Grant Thornton

# IFRS Alert

## Amendments to IFRS 17 and IFRS 4

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## Executive Summary

**The International Accounting Standards Board (IASB) has issued 'Amendments to IFRS 17 'Insurance Contracts'' (the Amendments). The aim of the amendments is to address the concerns raised by stakeholders and help entities to more easily transition and implement the Standard.**

**The IASB also issued an amendment to the previous insurance Standard IFRS 4, 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' so that entities can still apply IFRS 9 'Financial Instruments' alongside IFRS 17.**


## Background

IFRS 17 was issued in May 2017, and since its release the IASB has been monitoring the implementation and concerns raised by stakeholders which has led to a series of amendments being issued that:

- ease transition by deferring the effective date of the Standard and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time
- make financial performance easier to explain, and
- further reduce costs by simplifying some requirements in the Standard.

## The Changes

| Area of change | Description |
|---|---|
| Effective date of IFRS 17 and the IFRS 9 temporary exemption | The amendments defer the effective date of IFRS 17 by two years from annual reporting periods beginning on or after 2021 to annual reporting periods beginning on or after 2023. The amendments also extend the temporary exemption (included in IFRS 4) from IFRS 9 by two years so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2023. |
| Scope exclusions | The amendments add additional scope exclusions for credit card contracts that provide insurance coverage, and also an optional scope exclusion for loan contracts that transfer high insurance risk. |

| Area of change | Description |
|---|---|
| Expected recovery of insurance acquisition cash flows | The amendments include guidance on the recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination. |
| Contractual service margin attributable to investment-return service and investment-related service | The amendments clarify the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements. |
| Applicability of the risk mitigation option | The amendments extend the risk mitigation option to include reinsurance contracts held and non-financial derivatives. |
| Interim financial statements | The amendments clarify the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level. |
| Reinsurance contracts held — recovery of losses on underlying insurance contracts | The amendments require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held. |
| Presentation in the statement of financial position | The amendments require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities rather than groups of insurance. |
| Transitional modifications and reliefs | The amendments add extra transitional reliefs for business combinations, the date of application of the risk mitigation option and the use of the fair value transition approach. |
| Minor amendments | The amendments add minor changes where the drafting of the Standard did not achieve the IASB's intended outcome. |

# Our thoughts

We welcome these changes as they give sufficient time for preparers who have not yet assessed the implementation requirements of this Standard to respond appropriately. Every reporting entity, not just entities that are currently registered with domestic regulators as insurance entities, must now carefully evaluate whether or not they are issuing insurance contracts. If insurance contracts are being issued then plans to transition to this Standard should start right away as the requirements set out in IFRS 17 are complex and in many instances actuarial input will be needed.



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