



IASB Update January 2019

This IASB *Update* highlights preliminary decisions of the International Accounting Standards Board (Board). The Board's final decisions on IFRS[®] Standards, Amendments and IFRIC[®] Interpretations are formally balloted as set forth in the *Due Process Handbook* of the IFRS Foundation and the IFRS Interpretation Committee.

The Board met on Wednesday 23 January 2019 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- Amendments to IFRS 17 *Insurance Contracts*
- Extractive Activities
- Rate Regulated Activities
- Implementation

Amendments to IFRS 17 *Insurance Contracts* (Agenda Paper 2)

The Board met on 23 January 2019 to consider possible amendments to IFRS 17 *Insurance Contracts* relating to the following topics:

- a. insurance acquisition cash flows—Agenda Paper 2A;
- b. reinsurance contracts held—Agenda Papers 2B, 2C and 2D; and
- c. recognition of the contractual service margin in profit or loss—Agenda Paper 2E.

***Insurance Acquisition Cash Flows for Renewals outside the Contract Boundary* (Agenda Paper 2A)**

The Board tentatively decided to amend IFRS 17 to require an entity to:

- a. allocate to any expected contract renewals their related part of the insurance acquisition cash flows directly attributable to newly issued contracts.
- b. recognise the insurance acquisition cash flows allocated to expected contract renewals as assets applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.
- c. assess the recoverability of any asset recognised applying paragraph 27 of IFRS 17 each period before the related contracts are recognised. The recoverability assessment would be based on the expected fulfilment cash flows of the related group of contracts.

- d. recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised by applying paragraph 27 of IFRS 17.
- e. recognise in profit or loss the reversal of some or all of any such loss previously recognised when the impairment conditions no longer exist or have improved.

Thirteen of 14 Board members agreed and one disagreed with this decision.

Reinsurance Contracts Held (Agenda Papers 2B–2D)

The Board tentatively decided to amend IFRS 17 to:

- a. expand the scope of the exception in paragraph 66(c)(ii) of IFRS 17 to require an entity to recognise a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that a reinsurance contract held covers the losses of each contract on a proportionate basis; and
- b. require an entity to apply the expanded exception when the entity measures contracts applying the premium allocation approach (PAA).

All Board members agreed with this decision.

The Board also tentatively decided to amend IFRS 17 to expand the scope of the risk mitigation exception for insurance contracts with direct participation features in paragraph B115 of IFRS 17 so that the exception applies when an entity uses a derivative or a reinsurance contract held to mitigate financial risk, to the extent that the entity meets the conditions in paragraph B116 of IFRS 17.

All Board members agreed with this decision.

Recognition of the Contractual Service Margin in Profit or Loss in the General Model (Agenda Paper 2E)

The Board tentatively decided:

- a. to amend IFRS 17 so that in the general model the contractual service margin is recognised in profit or loss on the basis of coverage units that are determined by considering both insurance coverage and investment return service, if any;
- b. to amend IFRS 17 to establish that an investment return service exists only when an insurance contract includes an investment component;
- c. to amend IFRS 17 to require an entity to use judgement applied consistently in deciding whether an investment return service exists when determining coverage units, and not provide an objective or criteria for that determination. However, the Board instructed the staff to consider including in the Basis for Conclusions some of the analysis in the Board paper, to indicate what such judgements might involve;
- d. to amend IFRS 17 to establish that the period of investment return services should be regarded as ending when the entity has made all investment component payments to the policyholder of the contract and should not include any period of payments to future policyholders;
- e. to amend IFRS 17 to require assessments of the relative weighting of the benefits provided by insurance coverage and investment return services and their pattern of delivery to be

made on a systematic and rational basis;

- f. to confirm that, applying IFRS 17, cash flows relating to fulfilling the investment return service are included in the measurement of the insurance contract;
- g. not to change the requirements of IFRS 17 relating to changes in fulfilment cash flows that adjust the contractual service margin in the general model; and
- h. to amend IFRS 17 to establish that the one-year eligibility criterion for the PAA should be assessed by considering insurance coverage and an investment return service, if any.

Thirteen of 14 Board members agreed and one disagreed with these decisions.

Next steps

At future meetings the Board will consider the topics from Agenda Paper 2D *Concerns and implementation challenges* for the October 2018 Board meeting that have not yet been discussed. After the Board has considered each topic individually, the Board plans to consider the package of amendments at a future meeting. At that meeting the Board will consider whether:

- a. any amendments to the disclosure requirements are required as a result of the amendments tentatively decided by the Board;
- b. on the whole, the benefits of the amendments outweigh the costs; and
- c. on the whole, the amendments do not unduly disrupt implementation.

Extractive Activities (oral update)

The Board met on 23 January 2019 to receive an oral update from the staff about progress on the Extractive Activities project. The Board was not asked to make any decisions.

Rate-regulated Activities (oral update)

The Board received an oral update from the staff about progress on the Rate-regulated Activities project. The Board was not asked to make any decisions.

Next step

The staff has revised the plan for future discussions with the Board and now aims to present a summary describing the model at the Board's March 2019 meeting.

Implementation (Agenda Paper 12)

The Board met on 23 January 2019 to discuss implementation and maintenance projects.

IFRIC Update (Agenda Paper 12)

The Board received an update on the November 2018 meeting of the IFRS Interpretations Committee. Details of this meeting were published in *IFRIC Update (Agenda Paper 12)*.

The Board was not asked to make any decisions.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction— Proposed amendments to IAS 12 (Agenda Papers 12A–12C)

The Board discussed the transition requirements and other particular aspects of the proposed amendments to IAS 12 *Income Taxes* that Board members had raised at the October 2018 meeting. The proposed amendments would narrow the scope of the initial recognition exemption in paragraphs 15 and 24 of IAS 12. The exemption would no longer apply to the extent that, on the initial recognition of a transaction, an entity would recognise equal amounts of deferred tax assets and liabilities.

The Board decided:

- a. to require entities to apply the proposed amendments retrospectively applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, entities would be permitted to assess whether the requirements in IAS 12 to recognise deferred tax assets are met only at the date of transition (transition relief).
- b. to provide transition relief to first-time adopters, ie first-time adopters would be permitted to assess whether the requirements in IAS 12 to recognise deferred tax assets are met only at the date of transition to IFRSs.
- c. to permit earlier application of the proposed amendments.

All 14 Board members agreed with these decisions.

The Board also discussed the due process steps for the forthcoming exposure draft of proposed amendments to IAS 12.

The Board tentatively decided that the comment period for the proposed amendments to IAS 12 should be at least 120 days. All 14 Board members agreed with this decision.

All 14 Board members confirmed they are satisfied that the Board has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin balloting the proposed amendments to IAS 12.

No Board members indicated they intend to dissent from the proposed amendments to IAS 12.

Next step

The Board plans to issue an exposure draft in the second quarter of 2019.