Australian Government
Australian Accounting Standards Board

IFRS 17 post-implementation review: emerging issues from the Australian and New Zealand markets

Background

1 As noted at the AASB 17 TRG's October 2023 meeting:

(a) The IASB is expected to wait until most jurisdictions have one or two years of experience of applying IFRS 17 before conducting a formal post-implementation review. Since some jurisdictions have a 2025 application date, the formal post-implementation review may not be conducted before 2026/2027; and

(b) The IASB's focus in a post-implementation review is expected to be on whether the requirements are functioning as intended, which would include areas of unforeseen divergence in practice.

2 Although the IASB's focus is expected to be on whether the requirements are functioning as intended, that does not necessarily rule out addressing issues of principle in IFRS 17 if the application of a principle had unintended or unforeseen consequences.

3 There may be some relatively minor matters that could be addressed within the IASB's 'annual improvements' process (see the Appendix regarding that process). However, issues of any significance would need to be addressed in the post-implementation review.

4 Given that entities and auditors are currently dealing with the first-time application of AASB 17 in the private sector, the AASB 17 TRG agreed 2024 would be an opportune time to capture information about those issues that are potentially relevant for consideration in a post-implementation review.

Survey

5 As a related (but separate) exercise, the AASB staff may reprise the survey of accounting policy choices made under AASB 17 – the first survey was conducted in 2022-23 in respect of expectations insurers had about the choices they planned to make and was published as AASB Research Report 18.[1]

6 The IASB is likely to be interested in the results and consideration may be given to conducting the survey in conjunction with other national standard setters.

Potential post-implementation review topics

7 Tables 2 and 3 below present issues nominated as being potentially relevant for consideration in a post-implementation review based on past AASB 17 TRG discussions and discussion at the AALC.

8 Noting the high bar set for change to an issued IFRS Accounting Standard, and the inevitable reluctance of some entities to change practices once an accounting policy has been decided and implemented, the issues are divided into Type A issues and Type B issues as outlined in Table 1.

1 https://aasb.gov.au/news/aasb-research-report-18-aasb-17-insurance-contracts-presentation-disclosure-transition-and-other-accounting-policy-decisions-a-survey-on-australian-insurance-entities/

Table 1		
Type		Comment
A	Issues that are typically addressed each time particular transactions occur – that is, they relate to not routine transactions.	Stakeholders may be keen on raising these issues in a post-implementation review given there could be an ongoing cost-benefit consideration.
B	Issues that are likely to have become embedded in an insurer's processes and systems as they stem from routine transactions.	Stakeholders may be less keen on raising these issues in a post-implementation review given the implementation investment already made but find value in determining how these features of IFRS 17 are being applied in different jurisdictions. These issues may be useful to consider in terms of any further surveys to determine whether consistent practices are being applied across the Australian/New Zealand market, which is of particular interest to standard setters.

9 AASB 17 TRG members are asked to:

(a) provide your thoughts on the issues identified below;

(b) identify any other issues you consider should be raised and why; and

(c) identify any issues you consider might be able to be addressed within the IASB's 'annual improvements' process – see Appendix regarding that process.

10 At this stage, we are not asking AASB 17 TRG members to necessarily consider:

(a) the risks and benefits of raising particular issues, while noting that there may be valid reasons for preferring that some issues remain open to interpretation;

(b) exactly how we might want the IASB to address each issue – that is, for example, whether we want to seek a change to the principle underlying a requirement or simply more clarity.

Table 2 – Potential PIR issue – Type A		
1	Application of IFRS 17.B5 when an insurer holds an adverse development reinsurance contract in respect of a liability for incurred claims on underlying contracts	Concerns have been expressed because accounting mis-matches may arise since the adverse development reinsurance gives rise to an asset for remaining coverage, while the underlying contracts relate to a liability for incurred claims.
2	Application of IFRS 17.B5 when an entity acquires a liability for incurred claims in a portfolio or business combination	Concerns have been expressed because the acquiring entity recognises (gross) revenue and (gross) expenses as claims are ultimately determined (usually as they settle), which can be a source of confusion for users, particularly

Table 2 – Potential PIR issue – Type A		
		when the acquirer has other similar contracts at the same stage of their lifecycle that were initiated by the insurer. Intra-group transfers also create the need for two sets of financial records to be maintained when the acquiring entity and vendor entity (or consolidated group) each apply IFRS 17.

Table 3 – Potential PIR issue – Type B		
3	Non-distinct investment components (NDIC – being investment components that have not been separated from the host insurance contract [IFRS 17.13]), including measurement and disclosure challenges	There seem to be differing perspectives on what constitutes a NDIC. Investment components are amounts ‘repaid in all circumstances’ [IFRS 17 Appendix A definition]. Some areas of potential difference include: • whether amounts need to be both ‘paid and repaid’ • what is meant by ‘all circumstances’ – for example amounts that are similar to NDIC may be accounted for as NDIC, such as rights to withdraw a component of an outstanding policy balance, even though this might not occur in all circumstances. The result of identifying a NDIC is a reduction in revenue and expenses.
4	Determining coverage units	IFRS 17.BC282 identifies as a matter for judgement whether or not an entity adjusts for the time value of money when allocating coverage units. That is, there are no specific requirements related to inflating. There appear to be a variety of approaches emerging in practice across entities and products within entities.
5	Identifying inflation that is part of insurance finance income or expense	In particular, there seem to be differing perspectives on what constitutes an assumption about inflation based on an entity’s expectation of specific price changes (which are not assumptions that relate to financial risk under IFRS 17.B128).
6	Determining the extent to which aspects of IFRS 17 apply to the PAA	There are some paragraphs which are: • clearly identified as relating only to the premium allocation approach (PAA); • clearly only relevant to applying the general measurement model (GMM); • clearly apply regardless of whether the PAA or GMM applies; and • in a ‘grey’ area – that is, paragraphs that are not clearly applicable or non-applicable under the PAA.

Table 3 – Potential PIR issue – Type B		
7	Contract boundary	There can be different perspectives on when termination clauses in insurance contracts issued and reinsurance contracts held are relevant to determining the contract boundary. This includes cases when: • an entity might be regarded as having an option to terminate that it either exercises or does not exercise each day; and • termination would involve a reinsured entity exiting a particular insurance market, and considerations around whether that needs to be a commercially realistic scenario.
8	The extent to which recognition and measurement requirements are applied at the 'group of contracts' level	The main unit of account to which the recognition (including derecognition) and measurement requirements are applied is a group of contracts – however, different perspectives have emerged in some circumstances. For example whether the CSM on specific lapsed and derecognised contracts is recognised immediately in profit or loss or remains to be recognised as part of the CSM of the relevant group of contracts [IFRS 17.43-46 and 74-76].

Considerations for AASB TRG members

Q1: Do you agree with the distinction drawn in Table 1 regarding Type A and Type B issues?

Q2: Do you agree with the issues presented in Table 2 and how they are characterised?

Q3: Do you agree with the issues presented in Table 3 and how they are characterised?

Q4: Are there issues not outlined in this paper that you think should be raised as part of the post-implementation review?

Q5: Are there issues you consider might be able to be addressed within the IASB's 'annual improvements' process?

Appendix – IASB annual improvements process

11 The following extracts from the IFRS Foundation *Due Process Handbook* (2020) explain the IASB's annual improvement process – with emphasis added.

6.10 **Some proposed amendments to IFRS Standards that are sufficiently minor or narrow in scope can be packaged together and exposed in one document even though the amendments are unrelated. Such amendments are called 'annual improvements'.** Annual improvements follow the same due process as other amendments to the Standards, except that annual improvements consist of unrelated amendments that are exposed together, rather than separately.

6.11 The justification for exposing unrelated improvements in one package is that **such amendments are limited to changes that either clarify the wording in an IFRS Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements of the Standards**. Because of their nature, it is not necessary to undertake consultation or outreach for annual improvements beyond the comment letter process. The Board needs to be cautious and avoid including in the annual improvements package an amendment that merits separate consultation and outreach.

6.12 **Clarifying an IFRS Standard involves either replacing unclear wording in existing Standards or providing requirements where an absence of requirements is causing concern. Such an amendment maintains consistency with the existing principles within the applicable Standard and does not propose a new principle or change an existing principle**.

6.13 **Resolving a conflict between existing requirements of IFRS Standards includes addressing oversights or relatively minor unintended consequences that have arisen as a result of the existing requirements of the Standards. Such amendments do not propose a new principle or change an existing principle**.

6.14 **Proposed annual improvements should be well defined and narrow in scope**. The Board assesses proposed annual improvements against the criteria set out in paragraphs 6.10–6.13 before they are published in an exposure draft. As a guide, if the Board takes several meetings to reach a conclusion it is an indication that the cause of the issue is more fundamental than can be resolved within the annual improvements process.

6.15 The Board normally allows a minimum period of 90 days for comment on annual improvements