded from contributions and levies when:

- (a) The legislation or other arrangement governing the ~~social benefit~~ scheme provides for the scheme to be funded by contributions or levies paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the ~~social~~ risks which are mitigated by the ~~social benefit~~ scheme, together with investment returns arising from the contributions or levies; and
- (b) One or more of the following indicators (individually or in combination) is satisfied:
 - (i) Contribution rates or levy rates are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the revenue from contributions and levies will be sufficient to fully fund the ~~social benefit~~ scheme; and/or
 - (ii) ~~Social b~~enefit levels are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the levels of ~~social~~ benefits provided will not exceed the level of funding available from contributions or levies.

In subparagraphs (i) and (ii) above, reviews are undertaken on a regular basis when they are performed at a frequency appropriate for the specific scheme. While annual reviews are common, less frequent—or more frequent—reviews will be appropriate for some schemes.

AG1.2 In some circumstances, a public sector entity may be required to make contributions to a ~~social benefit~~ scheme on behalf of those individuals and/or households who could not afford to do so. Such contributions may be made by the entity administering the scheme or some other entity. For example, a public sector entity may be required to make contributions to a ~~retirement pension~~ scheme for those individuals who are unemployed. Where the contributions relate to specified individuals and/or households (~~which in some cases will require the contributions to be credited against the individuals' contribution accounts~~), the contributions made by the public sector entity are to be considered as contributions for the purposes of determining whether a ~~social benefit~~ scheme is intended to be fully funded in accordance with paragraph 32(~~ad~~)(i). Where a public sector entity makes contributions to fund the deficit on a ~~social benefit~~ scheme, the contributions are not related to specified individuals and/or households, and are not considered as contributions for the purposes of determining whether a ~~social benefit~~ scheme is intended to be fully funded in accordance with paragraph 32(~~ad~~)(i).

- AG1.3. In assessing whether a ~~social benefit~~ scheme is intended to be fully funded from contributions and levies, an entity considers substance over form. For example, where a ~~social benefit~~ scheme is in deficit for a period ~~but the scheme has an ability to and receives a loan from government to offset that deficit, the scheme is still intended to be fully funded from contributions and levies where the public sector entity operating the social benefits scheme reviews, and where necessary adjusts, the future contribution rates and/or benefits payable such that the deficit is addressed, and the loan is repaid. The requirement to consider substance over form applies equally to assessing whether the other criteria for applying the insurance approach have been satisfied.~~
- AG1.4 The reference in paragraph AG1.12(a) to “those whose activities create or exacerbate the ~~social~~ risks which are mitigated by the ~~social benefit~~ scheme” is intended to cover those ~~social benefit~~ schemes such as accident insurance schemes that:
- (a) Are funded by levies on, for example, motorists or employers in particular industries; and
 - (b) Provide coverage against ~~social~~ risks to the wider population.

Determining Whether an Entity is Managing a Scheme in the Same Way as an Insurer (paragraph 3(d)(ii))

- AG1.5 An entity is managing a scheme in the same way as an insurer would manage an insurance portfolio when the ~~social benefit~~ scheme has commercial substance, and has, with the exception of its legislative rather than contractual origins, the look and feel of an insurance contract. The ~~social benefit~~ scheme should confer the rights and obligations on parties similar to that of an insurance contract.
- AG1.6 In determining whether it is managing a scheme in the same way as an insurer would manage an insurance portfolio, an entity considers the following indicators:
- (a) Does the entity consider itself bound by the scheme in a similar manner to an insurer being bound by an insurance contract? For example, there may be evidence that the entity considers that it can amend the terms of the scheme for existing participants in a manner that an insurer could not (such as where the entity can make retrospective changes to the scheme). In such cases, the entity will not be bound in a similar manner to an insurer, and the ~~social benefit~~ scheme will not have commercial substance or look and feel like an insurance contract. An entity will be bound by the scheme in a similar manner to an insurer where its ability to amend the scheme for existing participants is limited to:
 - (i) Circumstances prescribed by the legislation that establishes the scheme (equivalent to a contractual term permitting changes in specific circumstances); or
 - (ii) When a government is setting new contribution or levy rates (where a trade-off between the contributions and prospective benefits is part of the process of determining an appropriate rate).
 - (b) Are assets relating to the ~~social benefit~~ scheme held in a separate fund, or otherwise earmarked, and restricted to being used to provide ~~social~~ benefits to participants? If an entity does not separately identify amounts relating to ~~social~~ benefits, this will provide evidence that the entity considers the contributions as a form of taxation. The ~~social benefit~~ scheme will not have commercial substance or look and feel like an insurance contract. There will also be practical difficulties with applying the measurement requirements of PBE IFRS 17 ~~the relevant international or national accounting standard dealing with insurance contracts~~ if the assets associated with a ~~social benefit~~ scheme are not separately identified.
 - (c) Does the legislation that establishes the ~~social~~ benefit give enforceable rights to participants in the event that the ~~social~~ risk occurs? Insurance contracts give such rights to policyholders. If the ~~social benefit~~ scheme does not also include such rights, then any ~~social~~ benefits provided by the entity will have a discretionary nature. The ~~social benefit~~ scheme will not have commercial substance or look and feel like an insurance contract. For rights to be enforceable, a participant would need to have the right to challenge—in a court of law, via an arbitration or dispute resolution process or similar mechanism—decisions by the entity. The decisions that may be challenged include, but are not limited to, those regarding whether an event is covered by a scheme, the level of ~~social~~ benefits payable by a scheme, and the duration of any ~~social~~ benefits payable by a scheme.

- (d) An entity assesses the financial performance and financial position of a ~~social benefit~~ scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme. The assessment is expected to involve the use of actuarial reviews, mathematical modelling, or similar techniques to provide information for internal decision-making on the different possible outcomes that might occur.
- (e) Is there a separate entity established by the government, which is expected to act like an insurer in relation to a ~~social benefit~~ scheme? The existence of such an entity provides evidence that the entity is managing a scheme in the same way as an insurer would manage an insurance portfolio. However, it is not a requirement for applying ~~PBE IFRS 17 the insurance approach~~ that a separate entity has been established. ~~PBE IFRS 17 Relevant international and national accounting standards dealing with insurance contracts applies~~ to insurance contracts, not just to insurance companies.

Definition of an Insurance Contract (~~Appendix a~~ paragraph 13.1)

BAG2. This section provides guidance on the definition of an insurance contract as specified in ~~Appendix A~~ paragraph 13.1. It addresses the following:

- (a) Uncertain future event (see paragraphs ~~BAG3–BAG5~~);
- (b) Payments in kind (see paragraph ~~BAG6~~);
- (c) The distinction between insurance risk and other risks (see paragraphs ~~BAG7–BAG16~~);
- (d) Significant insurance risk (see paragraphs ~~BAG17–BAG23~~);
- (e) Changes in the level of insurance risk (see paragraphs ~~BAG24–BAG25~~); and
- (f) Examples of insurance contracts (see paragraphs ~~BAG26–BAG30~~).

Uncertain Future Event

BAG3. Uncertainty (or risk) is the essence of an insurance contract. Accordingly, at least one of the following is uncertain at the inception of an insurance contract:

- (a) The probability of an insured event occurring;
- (b) When the insured event will occur; or
- (c) How much the entity will need to pay if the insured event occurs.

BAG4. In some insurance contracts, the insured event is the discovery of a loss during the term of the contract, even if that loss arises from an event that occurred before the inception of the contract. In other insurance contracts, the insured event is an event that occurs during the term of the contract, even if the resulting loss is discovered after the end of the contract term.

BAG5. Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides coverage against an adverse development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

Payments in Kind

BAG6. Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. Fixed-fee service contracts that meet the conditions specified in paragraph 8 are also insurance contracts, but applying paragraph 8, an entity may choose to account for them applying either ~~PBE IFRS 17~~ or ~~PBE IPSAS 9~~ ~~IFRS 15~~ *Revenue from Exchange Transactions* ~~Contracts with Customers~~.

The Distinction between Insurance Risk and Other Risks

- BAG7.** The definition of an insurance contract requires that one party accepts significant insurance risk from another party. **PBE IFRS 17** defines insurance risk as ‘risk, other than financial risk, transferred from the holder of a contract to the issuer’. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract.
- BAG8.** The definition of financial risk in [Appendix A paragraph 13.1](#) refers to financial and non-financial variables. Examples of non-financial variables not specific to a party to the contract include an index of earthquake losses in a particular region or temperatures in a particular city. Financial risk excludes risk from non-financial variables that are specific to a party to the contract, such as the occurrence or non-occurrence of a fire that damages or destroys an asset of that party. Furthermore, the risk of changes in the fair value of a non-financial asset is not a financial risk if the fair value reflects changes in the market prices for such assets (i.e., a financial variable) and the condition of a specific non-financial asset held by a party to a contract (i.e., a non-financial variable). For example, if a guarantee of the residual value of a specific car in which the policyholder has an insurable interest exposes the guarantor to the risk of changes in the car’s physical condition, that risk is insurance risk, not financial risk.
- BAG9.** Some contracts expose the issuer to financial risk in addition to significant insurance risk. For example, many life insurance contracts guarantee a minimum rate of return to policyholders, creating financial risk, and at the same time promise death benefits that may significantly exceed the policyholder’s account balance, creating insurance risk in the form of mortality risk. Such contracts are insurance contracts.
- BAG10.** Under some contracts, an insured event triggers the payment of an amount linked to a price index. Such contracts are insurance contracts, provided that the payment contingent on the insured event could be significant. For example, a life-contingent annuity linked to a cost-of-living index transfers insurance risk because the payment is triggered by an uncertain future event—the survival of the person who receives the annuity. The link to the price index is a derivative, but it also transfers insurance risk because the number of payments to which the index applies depends on the survival of the annuitant. If the resulting transfer of insurance risk is significant, the derivative meets the definition of an insurance contract, in which case it shall not be separated from the host contract (see paragraph 11(a)).
- BAG11.** Insurance risk is the risk the entity accepts from the policyholder. This means the entity must accept, from the policyholder, a risk to which the policyholder was already exposed. Any new risk created by the contract for the entity or the policyholder is not insurance risk.
- BAG12.** The definition of an insurance contract refers to an adverse effect on the policyholder. This definition does not limit the payment by the entity to an amount equal to the financial effect of the adverse event. For example, the definition includes ‘new for old’ coverage that pays the policyholder an amount that permits the replacement of a used and damaged asset with a new one. Similarly, the definition does not limit the payment under a life insurance contract to the financial loss suffered by the deceased’s dependants, nor does it exclude contracts that specify the payment of predetermined amounts to quantify the loss caused by death or an accident.
- BAG13.** Some contracts require a payment if a specified uncertain future event occurs, but do not require an adverse effect on the policyholder as a precondition for the payment. This type of contract is not an insurance contract even if the holder uses it to mitigate an underlying risk exposure. For example, if the holder uses a derivative to hedge an underlying financial or non-financial variable correlated with the cash flows from an asset of the entity, the derivative is not an insurance contract because the payment is not conditional on whether the holder is adversely affected by a reduction in the cash flows from the asset. The definition of an insurance contract refers to an uncertain future event for which an adverse effect on the policyholder is a contractual precondition for payment. A contractual precondition does not require the entity to investigate whether the event actually caused an adverse effect, but it does permit the entity to deny the payment if it is not satisfied that the event did cause an adverse effect.
- BAG14.** Lapse or persistency risk (the risk that the policyholder will cancel the contract earlier or later than the issuer had expected when pricing the contract) is not insurance risk because the resulting variability in the payment to the policyholder is not contingent on an uncertain future event that adversely affects the policyholder. Similarly, expense risk (i.e., the risk of unexpected increases in the administrative costs associated with the servicing of a contract, rather than in the costs associated with insured events) is not insurance risk because an unexpected increase in such expenses does not adversely affect the policyholder.

BAG15. Consequently, a contract that exposes the entity to lapse risk, persistency risk or expense risk is not an insurance contract unless it also exposes the entity to significant insurance risk. However, if the entity mitigates its risk by using a second contract to transfer part of the non-insurance risk to another party, the second contract exposes the other party to insurance risk.

BAG16. An entity can accept significant insurance risk from the policyholder only if the entity is separate from the policyholder. In the case of a mutual entity, the mutual entity accepts risk from each policyholder and pools that risk. Although policyholders bear that pooled risk collectively because they hold the residual interest in the entity, the mutual entity is a separate entity that has accepted the risk.

Significant Insurance Risk

BAG17. A contract is an insurance contract only if it transfers significant insurance risk. Paragraphs **BAG7–BAG16** discuss insurance risk. Paragraphs **BAG18–BAG23** discuss the assessment of whether the insurance risk is significant.

BAG18. Insurance risk is significant if, and only if, an insured event could cause the issuer to pay additional amounts that are significant in any single scenario, excluding scenarios that have no commercial substance (i.e., no discernible effect on the economics of the transaction). If an insured event could mean significant additional amounts would be payable in any scenario that has commercial substance, the condition in the previous sentence can be met even if the insured event is extremely unlikely, or even if the expected (i.e., probability-weighted) present value of the contingent cash flows is a small proportion of the expected present value of the remaining cash flows from the insurance contract.

BAG19. In addition, a contract transfers significant insurance risk only if there is a scenario that has commercial substance in which the issuer has a possibility of a loss on a present value basis. However, even if a reinsurance contract does not expose the issuer to the possibility of a significant loss, that contract is deemed to transfer significant insurance risk if it transfers to the reinsurer substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts.

BAG20. The additional amounts described in paragraph **BAG18** are determined on a present-value basis. If an insurance contract requires payment when an event with uncertain timing occurs and if the payment is not adjusted for the time value of money, there may be scenarios in which the present value of the payment increases, even if its nominal value is fixed. An example is insurance that provides a fixed death benefit when the policyholder dies, with no expiry date for the cover (often referred to as whole-life insurance for a fixed amount). It is certain that the policyholder will die, but the date of death is uncertain. Payments may be made when an individual policyholder dies earlier than expected. Because those payments are not adjusted for the time value of money, significant insurance risk could exist even if there is no overall loss on the portfolio of contracts. Similarly, contractual terms that delay timely reimbursement to the policyholder can eliminate significant insurance risk. An entity shall use the discount rates required in paragraph 36 to determine the present value of the additional amounts.

BAG21. The additional amounts described in paragraph **BAG18** refer to the present value of amounts that exceed those that would be payable if no insured event had occurred (excluding scenarios that lack commercial substance). Those additional amounts include claims handling and assessment costs, but exclude:

- (a) The loss of the ability to charge the policyholder for future service. For example, in an investment-linked life insurance contract, the death of the policyholder means that the entity can no longer perform investment management services and collect a fee for doing so. However, this economic loss for the entity does not result from insurance risk, just as a mutual fund manager does not take on insurance risk in relation to the possible death of a client. Consequently, the potential loss of future investment management fees is not relevant when assessing how much insurance risk is transferred by a contract.
- (b) A waiver, on death, of charges that would be made on cancellation or surrender. Because the contract brought those charges into existence, their waiver does not compensate the policyholder for a pre-existing risk. Consequently, they are not relevant when assessing how much insurance risk is transferred by a contract.

- (c) A payment conditional on an event that does not cause a significant loss to the holder of the contract. For example, consider a contract that requires the issuer to pay CU1 million⁴ if an asset suffers physical damage that causes an insignificant economic loss of CU1 to the holder. In this contract, the holder transfers the insignificant risk of losing CU1 to the issuer. At the same time, the contract creates a non-insurance risk that the issuer will need to pay CU999,999 if the specified event occurs. Because there is no scenario in which an insured event causes a significant loss to the holder of the contract, the issuer does not accept significant insurance risk from the holder and this contract is not an insurance contract.
- (d) Possible reinsurance recoveries. The entity accounts for these separately.

BAG22. An entity shall assess the significance of insurance risk contract by contract. Consequently, the insurance risk can be significant even if there is minimal probability of significant losses for a portfolio or group of contracts.

BAG23. It follows from paragraphs **BAG18–BAG22** that, if a contract pays a death benefit that exceeds the amount payable on survival, the contract is an insurance contract unless the additional death benefit is not significant (judged by reference to the contract itself rather than to an entire portfolio of contracts). As noted in paragraph **BAG21(b)**, the waiver on death of cancellation or surrender charges is not included in this assessment if that waiver does not compensate the policyholder for a pre-existing risk. Similarly, an annuity contract that pays out regular sums for the rest of a policyholder's life is an insurance contract, unless the aggregate life-contingent payments are insignificant.

Changes in the Level of Insurance Risk

BAG24. For some contracts, the transfer of insurance risk to the issuer occurs after a period of time. For example, consider a contract that provides a specified investment return and includes an option for the policyholder to use the proceeds of the investment on maturity to buy a life-contingent annuity at the same rates the entity charges other new annuitants at the time the policyholder exercises that option. Such a contract transfers insurance risk to the issuer only after the option is exercised, because the entity remains free to price the annuity on a basis that reflects the insurance risk that will be transferred to the entity at that time. Consequently, the cash flows that would occur on the exercise of the option fall outside the boundary of the contract, and before exercise there are no insurance cash flows within the boundary of the contract. However, if the contract specifies the annuity rates (or a basis other than market rates for setting the annuity rates), the contract transfers insurance risk to the issuer because the issuer is exposed to the risk that the annuity rates will be unfavourable to the issuer when the policyholder exercises the option. In that case, the cash flows that would occur when the option is exercised are within the boundary of the contract.

BAG25. A contract that meets the definition of an insurance contract remains an insurance contract until all rights and obligations are extinguished (i.e., discharged, cancelled or expired), unless the contract is derecognised applying paragraphs 74–77, because of a contract modification.

Examples of Insurance Contracts

BAG26. The following are examples of contracts that are insurance contracts if the transfer of insurance risk is significant:

- (a) Insurance against theft or damage.
- (b) Insurance against product liability, professional liability, civil liability or legal expenses.
- (c) Life insurance and prepaid funeral plans (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance).
- (d) Life-contingent annuities and pensions, i.e., contracts that provide compensation for the uncertain future event—the survival of the annuitant or pensioner—to provide the annuitant or pensioner with a level of income that would otherwise be adversely affected by his or her survival. (Employers' liabilities that arise from employee benefit plans and retirement benefit obligations

⁴ CU denotes currency unit.

reported by defined benefit retirement plans are outside the scope of [PBE IFRS 17](#), applying paragraph 7(b)).

- (e) Insurance against disability and medical costs.
- (f) Surety bonds, fidelity bonds, performance bonds and bid bonds, i.e., contracts that compensate the holder if another party fails to perform a contractual obligation; for example, an obligation to construct a building.
- (g) Product warranties. Product warranties issued by another party for goods sold by a manufacturer, dealer or retailer are within the scope of [PBE IFRS 17](#). However, product warranties issued directly by a manufacturer, dealer or retailer are outside the scope of [PBE IFRS 17](#) applying paragraph 7(a), and are instead within the scope of ~~IFRS 15 or IAS 37~~[PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets](#).
- (h) Title insurance (insurance against the discovery of defects in the title to land or buildings that were not apparent when the insurance contract was issued). In this case, the insured event is the discovery of a defect in the title, not the defect itself.
- (i) Travel insurance (compensation in cash or in kind to policyholders for losses suffered in advance of, or during, travel).
- (j) Catastrophe bonds that provide for reduced payments of principal, interest or both, if a specified event adversely affects the issuer of the bond (unless the specified event does not create significant insurance risk; for example, if the event is a change in an interest rate or a foreign exchange rate).
- (k) Insurance swaps and other contracts that require a payment depending on changes in climatic, geological or other physical variables that are specific to a party to the contract.

BAG27. The following are examples of items that are not insurance contracts:

- (a) Investment contracts that have the legal form of an insurance contract but do not transfer significant insurance risk to the issuer. For example, life insurance contracts in which the entity bears no significant mortality or morbidity risk are not insurance contracts; such contracts are financial instruments or service contracts—see paragraph [BAG28](#). Investment contracts with discretionary participation features do not meet the definition of an insurance contract; however, they are within the scope of [PBE IFRS 17](#) provided they are issued by an entity that also issues insurance contracts, applying paragraph 3(c).
- (b) Contracts that have the legal form of insurance, but return all significant insurance risk to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder to the issuer as a direct result of insured losses. For example, some financial reinsurance contracts or some group contracts return all significant insurance risk to the policyholders; such contracts are normally financial instruments or service contracts (see paragraph [BAG28](#)).
- (c) Self-insurance (i.e., retaining a risk that could have been covered by insurance). In such situations, there is no insurance contract because there is no agreement with another party. Thus, if an entity issues an insurance contract to its parent, subsidiary or fellow subsidiary, there is no insurance contract in the consolidated financial statements because there is no contract with another party. However, for the individual or separate financial statements of the issuer or holder, there is an insurance contract.
- (d) Contracts (such as gambling contracts) that require a payment if a specified uncertain future event occurs, but do not require, as a contractual precondition for payment, the event to adversely affect the policyholder. However, this does not exclude from the definition of an insurance contract contracts that specify a predetermined payout to quantify the loss caused by a specified event such as a death or an accident (see paragraph [BAG12](#)).
- (e) Derivatives that expose a party to financial risk but not insurance risk, because the derivatives require that party to make (or give them the right to receive) payment solely based on the changes in one or more of a specified interest rate, a financial instrument price, a commodity price, a foreign exchange rate, an index of prices or rates, a credit rating or a credit index or any other

variable, provided that, in the case of a non-financial variable, the variable is not specific to a party to the contract.

- (f) Credit-related guarantees that require payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due; such contracts are accounted for applying [IFRS 9/PBE IPSAS 41](#) *Financial Instruments* (see paragraph [BAG29](#)).
- (g) Contracts that require a payment that depends on a climatic, geological or any other physical variable not specific to a party to the contract (commonly described as weather derivatives).
- (h) Contracts that provide for reduced payments of principal, interest or both, that depend on a climatic, geological or any other physical variable, the effect of which is not specific to a party to the contract (commonly referred to as catastrophe bonds).

[BAG28](#). An entity shall apply other applicable Standards, such as [IFRS 9/PBE IPSAS 41](#) and [IFRS 15/PBE IPSAS 9](#), to the contracts described in paragraph [BAG27](#).

[BAG29](#). The credit-related guarantees and credit insurance contracts discussed in paragraph [BAG27](#)(f) can have various legal forms, such as that of a guarantee, some types of letters of credit, a credit default contract or an insurance contract. Those contracts are insurance contracts if they require the issuer to make specified payments to reimburse the holder for a loss that the holder incurs because a specified debtor fails to make payment when due to the policyholder applying the original or modified terms of a debt instrument. However, such insurance contracts are excluded from the scope of [PBE IFRS 17](#) unless the issuer has previously asserted explicitly that it regards the contracts as insurance contracts and has used accounting applicable to insurance contracts (see paragraph 7(e)).

[BAG30](#). Credit-related guarantees and credit insurance contracts that require payment, even if the policyholder has not incurred a loss on the failure of the debtor to make payments when due, are outside the scope of [PBE IFRS 17](#) because they do not transfer significant insurance risk. Such contracts include those that require payment:

- (a) Regardless of whether the counterparty holds the underlying debt instrument; or
- (b) On a change in the credit rating or the credit index, rather than on the failure of a specified debtor to make payments when due.

Separating Components from an Insurance Contract (paragraphs 10–13)

Investment Components (paragraph 11(b))

[BAG31](#). Paragraph 11(b) requires an entity to separate a distinct investment component from the host insurance contract. An investment component is distinct if, and only if, both the following conditions are met:

- (a) The investment component and the insurance component are not highly interrelated.
- (b) A contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties. The entity shall take into account all information reasonably available in making this determination. The entity is not required to undertake an exhaustive search to identify whether an investment component is sold separately.

[BAG32](#). An investment component and an insurance component are highly interrelated if, and only if:

- (a) The entity is unable to measure one component without considering the other. Thus, if the value of one component varies according to the value of the other, an entity shall apply [PBE IFRS 17](#) to account for the combined investment and insurance component; or
- (b) The policyholder is unable to benefit from one component unless the other is also present. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other, the entity shall apply [PBE IFRS 17](#) to account for the combined investment component and insurance component.

Promises to Transfer Distinct Goods or Non-Insurance Services (paragraph 12)

[BAG33](#). Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or non-insurance services to a policyholder. For the purpose of separation, an entity shall not consider

activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.

BAG34. A good or non-insurance service promised to a policyholder is distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).

BAG35. A good or non-insurance service that is promised to the policyholder is not distinct if:

- (a) The cash flows and risks associated with the good or service are highly interrelated with the cash flows and risks associated with the insurance components in the contract; and
- (b) The entity provides a significant service in integrating the good or non-insurance service with the insurance components.

Measurement (paragraphs 29–71)

Estimates of Future Cash Flows (paragraphs 33–35)

BAG36. This section addresses:

- (a) Unbiased use of all reasonable and supportable information available without undue cost or effort (see paragraphs **BAG37–BAG41**);
- (b) Market variables and non-market variables (see paragraphs **BAG42–BAG53**);
- (c) Using current estimates (see paragraphs **BAG54–BAG60**); and
- (d) Cash flows within the contract boundary (see paragraphs **BAG61–BAG71**).

Unbiased Use of all Reasonable and Supportable Information Available Without Undue Cost or Effort (paragraph 33(a))

BAG37. The objective of estimating future cash flows is to determine the expected value, or probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information about past events and current conditions, and forecasts of future conditions (see paragraph **BAG41**). Information available from an entity's own information systems is considered to be available without undue cost or effort.

BAG38. The starting point for an estimate of the cash flows is a range of scenarios that reflects the full range of possible outcomes. Each scenario specifies the amount and timing of the cash flows for a particular outcome, and the estimated probability of that outcome. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. Consequently, the objective is not to develop a most likely outcome, or a more-likely-than-not outcome, for future cash flows.

BAG39. When considering the full range of possible outcomes, the objective is to incorporate all reasonable and supportable information available without undue cost or effort in an unbiased way, rather than to identify every possible scenario. In practice, developing explicit scenarios is unnecessary if the resulting estimate is consistent with the measurement objective of considering all reasonable and supportable information available without undue cost or effort when determining the mean. For example, if an entity estimates that the probability distribution of outcomes is broadly consistent with a probability distribution that can be described completely with a small number of parameters, it will be sufficient to estimate the smaller number of parameters. Similarly, in some cases, relatively simple modelling may give an answer within an acceptable range of precision, without the need for many detailed simulations. However, in some cases, the cash flows may be driven by complex underlying factors and may respond in a non-linear fashion to changes in economic conditions. This may happen if, for example, the cash flows reflect a series of interrelated options that are implicit or explicit. In such cases, more sophisticated stochastic modelling is likely to be necessary to satisfy the measurement objective.

BAG40. The scenarios developed shall include unbiased estimates of the probability of catastrophic losses under existing contracts. Those scenarios exclude possible claims under possible future contracts.

BAG41. An entity shall estimate the probabilities and amounts of future payments under existing contracts on the basis of information obtained including:

- (a) Information about claims already reported by policyholders.
- (b) Other information about the known or estimated characteristics of the insurance contracts.
- (c) Historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted to reflect current conditions, for example, if:
 - (i) The characteristics of the insured population differ (or will differ, for example, because of adverse selection) from those of the population that has been used as a basis for the historical data;
 - (ii) There are indications that historical trends will not continue, that new trends will emerge or that economic, demographic and other changes may affect the cash flows that arise from the existing insurance contracts; or
 - (iii) There have been changes in items such as underwriting procedures and claims management procedures that may affect the relevance of historical data to the insurance contracts.
- (d) Current price information, if available, for reinsurance contracts and other financial instruments (if any) covering similar risks, such as catastrophe bonds and weather derivatives, and recent market prices for transfers of insurance contracts. This information shall be adjusted to reflect the differences between the cash flows that arise from those reinsurance contracts or other financial instruments, and the cash flows that would arise as the entity fulfils the underlying contracts with the policyholder.

Market Variables and Non-Market Variables

BAG42. **PBE** IFRS 17 identifies two types of variables:

- (a) Market variables—variables that can be observed in, or derived directly from, markets (for example, prices of publicly traded securities and interest rates); and
- (b) Non-market variables—all other variables (for example, the frequency and severity of insurance claims and mortality).

BAG43. Market variables will generally give rise to financial risk (for example, observable interest rates) and non-market variables will generally give rise to non-financial risk (for example, mortality rates). However, this will not always be the case. For example, there may be assumptions that relate to financial risks for which variables cannot be observed in, or derived directly from, markets (for example, interest rates that cannot be observed in, or derived directly from, markets).

Market Variables (paragraph 33(b))

BAG44. Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall maximise the use of observable inputs and shall not substitute its own estimates for observable market data. ~~except as described in paragraph 79 of IFRS 13 Fair Value Measurement. Consistent with IFRS 13, if~~ variables need to be derived (for example, because no observable market variables exist) they shall be as consistent as possible with observable market variables.

BAG45. Market prices blend a range of views about possible future outcomes and also reflect the risk preferences of market participants. Consequently, they are not a single-point forecast of the future outcome. If the actual outcome differs from the previous market price, this does not mean that the market price was 'wrong'.

BAG46. An important application of market variables is the notion of a replicating asset or a replicating portfolio of assets. A replicating asset is one whose cash flows *exactly* match, in all scenarios, the contractual cash flows of a group of insurance contracts in amount, timing and uncertainty. In some cases, a replicating asset may exist for some of the cash flows that arise from a group of insurance contracts. The fair value of that asset reflects both the expected present value of the cash flows from the asset and the risk associated with those cash flows. If a replicating portfolio of assets exists for some of the cash flows that

arise from a group of insurance contracts, the entity can use the fair value of those assets to measure the relevant fulfilment cash flows instead of explicitly estimating the cash flows and discount rate.

BAG47. PBE IFRS 17 does not require an entity to use a replicating portfolio technique. However, if a replicating asset or portfolio does exist for some of the cash flows that arise from insurance contracts and an entity chooses to use a different technique, the entity shall satisfy itself that a replicating portfolio technique would be unlikely to lead to a materially different measurement of those cash flows.

BAG48. Techniques other than a replicating portfolio technique, such as stochastic modelling techniques, may be more robust or easier to implement if there are significant interdependencies between cash flows that vary based on returns on assets and other cash flows. Judgement is required to determine the technique that best meets the objective of consistency with observable market variables in specific circumstances. In particular, the technique used must result in the measurement of any options and guarantees included in the insurance contracts being consistent with observable market prices (if any) for such options and guarantees.

Non-Market Variables

BAG49. Estimates of non-market variables shall reflect all reasonable and supportable evidence available without undue cost or effort, both external and internal.

BAG50. Non-market external data (for example, national mortality statistics) may have more or less relevance than internal data (for example, internally developed mortality statistics), depending on the circumstances. For example, an entity that issues life insurance contracts shall not rely solely on national mortality statistics, but shall consider all other reasonable and supportable internal and external sources of information available without undue cost or effort when developing unbiased estimates of probabilities for mortality scenarios for its insurance contracts. In developing those probabilities, an entity shall give more weight to the more persuasive information. For example:

- (a) Internal mortality statistics may be more persuasive than national mortality data if national data is derived from a large population that is not representative of the insured population. This might be because, for example, the demographic characteristics of the insured population could significantly differ from those of the national population, meaning that an entity would need to place more weight on the internal data and less weight on the national statistics.
- (b) Conversely, if the internal statistics are derived from a small population with characteristics that are believed to be close to those of the national population, and the national statistics are current, an entity shall place more weight on the national statistics.

BAG51. Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

BAG52. In some cases, an entity may conclude that market variables vary independently of non-market variables. If so, the entity shall consider scenarios that reflect the range of outcomes for the non-market variables, with each scenario using the same observed value of the market variable.

BAG53. In other cases, market variables and non-market variables may be correlated. For example, there may be evidence that lapse rates (a non-market variable) are correlated with interest rates (a market variable). Similarly, there may be evidence that claim levels for house or car insurance are correlated with economic cycles and therefore with interest rates and expense amounts. The entity shall ensure that the probabilities for the scenarios and the risk adjustments for the non-financial risk that relates to the market variables are consistent with the observed market prices that depend on those market variables.

Using Current Estimates (paragraph 33(c))

BAG54. In estimating each cash flow scenario and its probability, an entity shall use all reasonable and supportable information available without undue cost or effort. An entity shall review the estimates that it made at the end of the previous reporting period and update them. In doing so, an entity shall consider whether:

- (a) The updated estimates faithfully represent the conditions at the end of the reporting period.

- (b) The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, shifting the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all newly available evidence, giving more weight to the more persuasive evidence.

BAG55. The probability assigned to each scenario shall reflect the conditions at the end of the reporting period. Consequently, applying **PBE IPSAS 140** *Events after the Reporting Period Date*, an event occurring after the end of the reporting period that resolves an uncertainty that existed at the end of the reporting period does not provide evidence of the conditions that existed at that date. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike during the remaining six months of an insurance contract. After the end of the reporting period but before the financial statements are authorised for issue, a major storm strikes. The fulfilment cash flows under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the cash flows included in the measurement include the 20 per cent probability apparent at the end of the reporting period (with disclosure applying **PBE IPSAS 140** that a non-adjusting event occurred after the end of the reporting period).

BAG56. Current estimates of expected cash flows are not necessarily identical to the most recent actual experience. For example, suppose that mortality experience in the reporting period was 20 per cent worse than the previous mortality experience and previous expectations of mortality experience. Several factors could have caused the sudden change in experience, including:

- (a) Lasting changes in mortality;
- (b) Changes in the characteristics of the insured population (for example, changes in underwriting or distribution, or selective lapses by policyholders in unusually good health);
- (c) Random fluctuations; or
- (d) Identifiable non-recurring causes.

BAG57. An entity shall investigate the reasons for the change in experience and develop new estimates of cash flows and probabilities in the light of the most recent experience, the earlier experience and other information. The result for the example in paragraph **BAG56** would typically be that the expected present value of death benefits changes, but not by as much as 20 per cent. In the example in paragraph **BAG56**, if mortality rates continue to be significantly higher than the previous estimates for reasons that are expected to continue, the estimated probability assigned to the high-mortality scenarios will increase.

BAG58. Estimates of non-market variables shall include information about the current level of insured events and information about trends. For example, mortality rates have consistently declined over long periods in many countries. The determination of the fulfilment cash flows reflects the probabilities that would be assigned to each possible trend scenario, taking account of all reasonable and supportable information available without undue cost or effort.

BAG59. Similarly, if cash flows allocated to a group of insurance contracts are sensitive to inflation, the determination of the fulfilment cash flows shall reflect current estimates of possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of fulfilment cash flows shall reflect the probabilities for each inflation scenario in a way that is consistent with the probabilities implied by the market interest rates used in estimating the discount rate (see paragraph **BAG51**).

BAG60. When estimating the cash flows, an entity shall take into account current expectations of future events that might affect those cash flows. The entity shall develop cash flow scenarios that reflect those future events, as well as unbiased estimates of the probability of each scenario. However, an entity shall not take into account current expectations of future changes in legislation that would change or discharge the present obligation or create new obligations under the existing insurance contract until the change in legislation is substantively enacted.

Cash Flows within the Contract Boundary (paragraph 34)

BAG61. Estimates of cash flows in a scenario shall include all cash flows within the boundary of an existing contract and no other cash flows. An entity shall apply paragraph 2 in determining the boundary of an existing contract.

BAG62. Many insurance contracts have features that enable policyholders to take actions that change the amount, timing, nature or uncertainty of the amounts they will receive. Such features include renewal options, surrender options, conversion options and options to stop paying premiums while still receiving benefits under the contracts. The measurement of a group of insurance contracts shall reflect, on an expected value basis, the entity's current estimates of how the policyholders in the group will exercise the options available, and the risk adjustment for non-financial risk shall reflect the entity's current estimates of how the actual behaviour of the policyholders may differ from the expected behaviour. This requirement to determine the expected value applies regardless of the number of contracts in a group; for example it applies even if the group comprises a single contract. Thus, the measurement of a group of insurance contracts shall not assume a 100 per cent probability that policyholders will:

- (a) Surrender their contracts, if there is some probability that some of the policyholders will not; or
- (b) Continue their contracts, if there is some probability that some of the policyholders will not.

BAG63. When an issuer of an insurance contract is required by the contract to renew or otherwise continue the contract, it shall apply paragraph 34 to assess whether premiums and related cash flows that arise from the renewed contract are within the boundary of the original contract.

BAG64. Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining coverage. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

BAG65. Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

- (a) Premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.
- (b) Payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (i.e., reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34).
- (c) Payments to (or on behalf of) a policyholder that vary depending on returns on underlying items.
- (d) Payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)).
- (e) An allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.
- (f) Claim handling costs (i.e., the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments).
- (g) Costs the entity will incur in providing contractual benefits paid in kind.

- (h) Policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract.
- (i) Transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.
- (j) Payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts.
- (k) Potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.
- (l) An allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics.
- (m) Any other costs specifically chargeable to the policyholder under the terms of the contract.

BAG66. The following cash flows shall not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:

- (a) Investment returns. Investments are recognised, measured and presented separately.
- (b) Cash flows (payments or receipts) that arise under reinsurance contracts held. Reinsurance contracts held are recognised, measured and presented separately.
- (c) Cash flows that may arise from future insurance contracts, i.e., cash flows outside the boundary of existing contracts (see paragraphs 34–35).
- (d) Cash flows relating to costs that cannot be directly attributed to the portfolio of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss surplus or deficit when incurred.
- (e) Cash flows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss surplus or deficit when incurred.
- (f) Income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity. Such payments and receipts are recognised, measured and presented separately applying PBE IAS 12 Income Taxes.
- (g) Cash flows between different components of the reporting entity, such as policyholder funds and shareholder funds, if those cash flows do not change the amount that will be paid to the policyholders.
- (h) Cash flows arising from components separated from the insurance contract and accounted for using other applicable PBE Standards (see paragraphs 10–13).

Contracts with Cash Flows that Affect or are Affected by Cash Flows to Policyholders of Other Contracts

BAG67. Some insurance contracts affect the cash flows to policyholders of other contracts by requiring:

- (a) The policyholder to share with policyholders of other contracts the returns on the same specified pool of underlying items; and
- (b) Either:
 - (i) The policyholder to bear a reduction in their share of the returns on the underlying items because of payments to policyholders of other contracts that share in that pool, including payments arising under guarantees made to policyholders of those other contracts; or

- (ii) Policyholders of other contracts to bear a reduction in their share of returns on the underlying items because of payments to the policyholder, including payments arising from guarantees made to the policyholder.

BAG68. Sometimes, such contracts will affect the cash flows to policyholders of contracts in other groups. The fulfilment cash flows of each group reflect the extent to which the contracts in the group cause the entity to be affected by expected cash flows, whether to policyholders in that group or to policyholders in another group. Hence the fulfilment cash flows for a group:

- (a) Include payments arising from the terms of existing contracts to policyholders of contracts in other groups, regardless of whether those payments are expected to be made to current or future policyholders; and
- (b) Exclude payments to policyholders in the group that, applying (a), have been included in the fulfilment cash flows of another group.

BAG69. For example, to the extent that payments to policyholders in one group are reduced from a share in the returns on underlying items of CU350 to CU250 because of payments of a guaranteed amount to policyholders in another group, the fulfilment cash flows of the first group would include the payments of CU100 (i.e., would be CU350) and the fulfilment cash flows of the second group would exclude CU100 of the guaranteed amount.

BAG70. Different practical approaches can be used to determine the fulfilment cash flows of groups of contracts that affect or are affected by cash flows to policyholders of contracts in other groups. In some cases, an entity might be able to identify the change in the underlying items and resulting change in the cash flows only at a higher level of aggregation than the groups. In such cases, the entity shall allocate the effect of the change in the underlying items to each group on a systematic and rational basis.

BAG71. After all the coverage has been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.

Discount Rates (paragraph 36)

BAG72. An entity shall use the following discount rates in applying **PBE IFRS 17**:

- (a) To measure the fulfilment cash flows—current discount rates applying paragraph 36;
- (b) To determine the interest to accrete on the contractual service margin applying paragraph 44(b) for insurance contracts without direct participation features—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;
- (c) To measure the changes to the contractual service margin applying paragraph **BAG96(a)–BAG96(c)** for insurance contracts without direct participation features—discount rates applying paragraph 36 determined on initial recognition;
- (d) For groups of contracts applying the premium allocation approach that have a significant financing component, to adjust the carrying amount of the liability for remaining coverage applying paragraph 56—discount rates applying paragraph 36 determined on initial recognition;
- (e) If an entity chooses to disaggregate insurance finance ~~income~~ **revenue** or expenses between ~~profit or loss~~ **surplus or deficit** and other comprehensive ~~income~~ **revenue and expense** (see paragraph 88), to determine the amount of the insurance finance ~~income~~ **revenue** or expenses included in ~~profit or loss~~ **surplus or deficit**:
 - (i) For groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders, applying paragraph **BAG131**—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;
 - (ii) For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to policyholders, applying

paragraph **BAG**132(a)(i)—discount rates that allocate the remaining revised expected finance ~~income~~ revenue or expenses over the remaining duration of the group of contracts at a constant rate; and

- (iii) For groups of contracts applying the premium allocation approach applying paragraphs 59(b) and **BAG**133—discount rates determined at the date of the incurred claim, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items.

BAG73. To determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs **BAG**72(b)–**BAG**72(e), an entity may use weighted-average discount rates over the period that contracts in the group are issued, which applying paragraph 22 cannot exceed one year.

BAG74. Estimates of discount rates shall be consistent with other estimates used to measure insurance contracts to avoid double counting or omissions; for example:

- (a) Cash flows that do not vary based on the returns on any underlying items shall be discounted at rates that do not reflect any such variability;
- (b) Cash flows that vary based on the returns on any financial underlying items shall be:
 - (i) Discounted using rates that reflect that variability; or
 - (ii) Adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made.
- (c) Nominal cash flows (i.e., those that include the effect of inflation) shall be discounted at rates that include the effect of inflation; and
- (d) Real cash flows (i.e., those that exclude the effect of inflation) shall be discounted at rates that exclude the effect of inflation.

BAG75. Paragraph **BAG**74(b) requires cash flows that vary based on the returns on underlying items to be discounted using rates that reflect that variability, or to be adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made. The variability is a relevant factor regardless of whether it arises because of contractual terms or because the entity exercises discretion, and regardless of whether the entity holds the underlying items.

BAG76. Cash flows that vary with returns on underlying items with variable returns, but that are subject to a guarantee of a minimum return, do not vary solely based on the returns on the underlying items, even when the guaranteed amount is lower than the expected return on the underlying items. Hence, an entity shall adjust the rate that reflects the variability of the returns on the underlying items for the effect of the guarantee, even when the guaranteed amount is lower than the expected return on the underlying items.

BAG77. **PBE** IFRS 17 does not require an entity to divide estimated cash flows into those that vary based on the returns on underlying items and those that do not. If an entity does not divide the estimated cash flows in this way, the entity shall apply discount rates appropriate for the estimated cash flows as a whole; for example, using stochastic modelling techniques or risk-neutral measurement techniques.

BAG78. Discount rates shall include only relevant factors, i.e., factors that arise from the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Such discount rates may not be directly observable in the market. Hence, when observable market rates for an instrument with the same characteristics are not available, or observable market rates for similar instruments are available but do not separately identify the factors that distinguish the instrument from the insurance contracts, an entity shall estimate the appropriate rates. **PBE** IFRS 17 does not require a particular estimation technique for determining discount rates. In applying an estimation technique, an entity shall:

- (a) Maximise the use of observable inputs (see paragraph **BAG**44) and reflect all reasonable and supportable information on non-market variables available without undue cost or effort, both external and internal (see paragraph **BAG**49). In particular, the discount rates used shall not contradict any available and relevant market data, and any non-market variables used shall not contradict observable market variables.
- (b) Reflect current market conditions from the perspective of a market participant.

- (c) Exercise judgement to assess the degree of similarity between the features of the insurance contracts being measured and the features of the instrument for which observable market prices are available and adjust those prices to reflect the differences between them.

BAG79. For cash flows of insurance contracts that do not vary based on the returns on underlying items, the discount rate reflects the yield curve in the appropriate currency for instruments that expose the holder to no or negligible credit risk, adjusted to reflect the liquidity characteristics of the group of insurance contracts. That adjustment shall reflect the difference between the liquidity characteristics of the group of insurance contracts and the liquidity characteristics of the assets used to determine the yield curve. Yield curves reflect assets traded in active markets that the holder can typically sell readily at any time without incurring significant costs. In contrast, under some insurance contracts the entity cannot be forced to make payments earlier than the occurrence of insured events, or dates specified in the contracts.

BAG80. Hence, for cash flows of insurance contracts that do not vary based on the returns on underlying items, an entity may determine discount rates by adjusting a liquid risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts (a bottom-up approach).

BAG81. Alternatively, an entity may determine the appropriate discount rates for insurance contracts based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets (a top-down approach). An entity shall adjust that yield curve to eliminate any factors that are not relevant to the insurance contracts, but is not required to adjust the yield curve for differences in liquidity characteristics of the insurance contracts and the reference portfolio.

BAG82. In estimating the yield curve described in paragraph **BAG81**:

- (a) If there are observable market prices in active markets for assets in the reference portfolio, an entity shall use those prices ~~(consistent with paragraph 69 of IFRS 13)~~.
- (b) If a market is not active, an entity shall adjust observable market prices for similar assets to make them comparable to market prices for the assets being measured ~~(consistent with paragraph 83 of IFRS 13)~~.
- (c) If there is no market for assets in the reference portfolio, an entity shall apply an estimation technique. For such assets ~~(consistent with paragraph 89 of IFRS 13)~~ an entity shall:
 - (i) Develop unobservable inputs using the best information available in the circumstances. Such inputs might include the entity's own data and, in the context of **PBE IFRS 17**, the entity might place more weight on long-term estimates than on short-term fluctuations; and
 - (ii) Adjust those data to reflect all information about market participant assumptions that is reasonably available.

BAG83. In adjusting the yield curve, an entity shall adjust market rates observed in recent transactions in instruments with similar characteristics for movements in market factors since the transaction date, and shall adjust observed market rates to reflect the degree of dissimilarity between the instrument being measured and the instrument for which transaction prices are observable. For cash flows of insurance contracts that do not vary based on the returns on the assets in the reference portfolio, such adjustments include:

- (a) Adjusting for differences between the amount, timing and uncertainty of the cash flows of the assets in the portfolio and the amount, timing and uncertainty of the cash flows of the insurance contracts; and
- (b) Excluding market risk premiums for credit risk, which are relevant only to the assets included in the reference portfolio.

BAG84. In principle, for cash flows of insurance contracts that do not vary based on the returns of the assets in the reference portfolio, there should be a single illiquid risk-free yield curve that eliminates all uncertainty about the amount and timing of cash flows. However, in practice the top-down approach and the bottom-up approach may result in different yield curves, even in the same currency. This is because of the inherent limitations in estimating the adjustments made under each approach, and the possible lack of an adjustment for different liquidity characteristics in the top-down approach. An entity is not required to

reconcile the discount rate determined under its chosen approach with the discount rate that would have been determined under the other approach.

BAG85. **PBE** IFRS 17 does not specify restrictions on the reference portfolio of assets used in applying paragraph **BAG81**. However, fewer adjustments would be required to eliminate factors that are not relevant to the insurance contracts when the reference portfolio of assets has similar characteristics. For example, if the cash flows from the insurance contracts do not vary based on the returns on underlying items, fewer adjustments would be required if an entity used debt instruments as a starting point rather than equity instruments. For debt instruments, the objective would be to eliminate from the total bond yield the effect of credit risk and other factors that are not relevant to the insurance contracts. One way to estimate the effect of credit risk is to use the market price of a credit derivative as a reference point.

Risk Adjustment for Non-Financial Risk (paragraph 37)

BAG86. The risk adjustment for non-financial risk relates to risk arising from insurance contracts other than financial risk. Financial risk is included in the estimates of the future cash flows or the discount rate used to adjust the cash flows. The risks covered by the risk adjustment for non-financial risk are insurance risk and other non-financial risks such as lapse risk and expense risk (see paragraph **BAG14**).

BAG87. The risk adjustment for non-financial risk for insurance contracts measures the compensation that the entity would require to make the entity indifferent between:

- (a) Fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and
- (b) Fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts.

For example, the risk adjustment for non-financial risk would measure the compensation the entity would require to make it indifferent between fulfilling a liability that—because of non-financial risk—has a 50 per cent probability of being CU90 and a 50 per cent probability of being CU110, and fulfilling a liability that is fixed at CU100. As a result, the risk adjustment for non-financial risk conveys information to users of financial statements about the amount charged by the entity for the uncertainty arising from non-financial risk about the amount and timing of cash flows.

BAG88. Because the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows, the risk adjustment for non-financial risk also reflects:

- (a) The degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk; and
- (b) Both favourable and unfavourable outcomes, in a way that reflects the entity's degree of risk aversion.

BAG89. The purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cash flows that arise from insurance contracts, other than uncertainty arising from financial risk. Consequently, the risk adjustment for non-financial risk shall reflect all non-financial risks associated with the insurance contracts. It shall not reflect the risks that do not arise from the insurance contracts, such as general operational risk.

BAG90. The risk adjustment for non-financial risk shall be included in the measurement in an explicit way. The risk adjustment for non-financial risk is conceptually separate from the estimates of future cash flows and the discount rates that adjust those cash flows. The entity shall not double-count the risk adjustment for non-financial risk by, for example, also including the risk adjustment for non-financial risk implicitly when determining the estimates of future cash flows or the discount rates. The discount rates that are disclosed to comply with paragraph 120 shall not include any implicit adjustments for non-financial risk.

BAG91. **PBE** IFRS 17 does not specify the estimation technique(s) used to determine the risk adjustment for non-financial risk. However, to reflect the compensation the entity would require for bearing the non-financial risk, the risk adjustment for non-financial risk shall have the following characteristics:

- (a) Risks with low frequency and high severity will result in higher risk adjustments for non-financial risk than risks with high frequency and low severity;

- (b) For similar risks, contracts with a longer duration will result in higher risk adjustments for non-financial risk than contracts with a shorter duration;
- (c) Risks with a wider probability distribution will result in higher risk adjustments for non-financial risk than risks with a narrower distribution;
- (d) The less that is known about the current estimate and its trend, the higher will be the risk adjustment for non-financial risk; and
- (e) To the extent that emerging experience reduces uncertainty about the amount and timing of cash flows, risk adjustments for non-financial risk will decrease and vice versa.

BAG92. An entity shall apply judgement when determining an appropriate estimation technique for the risk adjustment for non-financial risk. When applying that judgement, an entity shall also consider whether the technique provides concise and informative disclosure so that users of financial statements can benchmark the entity's performance against the performance of other entities. Paragraph 119 requires an entity that uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk to disclose the technique used and the confidence level corresponding to the results of that technique.

Initial Recognition of Transfers of Insurance Contracts and Business Combinations within the Scope of PBE IFRS 3 (paragraph 39)⁵

BAG93. When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or in a business combination within the scope of PBE IFRS 3, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.

BAG94. An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination within the scope of PBE IFRS 3, the consideration received or paid is the fair value of the contracts at that date. ~~In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 (relating to demand features).~~

BAG95. Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition. If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination within the scope of PBE IFRS 3 or as a loss in profit or loss surplus or deficit for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.

Changes in the Carrying Amount of the Contractual Service Margin for Insurance Contracts without Direct Participation Features (paragraph 44)

BAG96. For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

- (a) Experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph **BAG72**(c);

⁵ NZASB ED 2018-4 PBE IPSAS 40 PBE Combinations sets out proposals for a PBE Standard which would supersede PBE IFRS 3. If that Standard is finalised before this Standard, this heading and paragraphs AG93–AG95 would refer to PBE IPSAS 40 rather than to PBE IFRS 3.

- (b) Changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph [BAG97\(a\)](#), measured at the discount rates specified in paragraph [BAG72\(c\)](#);
- (c) Differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, measured at the discount rates specified in paragraph [BAG72\(c\)](#); and
- (d) Changes in the risk adjustment for non-financial risk that relate to future service.

[BAG97](#). An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

- (a) The effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk (being the effect, if any, on estimated future cash flows and the effect of a change in discount rate);
- (b) Changes in estimates of fulfilment cash flows in the liability for incurred claims; and
- (c) Experience adjustments, except those described in paragraph [BAG96\(a\)](#).

[BAG98](#). The terms of some insurance contracts without direct participation features give an entity discretion over the cash flows to be paid to policyholders. A change in the discretionary cash flows is regarded as relating to future service, and accordingly adjusts the contractual service margin. To determine how to identify a change in discretionary cash flows, an entity shall specify at inception of the contract the basis on which it expects to determine its commitment under the contract; for example, based on a fixed interest rate, or on returns that vary based on specified asset returns.

[BAG99](#). An entity shall use that specification to distinguish between the effect of changes in assumptions that relate to financial risk on that commitment (which do not adjust the contractual service margin) and the effect of discretionary changes to that commitment (which adjust the contractual service margin).

[BAG100](#). If an entity cannot specify at inception of the contract what it regards as its commitment under the contract and what it regards as discretionary, it shall regard its commitment to be the return implicit in the estimate of the fulfilment cash flows at inception of the contract, updated to reflect current assumptions that relate to financial risk.

Changes in the Carrying Amount of the Contractual Service Margin for Insurance Contracts with Direct Participation Features (paragraph 45)

[BAG101](#). Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

- (a) The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs [BAG105](#)–[BAG106](#));
- (b) The entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph [BAG107](#)); and
- (c) The entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph [BAG107](#)).

[BAG102](#). An entity shall assess whether the conditions in paragraph [BAG101](#) are met using its expectations at inception of the contract and shall not reassess the conditions afterwards, unless the contract is modified, applying paragraph 72.

[BAG103](#). To the extent that insurance contracts in a group affect the cash flows to policyholders of contracts in other groups (see paragraphs [BAG67](#)–[BAG71](#)), an entity shall assess whether the conditions in paragraph [BAG101](#) are met by considering the cash flows that the entity expects to pay the policyholders determined applying paragraphs [BAG68](#)–[BAG70](#).

[BAG104](#). The conditions in paragraph [BAG101](#) ensure that insurance contracts with direct participation features are contracts under which the entity's obligation to the policyholder is the net of:

- (a) The obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
- (b) A variable fee (see paragraphs [BAG110](#)–[BAG118](#)) that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:
 - (i) The entity’s share of the fair value of the underlying items; less
 - (ii) Fulfilment cash flows that do not vary based on the returns on underlying items.

[BAG105](#). A share referred to in paragraph [BAG101\(a\)](#) does not preclude the existence of the entity’s discretion to vary the amounts paid to the policyholder. However, the link to the underlying items must be enforceable (see paragraph 2).

[BAG106](#). The pool of underlying items referred to in paragraph [BAG101\(a\)](#) can comprise any items, for example a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity, as long as they are clearly identified by the contract. An entity need not hold the identified pool of underlying items. However, a clearly identified pool of underlying items does not exist when:

- (a) An entity can change the underlying items that determine the amount of the entity’s obligation with retrospective effect; or
- (b) There are no underlying items identified, even if the policyholder could be provided with a return that generally reflects the entity’s overall performance and expectations, or the performance and expectations of a subset of assets the entity holds. An example of such a return is a crediting rate or dividend payment set at the end of the period to which it relates. In this case, the obligation to the policyholder reflects the crediting rate or dividend amounts the entity has set, and does not reflect identified underlying items.

[BAG107](#). Paragraph [BAG101\(b\)](#) requires that the entity expects a substantial share of the fair value returns on the underlying items will be paid to the policyholder and paragraph [BAG101\(c\)](#) requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. An entity shall:

- (a) Interpret the term ‘substantial’ in both paragraphs in the context of the objective of insurance contracts with direct participation features being contracts under which the entity provides investment-related services and is compensated for the services by a fee that is determined by reference to the underlying items; and
- (b) Assess the variability in the amounts in paragraphs [BAG101\(b\)](#) and [BAG101\(c\)](#):
 - (i) Over the duration of the group of insurance contracts; and
 - (ii) On a present value probability-weighted average basis, not a best or worst outcome basis (see paragraphs [BAG37](#)–[BAG38](#)).

[BAG108](#). For example, if the entity expects to pay a substantial share of the fair value returns on underlying items, subject to a guarantee of a minimum return, there will be scenarios in which:

- (a) The cash flows that the entity expects to pay to the policyholder vary with the changes in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items do not exceed the fair value return on the underlying items; and
- (b) The cash flows that the entity expects to pay to the policyholder do not vary with the changes in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items exceed the fair value return on the underlying items.

The entity’s assessment of the variability in paragraph [BAG101\(c\)](#) for this example will reflect a present value probability-weighted average of all these scenarios.

[BAG109](#). Reinsurance contracts issued and reinsurance contracts held cannot be insurance contracts with direct participation features for the purposes of [PBE IFRS 17](#).

BAG110. For insurance contracts with direct participation features, the contractual service margin is adjusted to reflect the variable nature of the fee. Hence, changes in the amounts set out in paragraph **BAG104** are treated as set out in paragraphs **BAG111–BAG114**.

BAG111. Changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items (paragraph **BAG104(a)**) do not relate to future service and do not adjust the contractual service margin.

BAG112. Changes in the entity's share of the fair value of the underlying items (paragraph **BAG104(b)(i)**) relate to future service and adjust the contractual service margin, applying paragraph 45(b).

BAG113. Changes in the fulfilment cash flows that do not vary based on the returns on underlying items (paragraph **BAG104(b)(ii)**) comprise:

- (a) Changes in ~~estimates of~~ the fulfilment cash flows other than those specified in (b). An entity shall apply paragraphs **BAG96–BAG97**, consistent with insurance contracts without direct participation features, to determine to what extent they relate to future service and, applying paragraph 45(c), adjust the contractual service margin. All the adjustments are measured using current discount rates.
- (b) The change in the effect of the time value of money and financial risks not arising from the underlying items; for example, the effect of financial guarantees. These relate to future service and, applying paragraph 45(c), adjust the contractual service margin, except to the extent that paragraph **BAG115** applies.

BAG114. An entity is not required to identify the adjustments to the contractual service margin required by paragraphs **BAG112** and **BAG113** separately. Instead, a combined amount may be determined for some or all of the adjustments.

Risk Mitigation

BAG115. To the extent that an entity meets the conditions in paragraph **BAG116**, it may choose not to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of financial risk on the entity's share of the underlying items (see paragraph **BAG112**) or the fulfilment cash flows set out in paragraph **BAG113(b)**.

BAG116. To apply paragraph **BAG115**, an entity must have a previously documented risk-management objective and strategy for using derivatives to mitigate financial risk arising from the insurance contracts and, in applying that objective and strategy:

- (a) The entity uses a derivative to mitigate the financial risk arising from the insurance contracts.
- (b) An economic offset exists between the insurance contracts and the derivative, i.e., the values of the insurance contracts and the derivative generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity shall not consider accounting measurement differences in assessing the economic offset.
- (c) Credit risk does not dominate the economic offset.

BAG117. The entity shall determine the fulfilment cash flows in a group to which paragraph **BAG115** applies in a consistent manner in each reporting period.

BAG118. If any of the conditions in paragraph **BAG116** ceases to be met, an entity shall:

- (a) Cease to apply paragraph **BAG115** from that date; and
- (b) Not make any adjustment for changes previously recognised in ~~profit or loss~~ surplus or deficit.

Recognition of the Contractual Service Margin in ~~Profit or Loss~~ Surplus or Deficit

BAG119. An amount of the contractual service margin for a group of insurance contracts is recognised in ~~profit or loss~~ surplus or deficit in each period to reflect the services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by:

- (a) Identifying the coverage units in the group. The number of coverage units in a group is the quantity of coverage provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage duration period.

- (b) Allocating the contractual service margin at the end of the period (before recognising any amounts in ~~profit or loss~~ surplus or deficit to reflect the services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.
- (c) Recognising in ~~profit or loss~~ surplus or deficit the amount allocated to coverage units provided in the period.

Insurance Revenue (paragraphs 83 and 85)

BAG120. The total insurance revenue for a group of insurance contracts is the consideration for the contracts, i.e., the amount of premiums paid to the entity:

- (a) Adjusted for a financing effect; and
- (b) Excluding any investment components.

BAG121. Paragraph 83 requires the amount of insurance revenue recognised in a period to depict the transfer of promised services at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The total consideration for a group of contracts covers the following amounts:

- (a) Amounts related to the provision of services, comprising:
 - (i) Insurance service expenses, excluding any amounts relating to the risk adjustment included in (ii) and allocated to the loss component of the liability for remaining coverage;
 - (ii) The risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and
 - (iii) The contractual service margin.
- (b) Amounts related to insurance acquisition cash flows.

BAG122. Insurance revenue for a period relating to the amounts described in paragraph **BAG121(a)** is determined as set out in paragraphs **BAG123–BAG124**. Insurance revenue for a period relating to the amounts described in paragraph **BAG121(b)** is determined as set out in paragraph **BAG125**.

BAG123. ~~Applying IFRS 15, when an entity provides services, it derecognises the performance obligation for those services and recognises revenue. Consistently, applying IFRS 17, w~~When an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:

- (a) Changes that do not relate to services provided in the period, for example:
 - (i) Changes resulting from cash inflows from premiums received;
 - (ii) Changes that relate to investment components in the period;
 - (iii) Changes that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph **BAG65(i)**);
 - (iv) Insurance finance ~~income~~ revenue or expenses;
 - (v) Insurance acquisition cash flows (see paragraph **BAG125**); and
 - (vi) Derecognition of liabilities transferred to a third party.
- (b) Changes that relate to services, but for which the entity does not expect consideration, i.e., increases and decreases in the loss component of the liability for remaining coverage (see paragraphs 47–52).

BAG124. Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:

- (a) Insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:
 - (i) Amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(a);
 - (ii) Repayments of investment components;
 - (iii) Amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph **BAG65(i)**); ~~and~~
 - (iv) Insurance acquisition expenses (see paragraph **BAG125**); ~~and~~
 - (v) The amount related to the risk adjustment (see (b)).
- (b) The change in the risk adjustment for non-financial risk, excluding:
 - (i) Changes included in insurance finance ~~income~~ revenue or expenses applying paragraph 87;
 - (ii) Changes that adjust the contractual service margin because they relate to future service applying paragraphs 44(c) and 45(c); and
 - (iii) Amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(b).
- (c) The amount of the contractual service margin recognised in ~~profit or loss~~ surplus or deficit in the period, applying paragraphs 44(e) and 45(e).

BAG125. An entity shall determine insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relate to recovering those cash flows to each reporting period in a systematic way on the basis of the passage of time. An entity shall recognise the same amount as insurance service expenses.

BAG126. When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of coverage:

- (a) On the basis of the passage of time; but
- (b) If the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses.

BAG127. An entity shall change the basis of allocation between paragraphs **BAG126(a)** and **BAG126(b)** as necessary if facts and circumstances change.

Insurance Finance ~~Income~~ Revenue or Expenses (paragraphs 87–92)

BAG128. Paragraph 87 requires an entity to include in insurance finance ~~income~~ revenue or expenses the effect of changes in assumptions that relate to financial risk. For the purposes of **PBE IFRS 17**:

- (a) Assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; and
- (b) Assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk.

BAG129. Paragraphs 88–89 require an entity to make an accounting policy choice as to whether to disaggregate insurance finance ~~income~~ revenue or expenses for the period between ~~profit or loss~~ surplus or deficit and other comprehensive ~~income~~ revenue and expense. An entity shall apply its choice of accounting policy to portfolios of insurance contracts. In assessing the appropriate accounting policy for a portfolio of insurance contracts, applying paragraph 163 of **IAS 8–PBE IPSAS 3 Accounting Policies, Changes in**

Accounting Estimates and Errors, the entity shall consider for each portfolio the assets that the entity holds and how it accounts for those assets.

BAG130. If paragraph 88(b) applies, an entity shall include in ~~profit or loss~~ surplus or deficit an amount determined by a systematic allocation of the expected total finance ~~income~~ revenue or expenses over the duration of the group of insurance contracts. In this context, a systematic allocation is an allocation of the total expected finance ~~income~~ revenue or expenses of a group of insurance contracts over the duration of the group that:

- (a) Is based on characteristics of the contracts, without reference to factors that do not affect the cash flows expected to arise under the contracts. For example, the allocation of the finance ~~income~~ revenue or expenses shall not be based on expected recognised returns on assets if those expected recognised returns do not affect the cash flows of the contracts in the group.
- (b) Results in the amounts recognised in other comprehensive ~~income~~ revenue and expense over the duration of the group of contracts totalling zero. The cumulative amount recognised in other comprehensive ~~income~~ revenue and expense at any date is the difference between the carrying amount of the group of contracts and the amount that the group would be measured at when applying the systematic allocation.

BAG131. For groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholder, the systematic allocation is determined using the discount rates specified in paragraph **BAG72**(e)(i).

BAG132. For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders:

- (a) A systematic allocation for the finance ~~income~~ revenue or expenses arising from the estimates of future cash flows can be determined in one of the following ways:
 - (i) Using a rate that allocates the remaining revised expected finance ~~income~~ revenue or expenses over the remaining duration of the group of contracts at a constant rate; or
 - (ii) For contracts that use a crediting rate to determine amounts due to the policyholders—using an allocation that is based on the amounts credited in the period and expected to be credited in future periods.
- (b) A systematic allocation for the finance ~~income~~ revenue or expenses arising from the risk adjustment for non-financial risk, if separately disaggregated from other changes in the risk adjustment for non-financial risk applying paragraph 81, is determined using an allocation consistent with that used for the allocation for the finance ~~income~~ revenue or expenses arising from the future cash flows.
- (c) A systematic allocation for the finance ~~income~~ revenue or expenses arising from the contractual service margin is determined:
 - (i) For insurance contracts that do not have direct participation features, using the discount rates specified in paragraph **BAG72**(b); and
 - (ii) For insurance contracts with direct participation features, using an allocation consistent with that used for the allocation for the finance ~~income~~ revenue or expenses arising from the future cash flows.

BAG133. In applying the premium allocation approach to insurance contracts described in paragraphs 53–59, an entity may be required, or may choose, to discount the liability for incurred claims. In such cases, it may choose to disaggregate the insurance finance ~~income~~ revenue or expenses applying paragraph 88(b). If the entity makes this choice, it shall determine the insurance finance ~~income~~ revenue or expenses in ~~profit or loss~~ surplus or deficit using the discount rate specified in paragraph **BAG72**(e)(iii).

BAG134. Paragraph 89 applies if an entity, either by choice or because it is required to, holds the underlying items for insurance contracts with direct participation features. If an entity chooses to disaggregate insurance finance ~~income~~ revenue or expenses applying paragraph 89(b), it shall include in ~~profit or loss~~ surplus or deficit expenses or ~~income~~ revenue that exactly match the ~~income~~ revenue or expenses included in ~~profit or loss~~ surplus or deficit for the underlying items, resulting in the net of the two separately presented items being nil.

BAG135. An entity may qualify for the accounting policy choice in paragraph 89 in some periods but not in others because of a change in whether it holds the underlying items. If such a change occurs, the accounting policy choice available to the entity changes from that set out in paragraph 88 to that set out in paragraph 89, or vice versa. Hence, an entity might change its accounting policy between that set out in paragraph 88(b) and that set out in paragraph 89(b). In making such a change an entity shall:

- (a) Include the accumulated amount previously included in other comprehensive ~~income revenue and expense~~ by the date of the change as a reclassification adjustment in ~~profit or loss~~ surplus or deficit in the period of change and in future periods, as follows:
 - (i) If the entity had previously applied paragraph 88(b)—the entity shall include in ~~profit or loss~~ surplus or deficit the accumulated amount included in other comprehensive ~~income revenue and expense~~ before the change as if the entity were continuing the approach in paragraph 88(b) based on the assumptions that applied immediately before the change; and
 - (ii) If the entity had previously applied paragraph 89(b)—the entity shall include in ~~profit or loss~~ surplus or deficit the accumulated amount included in other comprehensive ~~income revenue and expense~~ before the change as if the entity were continuing the approach in paragraph 89(b) based on the assumptions that applied immediately before the change.
- (b) Not restate prior period comparative information.

BAG136. When applying paragraph **BAG135(a)**, an entity shall not recalculate the accumulated amount previously included in other comprehensive ~~income revenue and expense~~ as if the new disaggregation had always applied; and the assumptions used for the reclassification in future periods shall not be updated after the date of the change.

Interim Financial Statements

BAG137 Notwithstanding the requirement in **PBE IAS 34 *Interim Financial Reporting*** that the frequency of an entity's reporting shall not affect the measurement of its annual results, an entity shall not change the treatment of accounting estimates made in previous interim financial statements when applying **PBE IFRS 17** in subsequent interim financial statements or in the annual reporting period.

Effective Date and Transition

[Not used]

For information only

Appendix D Amendments to other Standards

The amendments in this Appendix reflect the text of the relevant standards, including amendments set out in:

- (a) PBE FRS 48 *Service Performance Reporting*, issued November 2017 and effective from 1 January 2021; and
- (b) *2018 Omnibus Amendments to PBE Standards*, issued October 2018 and, in most cases, effective from 1 January 2019. The relevant amendments reflected in this Appendix are effective from 1 January 2019; and
- (c) ED 2018-5 PBE IPSAS 41 *Financial Instruments*, issued in November 2018 and open for comment until 28 February 2019.

The amendments do not reflect the proposals in ED 2018-4 PBE IPSAS 40 *PBE Combinations*, issued in September 2018 and open for comment until 31 January 2019. However, this Appendix identifies the amendments that would be required to PBE IPSAS 40, if PBE IPSAS 40 were to be issued before PBE IFRS 17.

Except where otherwise stated, an entity shall apply the amendments in this Appendix when it applies PBE IFRS 17 issued in [date].

PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 7, 88 and 99.1 are amended and paragraph 154.13 is added. New text is underlined and deleted text is struck through.

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

...

Other comprehensive revenue and expense comprises items of revenue and expense (including reclassification adjustments) that are not recognised in surplus or deficit as required or permitted by other PBE Standards.

The components of other comprehensive revenue and expense include:

- (a) ...
- (h) ...; ~~and~~
- (i) ...; ~~and~~
- (j) Insurance finance revenue and expenses from contracts issued within the scope of PBE IFRS 17 *Insurance Contracts* excluded from surplus or deficit when total insurance finance revenue or expenses is disaggregated to include in surplus or deficit an amount determined by a systematic allocation applying paragraph 88(b) of PBE IFRS 17, or by an amount that eliminates accounting mismatches with the finance revenue or expenses arising on the underlying items, applying paragraph 89(b) of PBE IFRS 17; and
- (k) Finance revenue and expenses from reinsurance contracts held excluded from surplus or deficit when total reinsurance finance revenue or expenses is disaggregated to include in surplus or deficit an amount determined by a systematic allocation applying paragraph 88(b) of PBE IFRS 17.

...

Information to be Presented on the Face of the Statement of Financial Position

88. **The face of the statement of financial position shall include line items that present the following amounts:**

- (a) ...
- (da) **Groups of contracts within the scope of PBE IFRS 17 that are assets, disaggregated as required by paragraph 78 of PBE IFRS 17;**
- (e) ...
- (ma) **Groups of contracts within the scope of PBE IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of PBE IFRS 17;**
- (n) ...

Statement of Comprehensive Revenue and Expense

...

Surplus or Deficit for the Period

...

99.1 The surplus or deficit section or the statement of comprehensive revenue and expense shall include line items that present the following amounts for the period:

- (a) Revenue, presenting separately:
 - (i) Interest revenue calculated using the effective interest method; and
 - (ii) Insurance revenue (see PBE IFRS 17);
- (aa) ...
- (ab) Insurance service expenses from contracts issued within the scope of PBE IFRS 17 (see PBE IFRS 17);
- (ac) Revenue or expenses from reinsurance contracts held (see PBE IFRS 17);
- (b) ...
- (bb) Insurance finance revenue or expenses from contracts issued within the scope of PBE IFRS 17 (see PBE IFRS 17);
- (bc) Finance revenue or expenses from reinsurance contracts held (see PBE IFRS 17);
- (c) ...

Effective Date

...

154.13 PBE IFRS 17, issued in [date], amended paragraphs 7, 88 and 99.1. An entity shall apply those amendments when it applies PBE IFRS 17.

PBE IPSAS 2 Cash Flow Statements

Paragraph 22 is amended and paragraph 63.4 is added. New text is underlined and deleted text is struck through.

Operating Activities

...

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) ...

(k) [Deleted by NZASB] Cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;

(l) ...

Effective Date

...

63.4 PBE IFRS 17 Insurance Contracts, issued in [date], amended paragraph 22. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 9 Revenue from Exchange Transactions

Paragraph 10 is amended and paragraph 42.6 is added. New text is underlined and deleted text is struck through.

Scope

...

10. This Standard does not deal with revenues arising from:

(a) ...

(d) Insurance contracts within the scope of ~~PBE IFRS 4~~ PBE IFRS 17 Insurance Contracts. However, an entity may choose to apply this Standard to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with paragraph 8 of PBE IFRS 17;

(e) ...

Effective Date

...

42.6 PBE IFRS 17 Insurance Contracts, issued in [date], amended paragraph 10. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 13 Leases

Paragraph 86.6 is added. New text is underlined.

Effective Date

...

86.6 PBE IFRS 17, issued in [date], amended paragraph B7. An entity shall apply that amendment when it applies PBE IFRS 17.

In Appendix B, paragraph B7 is amended. New text is underlined and deleted text is struck through.

Consensus

...

B7. Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, PBE IPSAS 41 *Financial Instruments* or PBE IFRS 17~~PBE IFRS 4~~ *Insurance Contracts*, depending on the terms.

PBE IPSAS 16 Investment Property

Paragraphs 41.1–41.3 and 102.8 are added. New text is underlined.

Accounting Policy

...

41.1 An entity may:

- (a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and**
- (b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).**

41.2 Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund. Similarly, some entities issue insurance contracts with direct participation features, for which the underlying items include investment property. For the purposes of paragraphs 41.1–41.2 only, insurance contracts include investment contracts with discretionary participation features. Paragraph 41.1 does not permit an entity to measure property held by the fund (or property that is an underlying item) partly at cost and partly at fair value. (See PBE IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

41.3 If an entity chooses different models for the two categories described in paragraph 41.1, sales of investment property between pools of assets measured using different models shall be recognised at fair value and the cumulative change in fair value shall be recognised in surplus or deficit. Accordingly, if an investment property is sold from a pool in which the fair value model is used into a pool in which the cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

...

Effective Date

...

102.8 PBE IFRS 17, issued in [date], added paragraphs 41.1–41.3. An entity shall apply those amendments when it applies PBE IFRS 17.

In the Basis for Conclusions, paragraphs BC10–BC11 and the related heading are added. New text is underlined.

PBE IFRS 17 Insurance Contracts

BC10. IFRS 4 Insurance Contracts added paragraphs 32A–32C to IAS 40. Paragraph 32B was subsequently amended as a consequential amendment of IFRS 17 Insurance Contracts. The equivalent paragraphs were not included in PBE IPSAS 16 when the NZASB issued the suite of PBE Standards.

BC11. When developing PBE IFRS 17 Insurance Contracts the NZASB considered these paragraphs and believed that adding these paragraphs to PBE IPSAS 16 would maintain the cohesion of the suite of PBE Standards and align the requirements with NZ IFRS for entities that issue insurance contracts. Therefore, PBE IFRS 17 issued in [date], added paragraphs 41.1–41.3 to PBE IPSAS 16. These paragraphs contain the same requirements as paragraphs 32A–32C of IAS 40.

PBE IPSAS 17 Property, Plant and Equipment

Paragraphs 42.1, 42.2 and 108.13 are added. New text is underlined.

Measurement after Recognition

...

42.1 Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund. Similarly, some entities issue groups of insurance contracts with direct participation features and hold the underlying items. Some such funds or underlying items include owner-occupied property. The entity applies PBE IPSAS 17 to owner-occupied properties that are included in such a fund or are underlying items. Despite paragraph 42, the entity may elect to measure such properties using the fair value model in accordance with PBE IPSAS 16. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See PBE IFRS 17 Insurance Contracts for terms used in this paragraph that are defined in that Standard).

42.2 An entity shall treat owner-occupied property measured using the investment property fair value model applying paragraph 42.1 as a separate class of property, plant and equipment.

...

Effective Date

...

108.13 PBE IFRS 17, issued in [date], added paragraphs 42.1 and 42.2. An entity shall apply those amendments when it applies PBE IFRS 17.

PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

Paragraph 1 is amended and paragraph 112.9 is added. New text is underlined and deleted text is struck through.

Scope

1. An entity that prepares and presents financial statements shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:
 - (a) ...
 - (d) Insurance contracts and other contracts within the scope of ~~PBE IFRS 4~~ PBE IFRS 17 Insurance Contracts.
 - (e) ...

Effective Date

...

112.9 PBE IFRS 17, issued in [date], amended paragraph 1. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 26 Impairment of Cash-Generating Assets

Paragraph 2 is amended and paragraph 127.10 is added. New text is underlined and deleted text is struck through.

Scope

2. An entity that prepares and presents financial statements shall apply this Standard in accounting for the impairment of cash-generating assets, except for:
 - (a) ...
 - (k) ~~Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance~~ Contracts within the scope of ~~PBE IFRS 4~~ PBE IFRS 17 Insurance Contracts that are assets; and
 - (l) ...

Effective Date

...

127.10 PBE IFRS 17, issued in [date], amended paragraph 2. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 28 *Financial Instruments: Presentation*

Paragraphs 3 and 9 are amended and paragraphs 38.1 and 62.7 are added. New text is underlined and deleted text is struck through.

Scope (see also paragraphs AG3–AG9)

3. An entity that prepares and presents financial statements shall apply this Standard to all types of financial instruments except:

...

- (c) Obligations arising from insurance contracts as defined in PBE IFRS 17 *Insurance Contracts* and investment contracts with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:

- (i) Derivatives that are embedded in insurance contracts within the scope of PBE IFRS 17 if PBE IPSAS 41 requires the entity to account for them separately; and
- (ii) Investment components that are separated from contracts within the scope of PBE IFRS 17, if PBE IFRS 17 requires such separation. ~~Financial guarantee contracts, if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts, but shall apply PBE IFRS 4 *Insurance Contracts* if the issuer elects to apply that standard in recognising and measuring them.~~

Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts, but shall apply PBE IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of PBE IFRS 17, to apply PBE IFRS 17 in recognising and measuring them.

~~In addition to (i) and (ii) above, an entity may apply this Standard to insurance contracts which involve the transfer of financial risk.~~

- (d) ~~[Deleted by NZASB] Financial instruments that are within the scope of PBE IFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see PBE IPSAS 41).~~

- (e) ...

Definitions (see also paragraphs AG10–AG48)

9. The following terms are used in this Standard with the meanings specified:

...

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. (See Appendix B of the Application Guidance in PBE IFRS 174 for guidance on this definition.)

...

Treasury Shares (see also paragraph AG61)

...

- 38.1 Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity's treasury shares. Despite paragraph 38, an entity may elect not to deduct from equity a treasury

share that is included in such a fund or is an underlying item when, and only when, an entity reacquires its own equity instrument for such purposes. Instead, the entity may elect to continue to account for that treasury share as equity and to account for the reacquired instrument as if the instrument were a financial asset and measure it at fair value through surplus or deficit in accordance with PBE IPSAS 41. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See PBE IFRS 17 for terms used in this paragraph that are defined in that Standard.)

...

Effective Date

...

62.7 PBE IFRS 17, issued in [date], amended paragraphs 3, 9, AG9, AG15 and AG61, and added paragraph 38.1. An entity shall apply those amendments when it applies PBE IFRS 17.

In the Application Guidance, paragraphs AG9, AG15 and AG61 are amended. New text is underlined and deleted text is struck through.
--

Insurance Contracts

...

AG9. In accordance with paragraph 3(c), an entity treats financial guarantee contracts as financial instruments unless it elects to treat such contracts as insurance contracts in accordance with ~~PBE IFRS 4~~ PBE IFRS 17.

Definitions (paragraphs 9–12)

Financial Assets and Financial Liabilities

...

AG15. The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be ~~insurance~~ contracts within the scope of PBE IFRS 17.

...

Treasury Shares (paragraphs 38–39)

AG61. An entity's own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired. Paragraph 38 requires an entity that reacquires its own equity instruments to deduct those equity instruments from net assets/equity (but see also paragraph 38.1). However, when an entity holds its own equity instruments on behalf of others, for example, a financial institution holding its own equity instruments on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity's statement of financial position.

...

PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 3, 11 and 35 are amended, paragraph 53.8 is added and paragraph 36 is deleted. New text is underlined and deleted text is struck through.

Scope

3. This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) ...
 - (c) Rights and obligations arising under insurance contracts, as defined in PBE IFRS 17 Insurance Contracts and investment contracts with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:
 - (i) Derivatives that are embedded in insurance contracts within the scope of PBE IFRS 17, if PBE IPSAS 41 requires the entity to account for them separately; and
 - (ii) Investment components that are separated from contracts within the scope of PBE IFRS 17 if PBE IFRS 17 requires such separation. An issuer of financial guarantee contracts if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts, but shall apply PBE IFRS 4 Insurance Contracts if the issuer elects to apply that standard in recognising and measuring them.

Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts, but shall apply PBE IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of PBE IFRS 17, to apply PBE IFRS 17 in recognising and measuring them.

~~In addition to (i) and (ii) above, an entity may apply this Standard to insurance contracts which involve the transfer of financial risk.~~
 - (d) ...

Categories of Financial Assets and Financial Liabilities

11. The carrying amounts of each of the following categories, as specified in PBE IPSAS 41, shall be disclosed either in the statement of financial position or in the notes:
- *(a) Financial assets measured at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 152 of PBE IPSAS 41; (ii) those measured as such in accordance with the election in paragraph 38.1 of PBE IPSAS 41; (iii) those measured as such in accordance with the election in paragraph 38.1 of PBE IPSAS 28; and (iv) those mandatorily measured at fair value through surplus or deficit in accordance with PBE IPSAS 41.

Fair Value

- ...
35. Disclosures of fair value are not required:
- (a) ...
 - (c) ~~[Deleted by NZASB] For a contract containing a discretionary participation feature if the fair value of that feature cannot be measured reliably.~~
36. ~~[Deleted by NZASB] In the case described in paragraph 35(c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those contracts and their fair value, including:~~
- (a) ~~the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;~~

- (b) ~~a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;~~
- (c) ~~information about the market for the instruments;~~
- (d) ~~information about whether and how the entity intends to dispose of the financial instruments; and~~
- (e) ~~if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.~~

...

Effective Date and Transition

...

53.8 PBE IFRS 17, issued in [date], amended paragraphs 3, 11 and 35 and deleted paragraph 36. An entity shall apply those amendments when it applies PBE IFRS 17.

PBE IPSAS 31 *Intangible Assets*

Paragraph 3 is amended and paragraph 133.10 is added. New text is underlined and deleted text is struck through.

Scope

3. This Standard shall be applied in accounting for intangible assets, except:
- (a) ...
 - (i) ~~Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of PBE IFRS 4~~**PBE IFRS 17 Insurance Contracts**~~PBE IFRS 4 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets; and~~
 - (j) ...

Effective Date

...

133.10 PBE IFRS 17, issued in [date], amended paragraph 3. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 32 *Service Concession Arrangements: Grantor*

Paragraph 37.6 is added. New text is underlined.

Effective Date

...

37.6 PBE IFRS 17, issued in [date], amended paragraph AG52. An entity shall apply that amendment when it applies PBE IFRS 17.

In the Application Guidance, paragraph AG52 is amended. New text is underlined and deleted text is struck through.

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraph 29)

AG51. ...

AG52. Certain guarantees made by a grantor may meet the definition of a financial guarantee contract. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract and applies PBE IPSAS 28, PBE IPSAS 30 and PBE IPSAS 41 in accounting for the guarantee. Where the guarantee is an insurance contract, the grantor can elect to apply PBE IFRS 17 ~~PBE IFRS 4~~ *Insurance Contracts*. See PBE IPSAS 28, paragraphs AG3-AG9, for further guidance.

PBE IPSAS 36 *Investments in Associates and Joint Ventures*

Paragraph 24 is amended and paragraph 51.6 is added.⁶ New text is underlined and deleted text is struck through.

Exemptions from Applying the Equity Method

...

24. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with PBE IPSAS 41. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. (See PBE IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.) An investment entity will, by definition, have made this election for its investments.

...

Effective Date

...

51.6 PBE IFRS 17, issued in [date], amended paragraph 24. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 39 *Employee Benefits*

The footnote to paragraph 8 (definition of a qualifying insurance policy) is amended and paragraph 177.2 is added. New text is underlined and deleted text is struck through.

A qualifying insurance policy is not necessarily an insurance contract, as defined in ~~PBE IFRS 4~~ PBE IFRS 17 *Insurance Contracts*.

...

⁶ 2018 Omnibus Amendments to PBE Standards, issued in November 2018, amended paragraph 24.

Effective Date

...

177.2 PBE IFRS 17, issued in [date], amended the footnote to paragraph 8. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE IPSAS 41 *Financial Instruments*

Paragraph 2 is amended and paragraphs 38.1 and 156.1 are added. New text is underlined and deleted text is struck through.

Scope

2. This Standard shall be applied by all entities to all types of financial instruments except:
- (a) ...
- (e) Rights and obligations arising under: (i) An insurance contract as defined in PBE IFRS 17 *Insurance Contracts*, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract, ~~in paragraph 9;~~ or (ii) an investment contract with discretionary participation features within the scope of PBE IFRS 17. A contract that is within the scope of PBE IFRS 4 *Insurance Contracts* because it contains a discretionary participation feature. However, ~~this~~ Standard applies to (i) a derivative that is embedded in an insurance contract within the scope of PBE IFRS 17, if the derivative is not itself an insurance contract within the scope of PBE IFRS 17; and (ii) an investment component that is separated from a contract within the scope of PBE IFRS 17, if PBE IFRS 17 requires such separation. Moreover, if an issuer of financial guarantee contracts has previously applied accounting that is applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, the issuer may elect to apply either this Standard or PBE IFRS 17 to such financial guarantee contracts (see paragraphs AG5–AG6). The issuer may make that election contract by contract, but the election for each contract is irrevocable. (see paragraphs 47–53 and paragraphs AG99–AG106 of this Standard). An entity applies this Standard to financial guarantee contracts, but shall apply PBE IFRS 4 if the issuer elects to apply that standard in recognising and measuring them. Notwithstanding (i) above, an entity may apply this Standard to other insurance contracts which involve the transfer of financial risk.

...

Derecognition of Financial Liabilities

...

38.1 Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity's financial liability (for example, a corporate bond issued). Despite the other requirements in this Standard for the derecognition of financial liabilities, an entity may elect not to derecognise its financial liability that is included in such a fund or is an underlying item when, and only when, the entity repurchases its financial liability for such purposes. Instead, the entity may elect to continue to account for that instrument as a financial liability and to account for the repurchased instrument as if the instrument were a financial asset, and measure it at fair value through surplus or deficit in accordance with this Standard. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See PBE IFRS 17 for terms used in this paragraph that are defined in that Standard.)

...

Effective Date and Transition

Effective Date

156 ...

156.1 PBE IFRS 17, issued in [date], amended paragraphs 2, AG1, AG4, AG5 and AG92 and added paragraph 38.1. An entity shall apply those amendments when it applies PBE IFRS 17.

Paragraphs AG1, AG4, AG5 and AG92 are amended. New text is underlined and deleted text is struck through.

Scope

AG1. Some contracts require a payment based on climatic, geological or other physical variables. (Those based on climatic variables are sometimes referred to as ‘weather derivatives’.) If those contracts are not within the scope of PBE IFRS 17 Insurance Contracts, ~~insurance contracts~~, they are within the scope of this Standard.

...

AG4. This Standard applies to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2(e) excludes because they arise under ~~insurance contracts~~ within the scope of PBE IFRS 17. ~~An entity does however apply this Standard to:-~~

- ~~(a) Financial guarantee contracts, except those where the issuer elects to treat such contracts as insurance contracts in accordance with PBE IPSAS 28 *Financial Instruments: Presentation*; and~~
- ~~(b) Embedded derivatives included in insurance contracts.~~

~~An entity may, but is not required to, apply this Standard to other insurance contracts that involve the transfer of financial risk.~~

AG5. Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2(e)):

- (a) Although a financial guarantee contract meets the definition of an insurance contract in PBE IFRS 17 (see paragraph 7(e) of PBE IFRS 17) if the risk transferred is significant, the issuer applies this Standard. Nevertheless, ~~an entity may elect, under certain circumstances, to treat financial guarantee contracts as insurance contracts using PBE IPSAS 28~~ if the issuer has previously applied accounting that is applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, and has used accounting that is applicable to insurance contracts; the issuer may elect to apply either this Standard or ~~PBE IFRS 4~~ PBE IFRS 17 to such financial guarantee contracts. ...
- (b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts as defined in this Standard, and are not insurance contracts as defined in PBE IFRS 17. Such guarantees are derivatives and the issuer applies this Standard to them.
- (c) ...

Designation Eliminates or Significantly Reduces an Accounting Mismatch

...

AG92. The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through surplus or deficit only if it meets the principle in paragraph 44 or 46(a):

- (a) An entity has ~~liabilities under insurance contracts~~ within the scope of PBE IFRS 17 (whose the measurement of which incorporates current information) ~~(as permitted by paragraph 24 of~~

~~PBE IFRS 4~~) and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive revenue and expense or amortised cost.

(b) ...

PBE IFRS 3 *Business Combinations* (if PBE IPSAS 40 *PBE Combinations* is not issued and does not become effective before PBE IFRS 17)

Paragraphs 17, 20, 21 and 35 are amended, after paragraph 31, a heading and paragraph 31.1 are added and paragraph 64.9 is added. New text is underlined and deleted text is struck through.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in a Business Combination

...

17. This Standard provides ~~two~~an exceptions to the principle in paragraph 15:

- (a) Classification of a lease contract as either an operating lease or a finance lease in accordance with PBE IPSAS 13 *Leases*; ~~and~~
- (b) ~~[Deleted by NZASB] classification of a contract as an insurance contract in accordance with PBE IFRS 4 *Insurance Contracts*.~~

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

...

Measurement Principle

...

20. Paragraphs B41–B45 provide guidance on measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree. Paragraphs 24–~~31~~31.1 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

21. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 22–~~31~~31.1 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 22–~~31~~31.1, which will result in some items being:

...

Insurance Contracts

31.1. The acquirer shall measure a group of contracts within the scope of PBE IFRS 17 *Insurance Contracts* acquired in a business combination as a liability or asset in accordance with paragraphs 39 and AG93- AG95 of PBE IFRS 17, at the acquisition date.

...

Bargain Purchases

...

35. A bargain purchase might happen, for example, in a business combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 22–~~31~~31.1 may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

...

Effective Date and Transition

Effective Date

...

64.9 PBE IFRS 17, issued in [date], amended paragraphs 17, 20, 21, 35 and B63, and after paragraph 31 added a heading and paragraph 31.1. An entity shall apply these the amendments to paragraph 17 to business combinations with an acquisition date after the date of initial application of PBE IFRS 17. An entity shall apply the other amendments when it applies PBE IFRS 17.

In Appendix B, paragraph B63 is amended. New text is underlined and deleted text is struck through.

Other PBE Standards that Provide Guidance on Subsequent Measurement and Accounting (application of paragraph 54)

B63. Examples of other PBE Standards that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:

- (a) ...
- (b) [Deleted by NZASB]PBE IFRS 4 Insurance Contracts provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.
- (c) ...

Forthcoming PBE IPSAS 40 PBE Combinations

Note: NZASB ED 2018-4 PBE IPSAS 40 *PBE Combinations* sets out proposals for a PBE Standard which would supersede PBE IFRS 3 *Business Combinations*. The amendments that would be required to PBE IPSAS 40, if PBE IPSAS 40 were to be issued before PBE IFRS 17, are set out below.

Paragraphs 71, 74, 75 and 89 are amended, after paragraph 84.1, a heading and paragraph 84.2 are added and paragraph 126.2 is added. New text is underlined and deleted text is struck through.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

...

71. This Standard provides ~~two~~an exceptions to the principle in paragraph 69:

- (a) Classification of a lease arrangement as either an operating lease or a finance lease in accordance with PBE IPSAS 13 *Leases*; and
- (b) [Deleted by NZASB]Classification of a contract as an insurance contract in accordance with PBE IFRS 4 Insurance Contracts.

The acquirer shall classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

...

Measurement Principle

...

74. Paragraphs 78–84.42 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

75. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 76–84.42 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 76–84.42, which will result in some items being:

...

Insurance Contracts

- 84.2. The acquirer shall measure a group of contracts within the scope of PBE IFRS 17 Insurance Contracts acquired in an acquired operation as a liability or asset in accordance with paragraphs 39 and AG93–AG95 of PBE IFRS 17, at the acquisition date.

...

Bargain Purchases

...

89. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 76–84.42 may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

...

Effective Date

...

- 126.2 PBE IFRS 17, issued in [date], amended paragraphs 71, 74, 75, 89 and AG107, and after paragraph 84.1 added a heading and paragraph 84.2. An entity shall apply the amendments to paragraph 71 to business combinations with an acquisition date after the date of initial application of PBE IFRS 17. An entity shall apply the other amendments when it applies PBE IFRS 17.**

In Appendix A Application Guidance, paragraph AG107 is amended. New text is underlined and deleted text is struck through.

Subsequent Measurement and Accounting (see paragraph 112)

- AG107. Examples of other PBE Standards that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:

- (f) ...
- (g) [Deleted by NZASB] PBE IFRS 4 provides guidance on the subsequent accounting for an insurance contract acquired in an acquisition.
- (h) ...

PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 5 is amended and paragraph 44.10 is added. New text is underlined and deleted text is struck through.

Scope

...

5. The measurement provisions of this Standard [footnote omitted] do not apply to the following assets, which are covered by the Standards listed, either as individual assets or as part of a disposal group:

(a) ...

(f) ~~Contractual rights under insurance contracts as defined in PBE IFRS 4~~ Groups of contracts within the scope of PBE IFRS 17 Insurance Contracts.

...

Effective Date

...

44.10 PBE IFRS 17, issued in [date], amended paragraph 5. An entity shall apply that amendment when it applies PBE IFRS 17.

PBE FRS 47 *First-time Adoption of PBE Standards by Entities other than those Previously Applying NZ IFRS*

Paragraph 42.10 is added. New text is underlined.

Effective Date

...

42.10 PBE IFRS 17 Insurance Contracts, issued in [date], amended paragraph A1 and after paragraph A9 added a heading and paragraph A10. An entity shall apply those amendments when it applies PBE IFRS 17.

In Appendix A, paragraph A1 is amended. After paragraph A9, a heading and paragraph A10 are added. New text is underlined and deleted text is struck through.

- A1. An entity shall apply the following exceptions:

(a) ...

(f) Embedded derivatives (paragraph A9); ~~and-~~

(g) Insurance contracts (paragraph A10).

...

Insurance Contracts

A10. An entity shall apply the transition provisions in paragraphs 132.1–132.24 and 132.28 of PBE IFRS 17 to contracts within the scope of PBE IFRS 17. The references in those paragraphs in PBE IFRS 17 to the transition date shall be read as the date of transition to PBE Standards.

XRB A1 Application of the Accounting Standards Framework

Appendix C is amended. New text is underlined.

APPENDIX C

TIER 1 PBE ACCOUNTING REQUIREMENTS AND TIER 2 PBE ACCOUNTING REQUIREMENTS TO BE APPLIED BY PUBLIC BENEFIT ENTITIES

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

...

Accounting Standards

...

PBE IFRS 4 *Insurance Contracts* (superseded on adoption of PBE IFRS 17)

...

PBE IFRS 9 *Financial Instruments* (superseded on adoption of PBE IPSAS 41)

PBE IFRS 17 *Insurance Contracts*

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IFRS 17.

- BC1. The IPSASB has not developed, and at the date of issuing PBE IFRS 17 *Insurance Contracts* has no plans of developing, an IPSAS for accounting for insurance contracts.
- BC2. When the PBE Standards were developed, the New Zealand Accounting Standards Board (NZASB) included PBE IFRS 4 *Insurance Contracts*, which was based on NZ IFRS 4 *Insurance Contracts*. Although NZ IFRS 4 included the requirements of IFRS 4 *Insurance Contracts*, it also included appendices that carried forward the accounting for insurance contracts that was applicable in New Zealand before the adoption of IFRS® Standards.
- BC3. In August 2017 the NZASB approved NZ IFRS 17 *Insurance Contracts*, which is identical to IFRS 17 *Insurance Contracts* except for a New Zealand-specific scope paragraph. On adoption, NZ IFRS 17 supersedes NZ IFRS 4.
- BC4. The NZASB did not modify the requirements in NZ IFRS 17 for application by Tier 1 and Tier 2 public benefit entities except for the scope as outlined below. Although the NZASB considered that the requirements of NZ IFRS 17 were appropriate for application by public benefit entities, feedback is being sought on some specific issues as outlined below. Where applicable, the language has been generalised for use by public benefit entities.

Scope

- BC5. At its meeting in December 2018, the IPSASB approved IPSAS 42 *Social Benefits*. IPSAS 42 permits entities with contributory social benefit schemes that meet certain criteria to elect to apply the insurance approach to those schemes, and that the insurance approach should be based on IFRS 17 or national standards that have adopted substantially the same principles as IFRS 17. The IPSASB considered that for social benefit schemes that meet the criteria to apply the insurance approach, that approach was expected to provide information that best meets users' needs.
- BC6. In its comment letter to the IPSASB on ED 63 *Social Benefits*, the NZASB supported the criteria proposed by the IPSASB for a scheme to be able to apply the insurance approach.
- BC7. The NZASB is, therefore, proposing to amend the scope of PBE IFRS 17 to capture schemes that are eligible to apply the insurance approach under IPSAS 42.
- BC8. The types of schemes that are proposed to be included in the scope of PBE IFRS 17 are those:
- (a) That are intended to be fully funded from contributions and levies; and
 - (b) Where there is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the arrangement on a regular basis.
- BC9. The NZASB is also proposing to add Application Guidance from IPSAS 42 on determining:
- (a) Whether a scheme is intended to be fully funded from contributions and levies; and
 - (b) Whether a scheme is being managed in the same way as an insurer would manage an insurance portfolio.

Other PBE-specific modifications considered

- BC10. The NZASB considered the following issues in determining whether PBE-specific modifications are needed to the requirements of IFRS 17.
- (a) Whether a risk adjustment for non-financial risk is appropriate for PBEs.
 - (b) Whether the contract boundary is clear for PBEs that are funded through levies.
 - (c) Whether the requirements of IFRS 17 to divide portfolios of insurance contracts into more granular groups of contracts and assess onerous contracts at that granular level are appropriate for PBEs.

- (d) Whether the discount rate described in IFRS 17 is appropriate for PBEs, in particular the need for the discount rate to factor in liquidity.
 - (e) Whether the onerous contracts provisions of IFRS 17 are appropriate for schemes where contributions or levies charged are determined on a different basis to how the fulfilment cash flows allocated to insurance contracts are measured under IFRS 17.
- BC11. The NZASB has not proposed any PBE-specific modifications to the requirements of IFRS 17 in relation to the issues outlined above. However, the NZASB is seeking feedback on these issues in the questions contained in the Invitation to Comment that accompanies NZASB ED 2018-7 PBE IFRS 17 *Insurance Contracts*.
- BC12. The Australian Accounting Standards Board (AASB) considered the suitability of the requirements of IFRS 17 for private not-for-profit entities when developing AASB 17 *Insurance Contracts*. AASB 17 was issued in July 2017 and is applicable to for-profit entities and not-for-profit private sector entities. No changes were made to the recognition and measurement requirements in IFRS 17 when AASB 17 was developed. The AASB sought feedback on the appropriateness of the requirements for public sector entities and is undertaking further work on some issues raised by respondents.

History of Amendments

PBE IFRS 17 *Insurance Contracts* was issued in [Date].

This table lists the pronouncements establishing and substantially amending PBE IFRS 17.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
PBE IFRS 17 <i>Insurance Contracts</i>	[Date]	Early application is permitted	[Date]