NZASB Exposure Draft 2019-3

Amendments to PBE IFRS 17

(NZASB ED 2019-3)

Invitation to Comment

August 2019

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising *Amendments to PBE IFRS 17*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Comments should be submitted electronically using our 'Open for comment' page at: https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/.

The closing date for submissions is **19 November 2019**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

1 The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IASB	International Accounting Standards Board
ITC	Invitation to Comment
NFP PBE	Not-for-profit public benefit entity
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board

Questions for respondents

Paragraphs

1 **Additional scope exclusions**

Do you agree with the proposal to exclude from the scope of PBE IFRS 17:

(a) some credit card contracts (paragraph 7(h)); and

(b) some loan contracts (paragraph 8A)? 13–15

Why or why not?

2 **Allocation of acquisition costs to expected contract renewals**

(a) Do you agree with the proposals in paragraphs 28A–28D and AG35A–AG35C to require an entity to:

(i) allocate part of the acquisition costs (eg commissions paid to brokers) to related expected contract renewals;

(ii) recognise those costs as an asset until the entity recognises contract renewals; and 16–19

(iii) assess the recoverability of the asset at each reporting date?

Why or why not?

(b) Do you agree with the proposed disclosures in paragraphs 105A–105C regarding acquisition costs? 20

Why or why not?

3 **Attribution of surplus to service relating to investment activities**

(a) Do you agree with the proposal that for insurance contracts to which the general model applies, an entity would recognise the expected surplus for insurance contract services in surplus or deficit as both insurance coverage and any service relating to investment activities (investment-return service) are provided over time (paragraphs 44–45 and AG119–AG119B and the definition of contractual service margin in paragraph 13.1)? 21–25

Why or why not?

(b) Do you agree with the proposals to disclose information about:

(i) the expected recognition in surplus or deficit of the remaining expected surplus for insurance contract services at the end of the reporting period (paragraph 109); and 26(a)

(ii) the judgement the entity uses to determine the profit generated by any service relating to investment activities, in addition to the insurance coverage (paragraph 117(c)(v))? 26(b)

Why or why not?

4 **Reduced accounting mismatches for reinsurance**

Do you agree with the proposal that an entity that recognises losses on loss-making insurance contracts on initial recognition would at the same time also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts held:

(a) cover the claims of the insurance contracts on a proportionate basis (ie a fixed percentage of claims is recovered); and 27–35

(b) are entered into before or at the same time the loss-making insurance contracts are issued?

(See paragraphs 62, 66A–66B and AG119C–AG119F.)

Why or why not?

		Paragraphs
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1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment (ITC) and associated Exposure Draft (ED) is to seek comments on proposed amendments to PBE IFRS 17 *Insurance Contracts*.

2. The proposed amendments are aligned with the amendments proposed to IFRS 17 *Insurance Contracts* issued by the International Accounting Standards Board (IASB) in June 2019.

1.2 Background

3. In July 2019 the NZASB issued PBE IFRS 17, which is based on IFRS 17 issued by the IASB in May 2017 and NZ IFRS 17 *Insurance Contracts* issued by the NZASB in August 2017. PBE IFRS 17 applies to Tier 1 and Tier 2 not-for-profit public benefit entities (NFP PBEs) for financial statements covering periods beginning on or after 1 January 2022.

4. When PBE IFRS 17 was issued, the NZASB was aware that the IASB would be issuing an exposure draft of proposed targeted amendments to IFRS 17, including deferral of the mandatory effective date of IFRS 17 by one year (from annual reporting periods beginning on or after 1 January 2021 to 1 January 2022).

5. To allow NFP PBEs sufficient time to implement PBE IFRS 17, the NZASB decided to issue PBE IFRS 17 before waiting for the IASB to finalise the amendments to IFRS 17. In anticipation of the deferral of the effective date of IFRS 17, the NZASB set the effective date of PBE IFRS 17 for financial statements covering periods beginning on or after 1 January 2022. The NZASB agreed to issue an ED of proposed amendments to PBE IFRS 17 (excluding proposals to defer the effective date) once the IASB issued its ED of proposed targeted amendments to IFRS 17.

6. IASB ED/2019/4 *Amendments to IFRS 17* was issued at the end of June 2019. Comments are due to the IASB by 25 September 2019. The proposed targeted amendments address some concerns and challenges raised by IASB stakeholders with the implementation of IFRS 17. Amendments are also proposed to some of the consequential amendments in Appendix D of IFRS 17.

7. To ensure, where appropriate, the requirements for NFP PBE licensed insurers and for-profit licensed insurers remain aligned and to address similar concerns and challenges NFP PBEs may face with the implementation of PBE IFRS 17, the NZASB is issuing this ED to seek feedback on equivalent amendments to PBE IFRS 17. The amendments to PBE IFRS 17 also propose amendments to the Amendments to other Standards in Appendix D of PBE IFRS 17. However, the amendments do not propose to change the effective date of PBE IFRS 17, which already has an effective date of 1 January 2022.

8. The IASB expects to finalise the amendments to IFRS 17 in the first half of 2020.

1.3 Timeline and next steps

9. Submissions on NZASB ED 2019-3 are due by **19 November 2019**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

10. After the consultation period ends, we will consider the submissions received, and subject to the IASB's decisions regarding comments received on IASB ED/2019/4 and comments received by the NZASB on the proposals in this ED, we expect to finalise and issue amendments to PBE IFRS 17.

2. Overview of Invitation to Comment and ED

2.1 Summary

11. This Invitation to Comment seeks feedback on NZASB ED 2019-3 *Amendments to PBE IFRS 17* and identifies issues on which we are particularly keen to receive your comments.

11. The Invitation to Comment is organised as follows.

    (a) Additional scope exclusions.

    (b) Allocation of acquisition costs to expected contract renewals.

    (c) Allocation of surplus to service relating to investment activities.

    (d) Reduced accounting mismatches for reinsurance.

    (e) Simplified presentation in the statement of financial position.

    (f) Extension of the risk mitigation option.

    (g) Additional transition reliefs.

    (h) Minor amendments.

    (i) Terminology.

    (j) Not-for-profit PBE specific modifications.

    (k) Effective date.

2.2 Additional scope exclusions

12. The IASB has heard concerns that IFRS 17 imposes significant costs, without a corresponding level of benefits, on entities that do not issue contracts in the scope of IFRS 17 other than some loan contracts and credit card contracts that IFRS 17 currently requires to be accounted for as insurance contracts. To address these concerns the IASB has proposed additional scope exclusions to IFRS 17.

13. The NZASB is proposing equivalent scope exclusions for PBE IFRS 17. The ED proposes to exclude two additional types of insurance contracts from the scope of the Standard.

    (a) Paragraph 7(h) is added to propose that an entity be required to exclude from the scope of PBE IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. Such contracts would be accounted for by applying PBE IPSAS 41 *Financial Instruments* rather than PBE IFRS 17.

    (b) Paragraph 8A is added to propose that an entity be permitted to apply either PBE IFRS 17 or PBE IPSAS 41 to contracts that are not excluded from the scope of PBE IFRS 17 by paragraphs 7(a)–(h) but which meet specified criteria. The contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

14. Examples of insurance contracts described in paragraphs 14(a) and (b) include:

    (a) credit card contracts that provide insurance coverage for purchases made using the credit card; and

    (b) loan contracts that combine a loan with an agreement from the entity to compensate the borrower if a specified uncertain even occurs (for example, waiving some or all the payments due from the borrower if the borrower dies).

> **Question for respondents**
>
> **Question 1: Additional scope exclusions**
>
> Do you agree with the proposal to exclude from the scope of PBE IFRS 17:
>
> (a) some credit card contracts (paragraph 7(h)); and
>
> (b) some loan contracts (paragraph 8A)?
>
> Why or why not?

2.3 Allocation of acquisition costs to expected contract renewals

15. IFRS 17/PBE IFRS 17 requires an entity to consider acquisition costs in determining the expected profit/surplus of insurance contracts. The entity considers these costs by recognising them as an asset until the contracts are recognised or by including them in the cash flows expected to fulfil the insurance contracts.

16. In some cases, an entity pays non-refundable commissions for new contracts it expects policyholders to renew in the future. IFRS 17/PBE IFRS 17 currently requires such a commission to be attributed fully to the initial contract. Sometimes, the commission exceeds the premium for the initial contract because the insurer expects this commission will be recovered from renewals. In such situations the initial contract would be accounted for as loss-making (onerous).

17. The IASB has proposed amendments to address concerns with the treatment of insurance contracts as onerous in such situations. The NZASB is proposing the equivalent amendments to PBE IFRS 17.

18. The ED proposes to add paragraphs 28A–28D and AG35A–AG35C to require that an entity:

    (a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;

    (b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and

    (c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

19. The ED also proposes to add paragraphs 105A–105C to require disclosures about such assets.

Questions for respondents

Question 2: Allocation of acquisition costs to expected contract renewals

(a) Do you agree with the proposals in paragraphs 28A–28D and AG35A–AG35C to require an entity to:

  (i) allocate part of the acquisition costs (eg commissions paid to brokers) to related expected contract renewals;

  (ii) recognise those costs as an asset until the entity recognises contract renewals; and

  (iii) assess the recoverability of the asset at each reporting date?

  Why or why not?

(b) Do you agree with the proposed disclosures in paragraphs 105A–105C regarding acquisition costs?

  Why or why not?

2.4 Attribution of surplus to service relating to investment activities

20. The IASB has heard concerns that the timing of profit recognition for insurance contracts to which the general model applies does not necessarily reflect that:

  (a) many contracts combine insurance coverage and service relating to investment activities; and

  (b) the timing of provision of service relating to investment activities might differ from the timing of provision of insurance coverage.

21. To address these concerns the IASB has proposed amendments to IFRS 17. The NZASB is proposing equivalent amendments to PBE IFRS 17.

22. The ED proposes to amend paragraphs 44, 45 and AG119 and add AG119A to:

  (a) require that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage; and

  (b) clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

23. Paragraph AG119B proposes to specify criteria for when contracts may provide an investment-return service.

24. The ED also proposes:

  (a) that insurance coverage, investment-return service (for insurance contracts without direct participation features) and investment-related service (for insurance contracts with direct participation features) are defined together as ‘insurance contract services’; and

  (b) consequential amendments to some of the definitions in paragraph 13.1 of PBE IFRS 17.

25. Additionally, the ED proposes the following disclosures.

(a) Quantitative information about when the entity expects to recognise in surplus or deficit the contractual service margin remaining at the end of the period (paragraph 109).

(b) The approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service (paragraph 117(c)(v)).

Questions for respondents

Question 3: Attribution of surplus to service relating to investment activities

(a) Do you agree with the proposal that for insurance contracts to which the general model applies, an entity would recognise the expected surplus for insurance contract services in surplus or deficit as both insurance coverage and any service relating to investment activities (investment-return service) are provided over time (paragraphs 44–45 and AG119–AG119B and the definition of contractual service margin in paragraph 13.1)?

Why or why not?

(b) Do you agree with the proposals to disclose information about:

(i) the expected recognition in surplus or deficit of the remaining expected surplus for insurance contract services at the end of the reporting period (paragraph 109); and

(ii) the judgement the entity uses to determine the profit generated by any service relating to investment activities, in addition to the insurance coverage (paragraph 117(c)(v))?

Why or why not?

2.5 Reduced accounting mismatches for reinsurance

26. IASB stakeholders have raised concerns that IFRS 17 requires an entity to recognise losses on insurance contracts at initial recognition even when the entity has a right to recover a fixed percentage of those losses through reinsurance, resulting in an accounting mismatch.

27. An entity might purchase reinsurance contracts to transfer to another company (reinsurer) a portion of the risks assumed when issuing insurance contracts. IFRS 17/PBE IFRS 17 requires an entity to:

(a) account for a reinsurance contract held separately from any underlying insurance contracts issued;

(b) recognise losses immediately in profit or loss/surplus or deficit for insurance contracts that at initial recognition are expected to be loss making; and

(c) recognise any net cost or net gain from reinsurance contracts held in profit or loss/surplus or deficit over time as the entity receives reinsurance coverage.

28. To reduce the accounting mismatch, the IASB has proposed amendments so that an entity that recognises losses on loss-making insurance contracts on initial recognition would, at the same time, also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts held:

(a) cover the claims of the insurance contracts on a proportionate basis (ie a fixed percentage of claims is recovered); and

(b) are entered into before or at the same time as the loss-making insurance contracts are issued.

29. The NZASB is proposing equivalent amendments to PBE IFRS 17.

30. Paragraph 66A of the ED proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise revenue, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting revenue is determined by multiplying:

(a) the loss recognised on the group of underlying insurance contracts; and

(b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

31. Applying the proposed amendment, an entity would immediately recognise in surplus or deficit the recovery through reinsurance of the fixed percentage of the loss and would recognise the adjusted net cost of reinsurance as the entity receives reinsurance coverage.

32. The IASB's proposed amendments to IFRS 17 also include proposals to add an illustrative example covering the measurement of a group of reinsurance contracts held that provides proportionate coverage for groups of underlying insurance contracts, including an onerous group, to the Illustrative Examples that accompany IFRS 17.

33. The proposed new Illustrative Example is included in the Appendix to this ITC.

34. Illustrative Examples that accompany IFRS 17 are not part of the standard. They are also not included in PBE IFRS 17 but are available on the XRB website to constituents with NZ-assigned IP addresses.

Question for respondents

Question 4: Reduced accounting mismatches for reinsurance

Do you agree with the proposal that an entity that recognises losses on loss-making insurance contracts on initial recognition would at the same time also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts held:

(a) cover the claims of the insurance contracts on a proportionate basis (ie a fixed percentage of claims is recovered); and

(b) are entered into before or at the same time the loss-making insurance contracts are issued?

(See paragraphs 62, 66A–66B and AG119C–AG119F.)

Why or why not?

2.6 Simplified presentation in the statement of financial position

35. Currently IFRS 17/PBE IFRS 17 requires entities to present separately in the statement of financial position (i) groups of insurance contracts that are assets, and (ii) groups of insurance contracts that are liabilities. The IASB has proposed amendments to simplify the presentation of insurance contract assets and insurance contract liabilities to address concerns with the implementation costs of using groups of insurance contracts. The NZASB is proposing equivalent amendments to PBE IFRS 17.

36. The ED proposes to amend PBE IFRS 17 to require an entity to present insurance contract assets and insurance contract liabilities in the statement of financial position using portfolios of insurance contracts rather than groups of insurance contracts (see paragraphs 78–79, 99 and 132). This proposal is expected to reduce the implementation costs of PBE IFRS 17.

37. The proposed amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Question for respondents

Question 5: Simplified presentation in the statement of financial position

Do you agree with the proposals in paragraphs 78–79, 99 and 132 to require an entity to present insurance contract assets and insurance contract liabilities in the statement of financial position using portfolios of insurance contracts rather than groups of insurance contracts?

Why or why not?

2.7 Extension of the risk mitigation option

38. Some insurance contracts provide returns to policyholders based on the fair value of underlying items, such as equity shares. The entity and its policyholders share those returns, which are affected by market-driven changes in the fair value of the underlying items. IFRS 17/PBE IFRS 17 has a specific approach (the 'variable fee approach') for accounting for some of those contracts, which are defined as 'insurance contracts with direct participation features'.

39. The variable fee approach requires the entity to reflect some changes in insurance contract liabilities caused by changes in market values by adjusting the unearned profit/surplus in the statement of financial position, rather than recognising them in profit or loss/surplus or deficit).

40. This approach does not apply to reinsurance contracts.

41. When an entity uses derivatives to mitigate the financial risks of insurance contracts with direct participation features, IFRS 17/PBE IFRS 17 currently allows the entity to choose to recognise changes in financial risks in profit or loss/surplus or deficit instead of adjusting the unearned profit/surplus in the statement of financial position as normally required by the variable fee approach. This is described as the 'risk mitigation option'.

42. The IASB has heard concerns from stakeholders that:

    (a) reinsurance contracts may be used by an entity (insurer) to transfer risks arising from the insurance contracts with direct participation features that it issues (underlying insurance contracts) to another entity (reinsurer): and

    (b) mismatches might arise for changes in financial risks recognised in profit or loss for assets for reinsurance contracts held, whereas changes in the underlying insurance contracts with direct participation features are recognised by adjusting the unearned profit in the statement of financial position when applying the variable fee approach.

43. To address these concerns the IASB has proposed to extend the use of the risk mitigation option. The proposed amendment is expected to reduce accounting mismatches and make the accounting for insurance contracts more understandable to investors. The NZASB is proposing an equivalent amendment to PBE IFRS 17.

44. The ED proposes to permit an entity to use the risk mitigation option when the entity uses reinsurance contracts held to mitigate financial risks of insurance contracts with direct participation features (see paragraph AG116).

45. The proposed amendment is relevant to entities that use reinsurance contracts held to mitigate financial risks of insurance contracts with direct participation features that they issue. Entities that use the risk mitigation option would recognise in surplus or deficit both changes in liabilities for underlying insurance contracts with direct participation features and changes in assets for reinsurance contracts held caused by changes in financial risks.

Question for respondents

Question 6: Extension of the risk mitigation option

Do you agree with the proposal in paragraph AG116 to permit an entity to use the risk mitigation option when the entity uses reinsurance contracts held to mitigate financial risks of insurance contracts with direct participation features?

Why or why not?

2.8 Additional transition reliefs

46. The IASB has heard that the transition requirements in IFRS 17 are costly and burdensome to apply. To address these concerns the IASB has proposed additional transition relief. The NZASB is proposing to provide equivalent additional transition relief to PBE IFRS 17.

47. The ED proposes to add simplifications to the modified retrospective approach and the fair value transition approach for the benefit of entities applying PBE IFRS 17 for the first time. The simplifications are:

    (a) to permit an entity, in some circumstances, to account for liabilities for claims settlement acquired in a PBE combination as a liability for incurred claims rather than as a liability for remaining coverage (see paragraphs 132.9A and 132.22A);

    (b) to permit an entity that designates risk mitigation relationships before the date of transition to PBE IFRS 17 to apply the risk mitigation option to those relationships from the date of transition to PBE IFRS 17 (see paragraphs 132.3(b) and AG115–AG116); and

    (c) to permit an entity to use the fair value transition approach to measure a group of insurance contracts at transition that would otherwise be accounted for retrospectively (see paragraph 132.5A). This would be permitted if the entity:

        (i) chooses to apply the risk mitigation option to the group of insurance contracts prospectively from the date of transition to PBE IFRS 17; and

        (ii) has used derivatives or reinsurance contracts held to mitigate financial risks arising from the group of insurance contracts before the date of transition to PBE IFRS 17.

48. When an entity first applies PBE IFRS 17, it is required to account for its insurance contracts as if PBE IFRS 17 had always been applied. However, when it is impracticable to do so, the entity can measure the unearned surplus of insurance contracts using alternative approaches – a modified retrospective or a fair value transition approach. These approaches allow the entity to benefit from the use of the transition reliefs.

49. Entities that apply the two proposed transition reliefs regarding the use of the risk mitigation option would reflect:

 (a) in comparative information, the effects of risk mitigation when first applying PBE IFRS 17; and

 (b) consistently, in equity at transition and in future profitability, the effects of risk mitigation activities in place before the date of transition to PBE IFRS 17.

Question for respondents **Question 7: Additional transition and reliefs** Do you agree with the proposals regarding transition modifications and reliefs for entities applying PBE IFRS 17 for the first time (see paragraphs 132.3(b), 132.5A, 132.9A, 132.22A and AG115–AG116)? Why or why not?

2.9 Minor amendments

50. The ED includes a number of minor amendments to PBE IFRS 17 that are proposed to address a number of cases in which the drafting in IFRS 17 does not achieve the IASB's intended outcome. These minor amendments are explained in paragraphs BC147–BC163 of the IASB's Basis for Conclusions on IASB ED/2019/4.[2]

51. The proposed minor amendments are outlined below.

 (a) The words 'or liability' are deleted from paragraph 27 (now paragraphs 28B and 28C) because insurance acquisition cash flows paid before the related group of insurance contracts is recognised are always an asset.

 (b) Changes to paragraphs 45, 48, 50, AG104, AG112 and AG115 to consistently refer to 'change in the amount of the entity's share of the fair value of the underlying items' rather than 'the change/increase/decrease in the fair value of the underlying items'.

 (c) Clarify in paragraph 11(b) that if the separated component of an insurance contract meets the definition of an investment contract with discretionary participation features, that component should be accounted for applying PBE IFRS 17.

 (d) In paragraph 28 replace 'contracts issued by the end of the reporting period' with 'contracts that meet the criteria for recognition in paragraph 25' to clarify that insurance contracts are added to a group when they meet the recognition criteria (which may or may not be when those contracts are issued).

 (e) Clarify that the requirements in paragraphs 48(a) and 50(b) (adjusting the loss component for changes in the risk adjustment for non-financial risk) relate to both changes in estimates of future cash flows and changes in the risk adjustment for non-financial risk.

 (f) Clarify in paragraph 103(c) that an entity is not required to disclose refunds of premiums separately from investment components excluded from insurance revenue and insurance service expenses in the reconciliation from the opening to the closing balances of the insurance contract liability.

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[2] The IASB's BC on IASB ED/2019/4 is available at https://www.ifrs.org/-/media/project/amendments-to-ifrs-17/ed-amendments-to-ifrs-17-basis-for-conclusions.pdf

(g) Paragraphs 104, AG121 and AG124 dealing with insurance revenue identify the risk adjustment for non-financial risk separately from other amounts. However, some amounts included in the measurement of the risk adjustment for non-financial risk could be captured in other components described in those paragraphs. The words 'excluding amounts relating to the risk adjustment for non-financial risk' are added to the descriptions of the other components in those paragraphs to prevent potential double counting.

(h) 'Risk exposure' in paragraphs 128–129 (disclosure of sensitivity analysis) is replaced with 'risk variable' to correct the terminology used.

(i) Clarify that an 'investment component' as defined in paragraph 13.1 is the amount an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs.

(j) Clarify in paragraph AG96(c) that changes in fulfilment cash flows that arise from differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period to adjust the contractual service margin exclude 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. An entity is required to recognise in surplus or deficit or other comprehensive revenue and expenses changes relating to the time value of money and assumptions that relate to financial risk.

(k) Clarify in paragraph AG96(d) that if an entity disaggregates the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance revenue or expenses, it shall adjust the contractual service margin only for the changes related to non-financial risk measured at the discount rates specified in paragraph AG72(c) (which refers to the discount rates specified in paragraph 36).

(l) Clarify in paragraph AG118 that an entity ceases to apply the risk mitigation option in paragraph AG115 if, an only if, the conditions to apply the risk mitigation option (paragraph AG116) cease to be met. This is consistent with PBE IPSAS 41 which does not allow an entity to discontinue hedge accounting unless the hedging relationship ceases to meet the qualifying criteria.

(m) Clarify in paragraph AG123(a) that changes caused by cash flows from loans to policyholders do not give rise to insurance revenue.

(n) Clarify in paragraph AG128 that changes in the measurement of a group of insurance contracts caused by changes in underlying items are changes arising from the effect of the time value of money and assumptions that relate to financial risk for the purposes of PBE IFRS 17. Otherwise, changes in underlying items could adjust the contractual service margin of insurance contracts without direct participation features.

(o) The scope of PBE IPSAS 28 *Financial Instruments: Presentation*, PBE IPSAS 30 *Financial Instruments: Disclosures* and PBE IPSAS 41 *Financial Instruments* are amended to refer to 'insurance contracts as defined in PBE IFRS 17 or investment contracts with discretionary participation features within the scope of PBE IFRS 17' to clarify that, consistent with the scope of these standards before PBE IFRS 17 was issued, insurance contracts held are not in the scope of PBE IPSASs 28, 30 and 41.

Question for respondents

Question 8: Minor amendments

Do you agree with the proposals for each of the minor amendments described in this Exposure Draft?

Why or why not?

2.10 Terminology

52. Consistent with the IASB's proposals, the ED proposes to add a definition of 'insurance contract services' to paragraph 13.1 to be consistent with other proposed amendments.

53. In light of the proposed amendments in this ED, consequential changes to terminology are proposed by replacing 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. If the change is made, those terms would become 'service units', 'service period' and 'liability for remaining service' respectively throughout PBE IFRS 17.

Question for respondents

Question 9: Terminology

(c) Is the additional definition of 'insurance contract services' helpful (paragraph 13.1)?

(d) Would you find the change of terminology from 'coverage' to 'service' helpful in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'?

Why or why not?

2.11 Not-for-profit PBE specific modifications

54. No NFP PBE specific modifications were made to the requirements in IFRS 17 when PBE IFRS 17 was developed.

55. The NZASB has not proposed any NFP PBE specific modifications to the amendments proposed to PBE IFRS 17 in this ED.

Question for respondents

Question 10: Not-for-profit PBE specific modifications

Are any NFP PBE specific modifications needed in respect of the proposed amendments in this exposure draft?

If so, what are they and why are they needed?

2.12 Effective date

56. IASB ED/2019/4 proposes to defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022. The IASB proposes that the amendments are effective when an entity applies IFRS 17, that is, for annual reporting periods beginning on or after 1 January 2022.

57. PBE IFRS 17 is effective for financial statements covering periods beginning on or after 1 January 2022. The ED proposes that the proposed amendments to PBE IFRS 17 are effective when an entity applies PBE IFRS 17, that is, for annual financial statements covering periods beginning on or after 1 January 2022.

Questions for respondents

Question 11: Effective date

Do you agree with the proposed effective date of the proposed amendments to PBE IFRS 17?

Why or why not?

Question 12: Other comments

Do you have any other comments on this ED?

Appendix

The IASB is proposing to add an Illustrative Example to IFRS 17 as follows.

Example 19—Measurement of a group of reinsurance contracts held that provides proportionate coverage for groups of underlying insurance contracts, including an onerous group (paragraphs 66A–66B and B119C–B119F)

IE200 This example illustrates the initial and subsequent measurement of reinsurance contracts held that provide proportionate coverage, when a group of underlying insurance contracts is onerous.

Assumptions

IE201 At the beginning of Year 1, an entity enters into a reinsurance contract that in return for a fixed premium covers 30 per cent of each claim from the groups of underlying insurance contracts. The underlying insurance contracts are issued at the beginning of Year 1.

IE202 In this example for simplicity it is assumed:

(a) no contracts will lapse before the end of the coverage period;

(b) there are no changes in estimates other than that described in paragraph IE209; and

(c) all other amounts, including the effect of discounting, the risk adjustments for non-financial risk, and the risk of non-performance of the reinsurer are ignored.

IE203 Some of the underlying insurance contracts are onerous at initial recognition. Thus, applying paragraph 16, the entity establishes a group comprising the onerous contracts. The remainder of the underlying insurance contracts are expected to be profitable and applying paragraph 16, in this example, the entity establishes a single group comprising the profitable contracts.

IE204 The coverage period of the underlying insurance contracts and the reinsurance contract held is three years starting from the beginning of Year 1. Service is provided evenly across the coverage periods.

IE205 The entity expects to receive premiums of CU1,110 on the underlying insurance contracts immediately after initial recognition. Claims on the underlying insurance contracts are expected to be incurred evenly across the coverage period and are paid immediately after the claims are incurred.

IE206 The entity measures the groups of underlying insurance contracts on initial recognition as follows:

	Profitable group of insurance contracts CU	**Onerous group of insurance contracts CU**	**Total CU**
Estimates of present value of future cash inflows	(900)	(210)	(1,110)
Estimates of present value of future cash outflows	600	300	900
Fulfilment cash flows	(300)	90	(210)
Contractual service margin	300	-	300
Insurance contract liability on initial recognition	**-**	**90**	**90**
Loss on initial recognition	**-**	**(90)**	**(90)**

IE207 Applying paragraph 61, the entity establishes a group comprising a single reinsurance contract held that provides proportionate coverage. The entity pays a premium of CU315 to the reinsurer immediately after initial recognition. The entity expects to receive recoveries of claims from the reinsurer on the same day that the entity pays claims on the underlying insurance contracts.

IE208 Applying paragraph 63, the entity measures the estimates of the present value of the future cash flows for the group of reinsurance contracts held using assumptions consistent with those used to measure the estimates of the present value of the future cash flows for the groups of underlying insurance contracts. Consequently, the estimate of the present value of the future cash inflows is CU270 (recovery of 30 per cent of the estimates of the present value of the future cash outflows for the groups of underlying insurance contracts of CU900).

IE209 At the end of Year 2, the entity revises its estimates of the remaining fulfilment cash outflows of the groups of underlying insurance contracts. The entity estimates that the fulfilment cash flows of the groups of underlying insurance contracts increase by 10 per cent, from future cash outflows of CU300 to future cash outflows of CU330. Consequently, the entity estimates the fulfilment cash flows of the reinsurance contract held also increase, from future cash inflows of CU90 to future cash inflows of CU99.

Analysis

IE210 The entity measures the group of reinsurance contracts held on initial recognition as follows:

	Initial recognition	
	CU	
Estimates of present value of future cash inflows (recoveries)	(270)	
Estimates of present value of future cash outflows (premiums)	315	
Fulfilment cash flows	45	
Contractual service margin of the reinsurance contract held (before the loss-recovery adjustment)	(45)	
Loss-recovery component	(27)	(a)
Contractual service margin of the reinsurance contract held (after the loss-recovery adjustment)	(72)	(b)
Reinsurance contract asset on initial recognition	**(27)**	(c)
Income on initial recognition	**27**	(a)

(a) Applying paragraph 66A [of this Exposure Draft], the entity adjusts the contractual service margin of the reinsurance contract held and recognises income to reflect the loss recovery. Applying paragraph B119D [of this Exposure Draft] the entity determines the adjustment to the contractual service margin and the income recognised as CU27 (the loss of CU90 recognised for the onerous group of underlying insurance contracts multiplied by 30 per cent, the fixed percentage of claims the entity has the right to recover).

(b) The contractual service margin of CU45 is adjusted by CU27, resulting in a contractual service margin of CU72, reflecting a net cost on the reinsurance contract held.

(c) The reinsurance contract asset of CU27 comprises the fulfilment cash flows of CU45 (net outflows) and a contractual service margin reflecting a net cost of CU72. Applying paragraph 66B [of this Exposure Draft], the entity establishes a loss-recovery component of the asset for remaining coverage of CU27 depicting the recovery of losses recognised applying paragraph 66A [of this Exposure Draft].

IE211 At the end of Year 1, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability		Reinsurance contract asset
	Profitable group of insurance contracts	**Onerous group of insurance contracts**	
	CU	**CU**	**CU**
Estimates of present value of future cash inflows (recoveries)	-	-	(180)
Estimates of present value of future cash outflows (claims)	400	200	-
Fulfilment cash flows	400	200	(180)
Contractual service margin	200	-	(48)
Insurance contract liability	**600**	**200**	
Reinsurance contract asset			**(228)**

IE212 At the end of Year 2, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability				Reinsurance contract asset	
	Profitable group of insurance contracts		**Onerous group of insurance contracts**			
	CU		**CU**		**CU**	
Estimates of present value of future cash inflows (recoveries)	-		-		(99)	(a)
Estimates of present value of future cash outflows (claims)	220	(a)	110	(a)	(21)	(e)
Fulfilment cash flows	220		110		(99)	
Contractual service margin	90	(b)	-		(48)	
Insurance contract liability	**310**		**110**			
Reinsurance contract asset					**(120)**	
Recognition of loss and recovery of loss			**(10)**	(c)	**3**	(d)

(a) The entity increases the expected remaining cash outflows of the groups of underlying insurance contracts by 10 per cent for each group (CU30 in total) and increases the expected remaining cash inflows of the reinsurance contract held by 10 per cent of the expected recoveries of CU90 (CU9).

(b) Applying paragraph 44(c), the entity adjusts the carrying amount of the contractual service margin of CU200 by CU20 for the changes in fulfilment cash flows relating to future service. Applying paragraph 44(e), the entity also adjusts the carrying amount of the contractual service margin by CU90 for the amount recognised as insurance revenue ((CU200 - CU20 = CU180) ÷ 2). The resulting contractual service margin at the end of year 2 is CU90 (CU200 - CU20 - CU90).

(c) Applying paragraph 48, the entity recognises in profit or loss an amount of CU10 for the changes in the fulfilment cash flows relating to future services of the onerous group of underlying insurance contracts.

(d) Applying paragraph 66(c)(ii), the entity adjusts the contractual service margin of the reinsurance contract held for the change in fulfilment cash flows that relate to future service unless 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 that group. Consequently, the entity recognises the change in the fulfilment cash flows of the reinsurance contract held of CU9 by:

   (i) recognising immediately in profit or loss CU3 of the change in the fulfilment cash flows of the reinsurance contract held (30 per cent of the CU10 change in the fulfilment cash flows of the onerous group of underlying insurance contracts that does not adjust the contractual service margin of those contracts); and

   (ii) adjusting the contractual service margin of the reinsurance contract held by CU6 of the change in the fulfilment cash flows (CU9 - CU3).

(e) Consequently, the contractual service margin of the reinsurance contract held of CU(21) equals the contractual service margin at the end of Year 1 of CU(48) adjusted for CU6 and for CU21 of the contractual service margin recognised for the service received in Year 2 (CU(21) = (CU(48) + CU6) ÷ 2).