STAFF PAPER

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Project	**Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)**	
Paper topic	Comments on tentative agenda decision	
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Introduction

1. In June 2022, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission about how to account for insurance contracts that generate cash flows in more than one currency.
2. The objectives of this paper are to:
   (a) analyse comments on the tentative agenda decision; and
   (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

Structure of the paper

3. This paper includes:
   (a) background;
   (b) comment letter summary;
   (c) staff analysis; and
   (d) staff recommendation.
4. There are two appendices to the paper:
   (a) Appendix A—proposed wording of the final agenda decision; and
   (b) Appendix B—illustrative example.

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Background

5. An entity that issues insurance contracts often conducts activities in more than one currency. It may, for example, issue insurance contracts in more than one jurisdiction, issue an individual insurance contract with cash flows in more than one currency, or issue insurance contracts in only one currency but incur costs in a different currency.

6. The request asked:

   (a) whether an entity considers currency exchange rate risks when applying IFRS 17 *Insurance Contracts* to identify portfolios of insurance contracts; and

   (b) how an entity applies IAS 21 *The Effects of Changes in Foreign Exchange Rates* in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts).

Identifying portfolios of insurance contracts

7. IFRS 17 requires an entity to recognise and measure groups of insurance contracts. The first step in establishing groups of insurance contracts is to identify portfolios of insurance contracts. Paragraph 14 of IFRS 17 states that 'a portfolio comprises contracts subject to similar risks and managed together'. The request asked whether currency exchange rate risks are among the risks an entity considers when assessing whether insurance contracts are 'subject to similar risks'.

8. The Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' do not mean 'identical risks'. An entity could therefore identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

Measuring a multi-currency group of insurance contracts

9. An entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin (hereafter, CSM). Paragraph 30 of IFRS 17 states that 'when applying IAS 21…to a group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the CSM, as a monetary item'.

10. The requirements in both IFRS 17 and IAS 21 refer to transactions or items that are denominated or require settlement in a single currency. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items that generate cash flows in more than one currency.

11. Therefore, the Committee observed that, in measuring a multi-currency group of insurance contracts, an entity:

    (a) applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the CSM—as a monetary item.

    (b) applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the CSM—at the closing rate (or rates).

    (c) develops an accounting policy to determine on initial recognition the currency or currencies in which the group—including the CSM—is denominated. The entity uses its judgement in developing and applying an accounting policy based on its specific circumstances and the terms of the contracts in the group. The accounting policy must result in information that is relevant and reliable (as described in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and be applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8). The entity cannot simply deem the CSM for the group to be denominated in the functional currency because simply deeming such a denomination would, in effect, fail to treat the CSM as a monetary item as required by paragraph 30 of IFRS 17.

12. An entity could therefore develop an accounting policy to determine that the group of insurance contracts is denominated in a single currency or in the multiple currencies of the cash flows in the group:

    (a) **‘single-currency accounting policy’**—the group of insurance contracts (including the CSM) is considered to be denominated in a single currency. If that single currency is a foreign currency, the entity then applies IAS 21 and translates the carrying amount of the group of contracts into its functional currency at the end of each reporting period.

    (b) **‘multi-currency accounting policy’**—the group of insurance contracts (including the CSM) is considered to be denominated in multiple currencies, reflecting the currencies of the fulfilment cash flows. An entity applies IAS 21 and translates the fulfilment cash flows in each foreign currency into its functional currency. It also identifies on initial recognition an amount of the CSM relating to each currency and translates each foreign currency amount from the foreign currency into its functional currency.

13. In applying IFRS 17, there is a single CSM for the group of insurance contracts. Accordingly, if an entity applies the multi-currency accounting policy for the purpose of applying IAS 21, the entity would:

    (a) assess whether the group of contracts is onerous considering the CSM as a single amount, after translation into the functional currency; and

    (b) determine the amount of the CSM to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future.

14. In the light of its analysis, the Committee considered whether to add to the work plan a standard-setting project on how to account for the foreign currency aspects of insurance contracts. The Committee observed that it had not obtained evidence that such a project would be sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee could address it in an efficient manner. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan and, instead, published the tentative agenda decision.

Comment letter summary

Introduction

15. We received 18 comment letters by the comment letter deadline. Agenda Paper 2A reproduces the comment letters and they are also available on our website.

16. All respondents agree with the Committee's decision not to add a standard-setting project to the work plan.

Identifying portfolios of insurance contracts

17. Seventeen respondents agree (or do not disagree) with the Committee's conclusion that an entity is required to consider all risks, including currency exchange rate risks, when identifying portfolios of insurance contracts. PricewaterhouseCoopers International Limited (PwC) expresses concerns that if an entity were to apply that conclusion to risks other than currency exchange rate risks, the resulting level of aggregation might be inappropriately high. They say this outcome might arise, in particular, when different types of contracts share in the same pool of underlying assets (they describe such contracts as 'mutualised insurance contracts').

Measuring a multi-currency group of insurance contracts

18. Eleven respondents agree (or do not disagree) with the Committee's conclusions regarding the measurement of a multi-currency group of insurance contracts. Seven respondents express concerns, or ask for clarity, about the Committee's conclusion that an entity could develop a multi-currency accounting policy.

Staff analysis

19. We analyse respondents' comments on the Committee's conclusions that an entity:

    (a) considers all risks when identifying portfolios of insurance contracts; and

    (b) could develop a multi-currency accounting policy.

20. Paragraphs 45–46 of this paper include our analyses of respondents' other comments.

Consideration of all risks when identifying portfolios

General

Respondent's comments

21. Almost all respondents agree (or do not disagree) with the Committee's conclusion that an entity is required to consider all risks, including currency exchange rate risks, when identifying portfolios of insurance contracts.

22. PwC asks about the effects of the Committee's conclusion. They say the conclusion permits or requires consideration of risks the contract creates, such as lapse risk and expense risk, in addition to risks the contract transfers from the policyholder. An entity considers only the risks the contract transfers when determining the cash flows within the boundary of an insurance contract (paragraph 34 of IFRS 17). PwC says adding the risks the contract creates to the assessment of identifying portfolios could result in an inappropriately high level of aggregation. For example, an entity might conclude that lapse risk and expense risk are similar across otherwise different types of contracts; consideration of these risks could dilute the effect of other risks on the assessment.

23. PwC agrees with the Committee that an entity cannot ignore currency exchange rate risks when identifying portfolios of contracts, but suggests an entity should consider such risks only when the contract transfers those risks from the policyholder to the insurer.

Staff analysis

24. We continue to agree with the Committee's conclusion that an entity considers all risks when identifying portfolios of insurance contracts. 'All risks' include risks that the insurance contract transfers and creates. Unlike paragraph 34 of IFRS 17 (which refers to 'the risks of the particular accounting policyholder'), paragraph 14 does not limit the risks an entity considers when identifying portfolios.

25. We disagree with PwC that including in the assessment of portfolios the risks the insurance contract creates (such as lapse risk and expense risk) might result in an inappropriately high level of aggregation. Not all risks arising from an insurance contract will have the same effect on the assessment, and all the risks will need to be

considered together to assess whether, overall, the insurance contracts are subject to similar risks. The assessment will depend on the specific facts and circumstances. In our view, the tentative agenda decision appropriately reflects the requirements in IFRS 17 by stating: '…that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.'

'Mutualised insurance contracts'

Respondent's comments

26. PwC expresses concern about the possible effects of the Committee's conclusion on what they describe as 'mutualised insurance contracts'. PwC says:

> …considering 'all risks' opens up the question of whether these are the risks the entity is exposed to before or after mutualisation. This is an important question because fundamentally different insurance contracts, such as an annuity that provides cover for longevity risk and a life insurance product that provides cover for mortality risk, may share in the same pool of underlying items…If 'all risks' are considered after the effect of mutualisation, and if an entity determines that all mutualised contracts are 'managed together', both types of contracts could be in the same portfolio and thus in the same group for measurement purposes. In our view, this would significantly reduce comparability between two entities that issue similar contracts if those contracts are mutualised in one entity and not in the other. This outcome seems to conflict with the IASB's intentions to achieve comparability between insurance contracts issued by entities with and without mutual funds, as discussed in paragraphs BC268–BC269 of the Basis for Conclusions on IFRS 17.

Staff analysis

27. In our view, the Committee is not in a position to conclude on whether 'similar risks' are always considered before or always after what PwC describes as 'the effect of mutualisation'. Facts and circumstances will determine the risks in an insurance contract and entities use different techniques to share the risks and returns of an

insurance business between policyholders and shareholders. The fact pattern described in the submission did not include such techniques.

Developing a multi-currency accounting policy

General

Respondents' comments

28. All respondents agreed that an entity could develop a single-currency accounting policy. Seven respondents are concerned about, or have questions about, the Committee's conclusion that an entity could develop a multi-currency accounting policy.

Staff analysis

29. We analyse respondents' comments in paragraphs 31–44 under the following topics:

    (a) the effect of changes in financial risk accounted for applying IFRS 17 and exchange differences accounted for applying IAS 21; and

    (b) the CSM represents the unearned profit and not the unearned losses of a group of contracts.

30. Paragraph 45 includes our analysis of other comments on the multi-currency accounting policy.

The effect of changes in financial risk accounted for applying IFRS 17 and exchange differences accounted for applying IAS 21

Respondents' comments

31. Deloitte Touche Tohmatsu Limited (Deloitte) and Moody's Analytics say the multi-currency accounting policy does not comply with paragraph B97(a)(i) of IFRS 17. Paragraph B97(a)(i) requires that an entity *not* adjust the CSM for changes in fulfilment cash flows due to the effect of financial risk and changes in financial risk ('changes in financial risk'). They say the multi-currency accounting policy would result in the effect of and changes in currency exchange rate risk—which is a financial risk—being included in adjustments to the CSM for changes in fulfilment cash flows

relating to future service (paragraph 44(c) of IFRS 17) and, thus, would fail to comply with paragraph B97(a)(i).

Staff analysis

32. We disagree with respondents that say an entity that applies a multi-currency accounting policy *incorrectly* includes changes in financial risk in the adjustments to the CSM. The tentative agenda decision states that an entity: 'develops an accounting policy to determine on initial recognition the currency or currencies in which the group…is denominated.' This accounting policy determines how the entity calculates exchange differences in IAS 21 because the policy determines the currency or currencies *from which* the entity translates amounts into its functional currency. Such exchange differences arising from IAS 21 do not form part of the accounting applying IFRS 17. Accordingly, only changes in exchange rates that the entity does not account for as exchange differences in IAS 21 are changes in financial risk in IFRS 17.

33. Appendix B sets out an example that illustrates the different amounts that arise under each accounting policy. A single-currency accounting policy results in:
    (a) amounts arising from changes in exchange rates between the *currency of the cash flows* and the *currency of the group of contracts*. These amounts are changes in financial risk accounted for applying IFRS 17, and accordingly do not adjust the CSM applying paragraph B97(a)(i) of IFRS 17. The amounts comprise:
        (i) the effect of such changes in exchange rates on the fulfilment cash flows; and
        (ii) the difference between a change in fulfilment cash flows relating to future service measured at current exchange rates and the related adjustment to the CSM measured at locked-in exchange rates.
    (b) amounts arising from changes in exchange rates between the *currency of the group of contracts* and *the functional currency*. These amounts are exchange differences accounted for applying IAS 21, to which paragraph B97(a)(i) of IFRS 17 does not apply. These exchange differences include the effect of retranslating the CSM (as a monetary item) into the functional currency at current exchange rates at the reporting date.

34. The amounts described in paragraph 33(a) do not arise under a multi-currency accounting policy. Instead, under such an policy an entity accounts for the effect of all changes in exchange rates as exchange differences arising from the application of IAS 21. Accordingly, paragraph B97(a)(i) does not apply to these amounts.

35. Under both accounting policies, there are changes in exchange rates that affect the CSM. But under neither approach does this outcome conflict with the requirements in IFRS 17, because the changes in exchange rates that affect the CSM are correctly accounted for applying IAS 21, and not IFRS 17.

36. Consistent with this distinction between changes in exchange rates accounted for applying IFRS 17 and those accounted for applying IAS 21, the choice in paragraph 88 of IFRS 17 to include some insurance finance income or expenses in other comprehensive income does not apply to amounts accounted for as exchange differences applying IAS 21.

The CSM represents the unearned profit and not the unearned losses of a group of contracts

Respondents' comments

37. Respondents say applying the multi-currency accounting policy could cause the CSM to become negative even though the group of contracts is profitable. PwC suggests that the Committee consider this situation before it finalises the agenda decision. Moody's Analytics says this consequence of applying the multi-currency accounting policy puts this policy at a disadvantage to the single-currency accounting policy. Moody's Analytics, Jozef Kusnier and other individuals, KPMG IFRG Limited (KPMG) and Ernst & Young Global Limited (EY) suggest that the agenda decision explain what an entity does in this situation.

38. To illustrate, consider an entity with a euro functional currency and the CSM denominated in US dollars and pounds sterling.

Illustration 1—Negative CSM under the multi-currency accounting policy

Statement of financial position—liability for remaining coverage		
	DR / (CR)	
Currencies of the cash flows of the group	US dollar	Pound sterling
Amounts at initial recognition		
A: Fulfilment cash flows in foreign currencies	900	(750)
B: CSM in foreign currencies	(900)	750
C: Euro exchange rates (paragraph 21 of IAS 21)	0.95	1.11
Fulfilment cash flows in euros (A × C)	855	(833)
CSM in euros (B × C)	(855)	833
At initial recognition, the entity recognises a net debit (positive) amount for the fulfilment cash flows of 22 euros (855 – 833) and a net credit (positive) amount for the CSM of 22 (855 – 833).		
Amounts at the reporting date		
D: Fulfilment cash flows in foreign currencies	650	(450)
E: CSM in foreign currencies (before allocation to profit or loss)	(900)	750
F: Euro closing exchange rates (paragraph 23 of IAS 21)	1.00	1.25
Fulfilment cash flows in euros (D × F)	650	(563)
G: CSM in euros (E × F)	(900)	938
H: Coverage units provided in the current period	⅓	⅓
Allocation of CSM to profit or loss (G × H)	300	(313)
Fulfilment cash flows of positive 250 US dollars and negative 300 pounds sterling occurred in the reporting period as expected. The entity recognises a net debit (positive) amount for the fulfilment cash flows of 87 (650 – 563) euros. Respondents question whether the entity would recognise a net debit (negative) amount for the CSM of 38 (900 – 938) euros and a debit (negative) amount in insurance revenue of 13 (300 – 313) euros.		

39. In this example, the expected cash flows occurred as expected and there were no other changes in the fulfilment cash flows. At the reporting date, the foreign currency amounts of the expected future cash flows differ from the foreign currency amounts of the CSM because the expected cash flows that occurred during the period do not

affect the CSM.[1] The devaluation of the euro to the pound sterling is higher than its devaluation to the US dollar. For the CSM, this effect results in the translation of the *debit (negative)* 750 pounds sterling to euros being more than the translation of the *credit (positive)* amount of 900 US dollars to euros. Without further adjustment, the CSM would have a net negative carrying amount.

40. Some respondents say paragraph 38 of IFRS 17 does not allow the CSM, or its allocation to insurance revenue, to be negative because the CSM represents the unearned profit of the group of insurance contracts. Therefore, because the CSM in euros would otherwise be negative (38 euros), the entity limits the CSM to zero, does not make an allocation to profit or loss and recognises the negative amount as a loss of 38 euros.

41. Respondents say recognising a loss might not provide useful information because:

   (a) it could make the group appear to be onerous even though there were no unfavourable changes relating to future service in the fulfilment cash flows that exceed the carrying amount of the CSM.

   (b) the entity would recognise both a credit entry (the exchange gain) and a debit entry (the loss) in profit or loss. PwC says:

   > The overall outcome is that the CSM has been reduced to zero and a net gain…has been recognised in the income statement (the IAS 21 gain…minus the expense [loss]…). This happens despite the fact there has been no service provided in accordance with paragraph B119 of IFRS 17, no change in fulfilment cash flows and there is no loss component in accordance with paragraphs 48 and 50 of IFRS 17.

42. Respondents also say if an entity applies the single-currency accounting policy, exchange differences would not create this type of loss). Translation of a single

[1] The carrying amounts of the fulfilment cash flows and the CSM equal each other only on initial recognition. Thereafter they reflect different changes: the fulfilment cash flows reflect changes in cash flows and the risk adjustment and the CSM reflects interest accretion and allocation to insurance revenue for services transferred in the period.

positive amount in, for example US dollars, would not result in a negative CSM in euros.

Staff analysis

43. In our view the outcome in the example in Illustration 1 (paragraph 38) does not conflict with the requirements in IFRS 17. Applying the multi-currency accounting policy, an entity:

    (a) treats the group of contracts, including the CSM, as a monetary item applying IAS 21. In the example, the exchange gain for the group, in euros, results from applying the applicable requirements in IAS 21 for foreign currency monetary items.

    (b) recognises a loss but not an *onerous* loss or loss component. IFRS 17 requires an entity to recognise a loss in profit or loss—and a loss component in the statement of financial position—when a group is onerous (see paragraph 41(b) and paragraph 49 of IFRS 17). IFRS 17 states that a group of contracts becomes onerous *only* when unfavourable changes in the fulfilment cash flows would cause the CSM to become negative, were a loss not recognised. In Illustration 1, the negative amount of the CSM does not arise from unfavourable changes in the fulfilment cash flows. Accordingly, the negative amount is not within the scope of the onerous contract requirements; the loss is not an onerous loss and there is no loss component.

44. IFRS 17 includes no requirements on when exchange differences cause the CSM to become negative. We note:

    (a) the CSM represents the unearned profit, and not unearned losses, of the group (see the definition of the CSM in Appendix A to IFRS 17 and paragraph BC219 of the Basis for Conclusions on IFRS 17). We agree with respondents therefore that the carrying amount of the CSM and its allocation to profit or loss must be a positive amount. Paragraph 44(d) of IFRS 17 does not explicitly limit the CSM to zero for the effect of exchange differences in the same way that paragraph 44(c) limits it to zero for changes in fulfilment cash flows. Nonetheless we think the principle that the CSM cannot be negative is well established within the principles and requirements in IFRS 17.

(b) it may seem counter-intuitive to recognise an exchange gain on translation of the group of contracts when an exchange loss arises from the entity's exposure to foreign currency cash flows. However, the gain arises because the CSM is treated as a monetary item, and in that context the entity is regarded as being exposed to currency exchange rate risk on the CSM.

(c) IFRS 17 includes no requirements about where in the statement of profit or loss to present the loss.

Illustration 2—Treatment of a negative CSM

Illustration 2 follows from Illustration 1 (see paragraph 38 of the paper):

DR / (CR)	**CSM in euros**
Carrying amount at start of reporting period	(22)
Exchange gain applying IAS 21	60
Carrying amount after translation at closing rates	38

The entity recognises the exchange gain applying IAS 21:

CSM	60	
Exchange gain (profit or loss)		60

The above journal entry causes the carrying amount of the CSM to become negative. The entity would limit the carrying amount to zero:

Loss (profit or loss)	38	
CSM		38

Other comments

45. The table summarises our analysis of respondents' other comments:

Identifying portfolios of insurance contracts

Respondent's comments	Staff analysis
The Saudi Organization for Chartered and Professional Accountants says the agenda decision should define, or at least explain, the term 'similar risks' to improve consistent application when identifying portfolios of contracts.	In our view, what the tentative agenda decision says about 'similar risks' reflects the requirements in paragraph 14 of IFRS 17 without adding or changing requirements in IFRS Accounting Standards. To say more than what was included in the tentative

	agenda decision, in our view, risks going beyond the requirements in the Standard.

Developing an accounting policy

Respondents' comments	Staff analysis
PwC suggests that the agenda decision say an entity could determine the group, the fulfilment cash flows, and the CSM to be denominated in a single currency or in multiple currencies. PwC supports a third accounting policy that would determine the CSM to be denominated in a single currency, but the fulfilment cash flows (including the risk adjustment for non-financial risk) to be denominated in multiple currencies.	Our understanding is that the third accounting policy PwC describes has the same outcome as the single-currency accounting policy. Therefore, we suggest no change to the tentative agenda decision.
PwC suggests that the agenda decision say why an entity is not required to develop and apply a single accounting policy consistently to all groups of insurance contracts issued by the entity in accordance with paragraph 13 of IAS 8.	The tentative agenda decision reflects the requirements in IAS 8 when it states: 'The accounting policy must…be applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8).'
The Institute of Chartered Accountants of India suggests that the agenda decision list the factors an entity considers when developing an accounting policy. An example would be the extent of predominance of the different currencies in the group: a single predominant currency leads to a single-currency accounting policy and a set of equally predominant currencies leads to a multi-currency accounting policy.	In our view, what the tentative agenda decision says about developing an accounting policy reflects the requirements in IAS 8 without adding to or changing requirements in IFRS Accounting Standards. To describe factors to consider, in our view, risks going beyond the requirements in the Standard.

Single-currency accounting policy

Respondents' comments	Staff analysis
EY suggests that the agenda decision explain whether, applying the single-currency accounting policy, the entity: (a) determines the single currency of the CSM only on initial recognition; (b) calculates and treats changes between the currencies of the cash flows and the currency of the CSM as insurance finance income or expenses in IFRS 17; and (c) calculates and treats changes between the currency of the CSM and the functional currency as exchange differences in IAS 21.	The tentative agenda decision states [emphasis added]: 'the Committee observed that, in measuring a multi-currency group of insurance contracts, an entity… develops an accounting policy to determine **on initial recognition the currency or currencies** in which the group—including the contractual service margin—is denominated.' We think further explanation is not needed. The discussion in paragraphs 32–35 of this paper reflects EY's points (b) and (c). We propose to clarify in the agenda decision that the accounting policy an entity selects determines what amounts are insurance finance income or expenses arising under IFRS 17 and what amounts are exchange differences arising under IAS 21.
EY suggests that the agenda decision say the functional currency *could* be the single currency of the CSM.	In our view, the agenda decision is sufficiently clear in this respect. The tentative agenda decision states [emphasis added]: 'The entity cannot **simply deem** the contractual service margin for the group to be denominated in the functional currency…' The phrase 'simply deem' does not remove the possibility that, after appropriate assessment, the entity determines that the CSM is denominated in the functional currency.
The Institute of Chartered Accountants of India says IAS 21 does not require an entity to identify an 'intermediate' foreign currency as the single-currency accounting	In our view the tentative agenda decision enables entities to understand that: 'the requirements in both IFRS 17 and IAS 21 refer to transactions or items that are

policy does. The agenda decision should say how this reading of IAS 21 applies to contracts other than insurance contracts in the scope of IFRS 17.	denominated or require settlement in a single currency. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items that generate cash flows in more than one currency.' Therefore, IAS 21 neither requires nor prohibits the identification of a single currency for a monetary item that is denominated in multiple currencies.

Multi-currency accounting policy—coverage units

Respondent's comments	**Staff analysis**
The tentative agenda decision says there is a single CSM for the group and, therefore when applying the multi-currency accounting policy, the entity needs to use a single method of determining the coverage units. KPMG suggests that the agenda decision also say an entity needs to allocate the CSM equally to each coverage unit provided in the current period and expected to be provided in future periods. For example, if the multi-currency amounts of the CSM are 100 in currency A and 200 in currency B, and there are 100 coverage units, then each coverage unit is allocated 1 unit of currency A and 2 units of currency B.	In our view, the tentative agenda decision is sufficiently clear to explain that, when applying the multi-currency accounting policy, an entity needs to 'determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units…' Paragraph B119(b) of IFRS 17 requires an entity to allocate the CSM equally to each coverage unit provided in the current period and expected to be provided in future periods. The question is not how to allocate currency amounts to each coverage unit. Rather it is how to apply consistently to each currency amount the coverage units determined to have been provided in the current period and expected to be provided in the future. Applying the tentative agenda decision, an entity could not calculate the coverage units in any way that would cause

	the amounts in different currencies to have different allocation patterns.

Multi-currency accounting policy—discount rates and other components of the fulfilment cash flows

Respondents' comments	Staff analysis
PwC and PT. Hamilton Prima Indonesia say the Committee needs to consider whether the discount rate of the group of contracts is a single rate in the functional currency or separate rates for each currency of the cash flows in the group. This is relevant when an entity applies paragraphs 36 and B72 of IFRS 17 to determine the discount rate at which to accrete interest on, and to measure the changes in, the CSM.	In our view, it would be consistent with a multi-currency accounting policy to accrete interest on the multiple currencies amounts of the CSM using discount rates applicable to the currencies.
PwC and Moody's Analytics say if the entity accretes interest on the CSM using separate discount rates for each of its currency amounts, the different discount rates can cause the interest accretion to be negative.	We agree the interest accretion could be negative. Such an outcome is a consequence of denominating the CSM in multiple currencies and treating the currency amounts as monetary items. Although the reporting outcome seems unusual, in our view it does not conflict with the requirements in IFRS 17 or IAS 21.
PwC and Deloitte say the Committee also needs to consider the implications of the multi-currency accounting policy for the risk adjustment for non-financial risk.	In our view, to explain how an entity determines the risk adjustment within a multi-currency accounting policy would go beyond the requirements in IFRS 17. Estimating the risk adjustment requires judgement. Paragraphs 37 and B86–B92 of IFRS 17 are sufficient to enable entities to make this judgement.

PwC and Moody's Analytics say the Committee need to consider the implications for the loss component of the liability for remaining coverage for an onerous group of contracts. Moody's Analytics adds that when applying the multi-currency accounting policy to a group that is onerous on initial recognition, changes in currency exchange rates can cause the loss component to become negative.	In our view, to explain how an entity determines the loss component when applying a multi-currency accounting policy would go beyond the requirements in IFRS 17. Allocating amounts to the loss component requires judgement. We note paragraph 52 of IFRS 17 states: '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.'

Multi-currency accounting policy—variable fee approach

Respondent's comments	**Staff analysis**
PwC says the Committee needs to consider the consequences of applying a multi-currency accounting policy to a group of contracts under the variable fee approach.	The analysis in the paper has been of insurance contracts accounted for applying the general model in IFRS 17. However, in our view, the Committee's observations about measuring a multi-currency group of insurance contracts also apply to a group of contracts measured under the variable fee approach. The differences in outcomes between a single-currency accounting policy and a multi-currency accounting policy that arise in the variable fee approach are not the same as the differences between the policies in the general model. But, as with the general model, the outcomes are a consequence of applying the chosen accounting policy *within* the requirements of IFRS 17 and IAS 21.

Multi-currency accounting policy—premium allocation approach

Respondent's comments	Staff analysis
PwC says the Committee needs to consider the consequences of applying a multi-currency accounting policy to groups of contracts accounted for under the premium allocation approach.	The submission did not ask about insurance contracts accounted for under the premium allocation approach. The premium allocation approach differs from the general model and the variable fee approach because it does not separately identify or measure future cash flows, a risk-adjustment for non-financial risk or a CSM. It is beyond the scope of the analysis of the question submitted to consider insurance contracts accounted for under the premium allocation approach.

46. Three respondents—who agree with the Committee's analysis and conclusions in the tentative agenda decision—encourage the Committee to continue to consider the potential disruptive effects of agenda decisions on entities' IFRS 17 implementation projects. These respondents (as well as two others) support the Committee's outreach with members of the Transition Resource Group for IFRS 17. Two respondents suggest if significant matters or divergent practices arise after IFRS 17 becomes effective, the IASB consider them as part of the post-implementation review of IFRS 17. In our view, these comments have no effect on whether the Committee finalises this agenda decision.

Staff conclusion

47. Based on our analysis in paragraphs 19–46 of this paper, we continue to agree with the Committee's technical analysis and conclusions in the tentative agenda decision, subject to some wording changes described in paragraph 48.

48. The changes we propose to the wording of the tentative agenda decision are to note:

    (a) the accounting policy of the currency or currencies in which a group of contracts is denominated determines what amounts are the effect of changes in

financial risk accounted for applying IFRS 17 and what amounts are exchange differences accounted for applying IAS 21; and

(b) the CSM represents the unearned profit and not the unearned losses of a group of contracts. Accordingly, an entity is required to limit the carrying amount of the CSM to zero.

Question 1 for the Committee
1. Does the Committee agree with the conclusions set out in paragraphs 47–48 of this paper?

Staff recommendation

49. Based on our analysis, we recommend finalising the agenda decision with changes to the tentative agenda decision as suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions 2 and 3 for the Committee
2. Does the Committee agree with our recommendation set out in paragraph 49 of this paper? 3. Do Committee members have any comments on the wording of the agenda decision in Appendix A to this paper?

Appendix A—proposed wording of the final agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)

The Committee received a request about how to account for insurance contracts that generate cash flows in more than one currency.

The request asked:

a. whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and

b. how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts).

Identifying portfolios of insurance contracts

IFRS 17 requires an entity to recognise and measure groups of insurance contracts. The first step in establishing groups of insurance contracts is to identify portfolios of insurance contracts. Paragraph 14 of IFRS 17 states that 'a portfolio comprises contracts subject to similar risks and managed together'. The request asks whether currency exchange rate risks are among the risks an entity considers when assessing whether insurance contracts are 'subject to similar risks'.

IFRS 17 defines financial risk and insurance risk (a non-financial risk). Financial risk is defined to include 'the risk of a possible future change in … [a] currency exchange rate'. When IFRS 17 requires an entity to consider or reflect only particular risks (for example, only non-financial risk), it explicitly refers to the risks to be considered or reflected. Consequently, the Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' do not mean 'identical risks'. An entity could therefore identify portfolios of contracts that include contracts subject to different currency

exchange rate risks. The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

Measuring a multi-currency group of insurance contracts

An entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. Paragraph 30 of IFRS 17 states that 'when applying IAS 21 … 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'.

Paragraph 8 of IAS 21 defines monetary items as 'units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency' and paragraph 20 describes a foreign currency transaction as 'a transaction that is denominated or requires settlement in a foreign currency'. Paragraphs 21–24 of IAS 21 require an entity:

a. to recognise on initial recognition a foreign currency transaction in the functional currency at the spot exchange rate at the date of the transaction;

b. to determine the carrying amount of a monetary item in conjunction with other relevant Accounting Standards; and

c. to translate at the end of the reporting period foreign currency monetary items into the functional currency using the closing rate.

The requirements in both IFRS 17 and IAS 21 refer to transactions or items that are denominated or require settlement in a single currency. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items that generate cash flows in more than one currency.

Therefore, the Committee observed that, in measuring a multi-currency group of insurance contracts, an entity:

a. applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the contractual service margin—as a monetary item.

b. applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the contractual service margin—at the closing rate (or rates) into the functional currency of the entity.

c. develops an accounting policy to determine on initial recognition the currency or currencies in which the group—including the contractual service margin—is denominated. The accounting policy determines which effects of changes in exchange rates are exchange differences accounted for applying IAS 21 and which effects of changes in exchange rates are changes in financial risk accounted for applying IFRS 17.

d. ~~The entity~~ uses its judgement in developing and applying an accounting policy based on its specific circumstances and the terms of the contracts in the group. The accounting policy must result in information that is relevant and reliable (as described in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and be applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8). The entity could determine that the group—including the contractual service margin—is denominated in a single currency or in the multiple currencies of the cash flows in the group. The entity cannot simply deem the contractual service margin for the group to be denominated in the functional currency because simply deeming such a denomination would, in effect, fail to treat the contractual service margin as a monetary item as required by paragraph 30 of IFRS 17.

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. Appendix A to IFRS 17 defines the contractual service margin as: 'the unearned profit the entity will recognise as it provides insurance contract services under the insurance contracts in the group.' Accordingly, if an entity were to determine that for the purpose of applying IAS 21 the contractual service margin is denominated in the multiple currencies of the cash flows in the group, the entity would:

a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount~~, after translation into the functional currency~~;~~ and~~

b. prevent the carrying amount of the contractual service margin being negative by, when necessary to do so, recognising a loss in the statement of profit or loss; and

c. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future to the amounts denominated in the multiple currencies.

In the light of its analysis, the Committee considered whether to add to the work plan a standard-setting project on how to account for the foreign currency aspects of insurance contracts. The Committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee could address it in an efficient manner. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—illustrative example

B1. The example is based on the example in Appendix B of Agenda Paper 6 for the Committee's June 2022 meeting. It illustrates the application of the single-currency accounting policy and the multi-currency accounting policy described in paragraph 12 of the paper.

Fact pattern

B2. An entity has a functional currency of the euro.

B3. At the beginning of Year 1, the entity issues a group of insurance contracts with premiums in US dollars and claims in US dollars and pounds sterling. The coverage period is three years. Premiums are received at the start of each period and claims paid at the end of each period.

B4. The insurance contracts provide insurance coverage to policyholders evenly over the three-year coverage period. The entity provides no other insurance contract services under the contracts. The contracts also include no direct participation features, separable embedded derivatives or other non-insurance components. The example ignores the time value of money and the risk adjustment for non-financial risk.

B5. The group of insurance contracts generates the following expected future cash flows over the coverage period:

	Year 1	Year 2	Year 3	Total
Premiums in US dollars	400	400	400	1,200
Claims in US dollars	(100)	(100)	(100)	(300)
Claims in pounds sterling	(200)	(200)	(200)	(600)

B6. The rounded exchange rates applicable for the application of IFRS 17 and IAS 21 are:

	At recognition	End of Year 1
US dollars to pounds sterling	0.857	0.850
US dollars to euros	0.952	1.000
Pounds sterling to euros	1.112	1.176

B7. Everything occurs as the entity expects at initial recognition, except that at the end of Year 1 the entity expects an increase of 10 pounds sterling in the claims for Year 3.

The IFRS Interpretations Committee is the interpretative body of the International Accounting Standards Board (IASB). The IASB is an independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRS Accounting Standards. For more information, visit www.ifrs.org.

Illustration of accounting policies

B8. At **initial recognition**, the carrying amounts of the fulfilment cash flows and the CSM for the group of contracts are:

DR / (CR)	Single-currency accounting policy				Multi-currency accounting policy			
	The single currency of the group is:		The functional currency is:		The currencies of the cash flows are:		The functional currency is:	
	US dollars		**Euros**		**US dollars**	**Pounds sterling**	**Euros**	
Fulfilment cash flows								
Premiums in US dollars		1,200.0			1,200.0		*(1,200 × 0.952)*	1,142.9
Claims in US dollars		(300.0)			(300.0)		*(300 × 0.952)*	(285.7)
Claims in pounds sterling	*(600 × (1 / 0.857))*	(700.0)				(600.0)	*(600 × 1.112)*	(666.7)
		200.0	*(200 × 0.952)*	**190.5**	900.0	(600.0)		**190.5**
CSM		(200.0)		**(190.5)**	(900.0)	600.0		**(190.5)**

B9. At initial recognition the carrying amounts of the fulfilment cash flows and the CSM for the group of contracts are the same.

B10. At the **end of Year 1**, the change in the carrying amount of the **fulfilment cash flows** is calculated as:

	Single-currency accounting policy				**Multi-currency accounting policy**			
	The single currency of the group is:		The functional currency is:		The currencies of the cash flows are:		The functional currency is:	
DR / (CR)	**US dollars**		**Euros**		**US dollars**	**Pounds sterling**	**Euros**	
Opening balance		-		-	-	-		-
Contracts issued (from paragraph B8)		200.0		190.5	900.0	(600.0)		190.5
Premiums received in US dollars		(400.0)	*(400 × 0.952)*	(380.9)	(400.0)		*(400 × 0.952)*	(380.9)
Claims paid in US dollars		100.0	*(100 × 1)*	100.0	100.0		*(100 × 1)*	100.0
Claims paid in pounds sterling	*(200 × (1 / 0.850))*	235.3	*(235.3 × 1)*	235.3		200.0	*(200 × 1.176)*	235.3
Increase in expected claims in pounds sterling	*(10 × (1 / 0.850))*	(11.8)	*(11.8 × 1)*	(11.8)		(10.0)	*(10 × 1.176)*	(11.8)
Closing balance (A)		**123.5**		**133.1**	**600.0**	**(410.0)**		**133.1**
Insurance finance income or expenses (C)	*(B – A)*	(5.9)	*(5.9 × avg.)*	(5.8)				-
Exchange differences in IAS 21			*(B - (A - C))*	(9.7)			*(B – A)*	(15.5)
Closing balance (B)[(a)]		**117.6**		**117.6**	**600.0**	**(410.0)**		**117.6**

[(a)]The closing balance (B) is:

DR / (CR)	Single-currency accounting policy					Multi-currency accounting policy			
Fulfilment cash flows measured using current assumptions at end of Year 1	The single currency of the group is:		The functional currency is:			The currencies of the cash flows are:			The functional currency is:
	US dollars		**Euros**			**US dollars**	**Pounds sterling**		**Euros**
Premiums in US dollars	800.0					800.0			*(800 × 1)* 800.0
Claims in US dollars	(200.0)					(200.0)			*(200 × 1)* (200.0)
Claims in Pounds sterling	*(410 × (1 / 0.850))* (482.4)						(410.0)		*(410 × 1.176)* (482.4)
	117.6		*(117.6 × 1)* **117.6**			**600.0**	**(410.0)**		**117.6**

B11. The two accounting policies result in the same carrying amount of the fulfilment cash flows (debit 117.6 euros) and the same total amount in profit or loss (debit 15.5 euros) for changes in exchange rates. Applying the multiple-currency accounting policy, the entity accounts for the full amount of 15.5 euros as exchange differences in IAS 21 and no amount as changes in financial risk in IFRS 17. Applying the single-currency accounting policy, the entity accounts for 9.7 euros as exchange differences in IAS 21 and 5.8 euros as changes in financial risk in IFRS 17.

B12. At the end of **Year 1**, the change in the carrying amount of the **CSM** is:

	Single-currency accounting policy				**Multi-currency accounting policy**			
	The single currency of the group is:		The functional currency is:		The currencies of the cash flows are:		The functional currency is:	
DR / (CR)	**US dollars**		**Euros**		**US dollars**	**Pounds sterling**	**Euros**	
Opening balance		-		-	-	-		-
Contracts issued (from paragraph B8)		(200.0)		(190.5)	(900.0)	600.0		(190.5)
Increase in expected claims in pounds sterling	*(10 × (1 / 0.857))*	11.6	*(11.6 × 1)*	11.6		10.0	*(10 × 1.176)*	11.8
Amount allocated to profit or loss for services transferred	*(⅓ of coverage)*	62.8	*(62.8 × avg.)*	61.3	300.0	(203.3)	*(amounts × avg.)*	60.3
Sub-total (A)		**(125.6)**		**(117.5)**	**(600.0)**	**406.7**		**(118.4)**
Exchange differences in IAS 21			*(A – B)*	(8.1)			*(A – B)*	(3.1)
Closing balance (B)			*(125.6 × 1)*	**(125.6)**	**(600.0)**	**406.7**	*(600 × 1) – (406.7 × 1.176)*	**(121.6)**

B13. The accounting policy determines which effects of changes in exchange rates are:

(a) exchange differences that an entity accounts for applying IAS 21; or

(b) changes in financial risk that an entity accounts for applying IFRS 17.

B14. Applying a multi-currency accounting policy, an entity accounts for the effect of all changes in exchange rates as exchange differences in IAS 21. For the CSM, this creates different amounts from those that result from applying a single-currency accounting policy:

(a) adjustments to the CSM for changes in fulfilment cash flows relating to future service (paragraph 44(c) of IFRS 17):

i. **single-currency accounting policy**: an entity adjusts the CSM for changes in fulfilment cash flows using exchange rates locked-in *at the date of initial recognition* (in the example, the change in expected pound sterling claims of 10 is translated at the pound sterling to US dollar exchange rate of 1/0.857). This use of locked-in rates prevents the effect of a change in financial risk accounted for applying IFRS 17 from being included in the CSM. The adjustment to the CSM in the group currency (US dollars) is then translated into the functional currency (euros) at *the date of the change in the fulfilment cash flows*.

ii. **multi-currency accounting policy**: an entity adjusts the CSM for changes in fulfilment cash flows using exchange rates *at the date of the change in fulfilment cash flows* (in the example, the change in expected pound sterling claims of 10 is translated into the functional currency at the pound sterling to euro exchange rate at the end of Year 1 of 1.176). Locked-in rates are not used because the entity accounts for the effect of changes in exchange rates as exchange differences in IAS 21.

(b) exchange differences on translating the CSM into the functional currency at the reporting date (paragraph 44(d) of IFRS 17 and paragraph 23 of IAS 21):

i. **single-currency accounting policy**: the entity translates the CSM from US dollars to euros because US dollar is the foreign currency from which exchange differences on the CSM arise.

ii. **multi-currency accounting policy**: the entity translates the CSM currency amounts of US dollars to euros and of pounds sterling to euros because US dollar and pound sterling are the foreign currencies from which exchange differences on the CSM arise.