



# ASSOCIATION ACTUARIELLE INTERNATIONALE INTERNATIONAL ACTUARIAL ASSOCIATION

Statement of Intent for a Proposed International Actuarial Note (IAN) on IFRS 17

Submitted by: The Insurance Accounting Committee

## Background

The International Accounting Standards Board (IASB) has issued a new accounting standard for insurance contracts, IFRS 17.

The project to develop authoritative guidance for accounting for insurance contracts in IFRS-reports began in 1997. The IASB introduced an interim standard, IFRS 4, in 2002, applicable from 2004 onwards, mainly permitting the continuation of previous accounting policies. The IASB completed the project in 2017 by issuing IFRS 17 Insurance Contracts. IFRS 17 may be applied from 2018 onwards under certain conditions and is to be applied for all periods commencing on or after 1 January 2021 at the latest.

IFRS 17 provides authoritative guidance as to what items are within the scope of the standard and about recognition, measurement, presentation and disclosure of items within the scope of IFRS 17.

Actuaries will have significant involvement in performing the calculations and developing the associated disclosures and explanations of movements that are required under IFRS 17.

## Purpose

The purpose of the proposed IAN is to:

1) Contribute to the education of actuaries working on IFRS reporting for insurance.

The primary purpose of the IAN would be to inform and educate actuaries working in the reporting, reviewing, or auditing of amounts determined under IFRS 17. The IAN would highlight some specific actuarial issues in relation to the areas covered.

2) Promote the development of the actuarial profession

The existence of an IAN on IFRS 17 will help promote the actuarial profession as essential to the understanding and production of reported IFRS 17 values.

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## Scope

The IAN will be organized in chapters that cover separate topics. The chapters/topics to be addressed in relation to IFRS 17 are:

#	Title	Contents
1	Introduction	This chapter provides an overview of the other chapters in the IAN.
2	Classification of contracts	This Chapter considers approaches to the classification required by IFRS 17, including the identification of contracts, the scope of IFRS 17 and contract boundaries.
3	Measurement approach introduction	This chapter introduces the ensuing chapters relating to technical areas of the general measurement approach
4	Estimates of future cash flows	This Chapter considers the requirements for determining the estimates of future cash-flows whether it be to calculate liabilities for remaining coverage or liabilities for incurred claims.
5	Discount rates	This Chapter considers the requirements to consider the time value of money in the measurement of future cash flows and financial risk.
6	Risk adjustment	This Chapter considers the criteria and measurement of the risk adjustment for non-financial risk required as part of the general measurement approach under IFRS 17 including the purpose and general requirements of the risk adjustment, what risks would typically be covered and specific considerations in determining the risk adjustment.
7	Contractual service margin	This Chapter considers the requirement under IFRS 17 to set up a Contractual Service Margin (CSM) for the liability for remaining coverage at outset for each group of contracts, including the aggregation of contracts, the subsequent measurement including the allocation of revenue to future periods in line with the provision of services and the treatment of loss component for “onerous contracts”.
8	Participating features and other variable cash flows	This Chapter considers the recognition, measurement and presentation of participating features, particularly in the case of contracts with direct participation features, as well as for other cash flows subject to the discretion of the insurer or linked to indices, including the criteria to be met for those classifications.
9	Premium allocation approach	This Chapter considers the use of the Premium Allocation Approach (PAA) under IFRS17 including the criteria to be met for an insurance contract to choose this method, the measurement approach and the differences between this approach and the general measurement approach. The Chapter focuses on the “liability for remaining coverage”.
10	Reinsurance	This Chapter considers the treatment of reinsurance, both

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		held (ceded) and issued (assumed), under IFRS 17; including how to determine how IFRS 17 applies to specific reinsurance transactions.
11	Presentation	This Chapter considers the general requirements for presentation of financial information under IFRS contained in IAS 1 as well as the specific additional requirements in IFRS 17; including amounts to be shown, disclosures to be made and required reconciliations.
12	Contract Modifications and derecognition	This Chapter considers the treatment under IFRS 17 of contract modification to insurance contracts, including reinsurance contracts, derecognition and transfer to third parties. It discusses what is a contract modification and what can be simply treated as a change in estimate.
13	Business Combinations	This Chapter considers the requirements under IFRS 17 when accounting for insurance contracts or claims liabilities acquired in a business combination or a portfolio transfer, and in particular the need to use consideration received as the fair value of the contracts acquired.
14	Embedded Derivatives	This Chapter considers the requirements under IFRS 9 and IFRS 17 for the separation of certain derivatives embedded in contracts subject to the scope of IFRS 17. This Chapter discusses the issues which may arise in detecting and identifying embedded derivatives in such contracts which may need to be separated.
15	Fair Value	This Chapter considers the use of the fair-value measurement of insurance contracts for IFRS 17 including for business combinations or portfolio transfers and on transition if the fair value approach is chosen.
16	Transition	This Chapter considers the one-time event of presenting statements applying IFRS 17 for the first time.

There are ten existing IANs related to the current IFRS standard on insurance accounting, IFRS 4. While IFRS 17 will replace IFRS 4, the existing IANs will still be applicable until the mandatory adoption date for IFRS 17 which is 2021. At that point, certain of the existing IANs will be outdated as IFRS 4 will no longer apply and thus will be repealed. Other existing IANs will not be affected by the change in guidance due to IFRS 17 replacing IFRS 4 and will continue to apply after 2021. The following is how each of the existing IANs will be addressed:

The following IANs will be withdrawn as the topics will no longer be applicable under IFRS 17

- IAN 6 – Liability Adequacy Testing, Testing for Recoverability of Deferred Transaction Costs, and Testing for Onerous Service Contracts under International Financial Reporting Standards IFRS
- IAN 7 – Recognition and Measurement of Contracts with Discretionary Participation

## Features under International Financial Reporting Standards IFRS

- IAN 9 – Accounting for Reinsurance Contracts under International Financial Reporting Standards IFRS
- IAN 11 – Business Combinations under International Financial Reporting Standards IFRS
- IAN 12 – Disclosure of Information about Insurance Contracts under International Financial Reporting Standards IFRS

The following existing IANs will continue to apply. They will be updated when needed to reflect changes to the corresponding IFRS standards:

- IAN 4 – Measurement of Investment Contracts and Service Contracts under International Financial Reporting Standards IFRS - To be reviewed considering IFRS 9 and IFRS 15 in 2018
- IAN 5 – Current Estimates under International Financial Reporting Standards IFRS – This addresses current estimates for contracts that are not in the scope of IFRS 17
- IAN 8 – Changes in Accounting Policies under International Financial Reporting Standards IFRS – This is a stand-alone IAN but will be updated when IAS 8 is amended – exposure draft recently issued by IASB
- IAN 10 – Embedded Derivatives and Derivatives under International Financial Reporting Standards IFRS - To be reviewed considering IFRS 9 in 2018 but IFRS 17 elements covered in chapter 14 of new IAN.

The following existing IAN will be replaced by a chapter in the proposed IAN with its contents largely unchanged as the requirements under IFRS 17 and IFRS 4 for this topic are very similar:

- IAN 3 – Classification of Contracts under International Financial Reporting Standards IFRS (chapter 2 of new IAN)

The proposed IAN is intended to be educational and intended to advance the understanding of actuarial aspects of IFRS 17 reporting by readers of the IAN. It is not intended to be prescriptive or to convey information in a definitive/authoritative manner. Therefore, the language will be chosen carefully and the style will be descriptive. The IAN will also be carefully written to avoid giving the impression that the methodologies described are the only way of achieving a particular outcome. We will discuss a range of practices but also comment that there might be other ways of achieving the desired outcomes depending upon circumstances. The IAN will also seek to draw attention to related background publications already published by the member associations and by the IAA.

*Approved by the Insurance Accounting Committee on 23 November 2017.*