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No. INT2018-06
15 November 2018

IASB proposes to amend the effective date of IFRS 17 and extend the temporary exemption of IFRS 9 for insurers

The IASB will start the process to amend both the effective date of IFRS 17 and extend the temporary exemption in IFRS 4 for application of IFRS 9

At a glance

On 14 November 2018, the IASB Board agreed to start the process to amend IFRS 17 to defer the mandatory effective date of IFRS 17 by one year. Subject to IASB due process, entities will be required to apply IFRS 17 for annual periods beginning on or after the 1 January 2022. The Board noted that given its plans to consider whether to explore amendments to IFRS 17, and in light of the criteria for assessing them, any such potential amendments could take a year to finalise. Therefore, a one year deferral of the effective date is appropriate. The Board noted that limiting the deferral to one year would minimise disruption to entities that are furthest advanced in implementation, address users' concerns that adoption of IFRS 17 and IFRS 9 not be significantly delayed, and provide a clear signal to the industry that it should not stop implementation projects.

As a consequence of the IFRS 17 deferral, the Board also agreed to revise the fixed expiry date of the temporary exemption from IFRS 9 in IFRS 4 to allow entities to continue applying the temporary exemption from IFRS 9 until 1 January 2022.

The views in this In transition are based on our observations from the 14 November meeting, and they might differ in some respects from the official minutes of the meeting to be published by the IASB at a later date.

Background

1. In connection with the issuance of IFRS 17, the IASB established a transition resource working group ('TRG') to provide a public forum for stakeholders to follow the discussion of questions raised on implementation of the new standard. The purpose of the TRG is to facilitate a public discussion to provide support for stakeholders, and information to the Board, on implementation questions arising from the application of IFRS 17.

2. After issuance of the standard, IASB staff have also been engaged in a variety of activities with stakeholders to follow the implementation of IFRS 17. During these activities, and through the TRG discussions, the staff have become aware of several instances where the standard might be interpreted in ways that were not intended by the Board. At the IASB meeting on 24 October, the Board agreed to explore potential amendments to IFRS 17, based on a list of implementation issues and concerns compiled by the staff. The Board noted that the criteria sets a high hurdle for change, and any

amendments suggested would need to be narrow in scope and deliberated quickly to avoid significant delays in the effective date. Refer to our In Transition: IASB agrees on criteria for evaluating any future potential amendments to IFRS 17

Items discussed at the IASB Board meeting

3. The IASB staff presented one paper for the meeting (available here) exploring their views and consequences of any impacts on the amendment to the effective date of IFRS 17 and the temporary exemption from IFRS 9.

Effective date of IFRS 17

4. The Board agreed to start the process of amending the mandatory effective date of IFRS 17 so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.

5. The Board noted that in setting the original mandatory effective date of IFRS 17 approximately three and a half years from the date of issuance of the final standard, it had already allowed for a considerably longer implementation period than a typical standard. This extended adoption date was needed given that IFRS 17 represents a fundamental change to the accounting for insurance contracts.

6. Considering the concerns and implementation challenges described in the October 2018 meeting, the Board noted that any potential amendments issued would go beyond merely clarifying the requirements of IFRS 17. That is, they would not meet the definition of annual improvements. Any potential amendments discussed in the October Board meeting will be addressed in the December board meeting and could take at least a year to finalise, given the due process requirements to develop an exposure draft, allow an appropriate public comment period, and consider the responses. Therefore, the Board agreed to a one year delay in the effective date. While some constituents had requested a longer delay, the Board noted that it decided on the one year delay in order to minimise disruption to entities that are furthest advanced in implementation. The Board noted its responsibility to all stakeholders, emphasising that users of financial statements believe that IFRS 17 and IFRS 9 will provide more relevant information and therefore should be adopted without a significant delay.

7. The Board noted that it has decided to consider deferral of IFRS 17 before exploring any potential amendments which is unusual. However, the Board wants to provide stakeholders with a clear steer on timing for insurers to make planning decisions. The Board deems the deferral necessary to allow time to assess the issues highlighted by stakeholders and emphasised that they will need to be disciplined when assessing potential amendments.

Temporary exemption to IFRS 9

8. IFRS 4 permits entities whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021. Alternatively, issuers of insurance contracts can recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before IFRS 17 (overlay approach), which some view as a more costly approach. IFRS 17 replaces IFRS 4 and therefore the temporary exemption from IFRS 9 will no longer exist when insurers apply IFRS 17. The Board previously decided in 2016 that all insurers should apply IFRS 9 from 1 January 2021 irrespective of whether IFRS 17 is effective at that date.

9. However, at the 14 November meeting the majority of the Board decided to amend the fixed expiry date of the temporary exemption of IFRS 9 in IFRS 4 to 1 January 2022. This indicates the Board's continued support to align IFRS 17 with IFRS 9. The Board noted the reason for this was mainly to avoid the mismatches and volatility that would result from applying IFRS 9 on 1 January 2021 prior to the revised IFRS 17 effective date. The

Board noted that there may be a decrease in the quality of assets held by insurers in search of higher yields. Therefore the need for expected credit loss information provided for in the new IFRS 9 impairment model is important and currently missing from insurer reporting under the IFRS 9 deferral.

Next step

10. The Board will follow due process by issuing an exposure draft, allowing an appropriate public comment period, and redeliberating responses in the forthcoming months. The expected timeframe for issuance of final amendments (including this proposed change to the effective date), considering the due process required, could be a year.

11. The IASB has already published a short note of the meeting that is available here. The Board is expected to consider whether to explore amendments to IFRS 17 at its December 2018 meeting.

PwC has developed the following publications and resources related to IFRS 17, 'Insurance Contracts':

- In transition INT2018-05: *IASB agrees on criteria for evaluating any potential future amendments to IFRS 17*
- In transition INT2018-04: *TRG debates more IFRS 17 implementation issues*
- In transition INT2018-03: *Amendments to IFRS 17 on the IASB Board agenda*
- In transition INT2018-02: *Insurance TRG addresses unit of account, contract boundary, and coverage unit issues*
- In transition INT2018-01: *Insurance TRG holds its first meeting on IFRS 17*
- In brief INT2017-05: *IFRS 17 marks a new epoch for insurance contracts*
- In depth INT2017-04: *IFRS 17 marks a new epoch for insurance contract accounting*
- *Using Solvency II to implement IFRS 17*
- *IFRS 17 – Redefining insurance accounting*

PwC clients who would like to obtain any of these publications, or have questions about this In transition, should contact their engagement partner.

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