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IFRS 17 Insurance Contracts: Contracts that change their nature over time - Issues Paper

Objective

- 1 The objective of this session in IAWG was to receive information about the fact patterns of contracts that can be considered to change their nature over time, the impact of the IFRS 17 requirements and the prevalence of these contracts. EFRAG TEG will receive a verbal update of responses received to consider the next steps and provide examples if relevant.

Information received to date

- 2 During the comment period on the draft comment letter on the 2019 Exposure draft on Amendments to IFRS 17, EFRAG was informed about problems relating to contracts that may switch from contracts without direct participation features to contracts with direct participation and vice versa.
- 3 The following two examples were provided:
 - (a) Some contracts provide participation through a with-profit type policy during the initial savings phase. At the end of the savings phase, the policyholder has the option to convert the contract to a guaranteed annuity. The annuity is purchased from the annuity provider at current market rates when the option is exercised, and any additional costs are borne by the fund. The annuity rate in these products is guaranteed at inception and the annuity phase would fall within the contract boundary of the with-profit policy. Both phases of the contract are therefore either accounted for under the variable fee approach or the general model. (United Kingdom)
 - (b) Variable fee contracts with non-participating features that are common in the US and Asian markets, these may include:
 - (i) Variable annuities with a participating accumulation phase covered by underlying items and a non-participating annuity phase not covered by underlying items¹ (similar to 3(a) above?);
 - (ii) Variable annuities with guarantees that are not covered by underlying items; or
 - (iii) Certain unit-linked contracts with non-participating risk riders, for which the unbundling of the components is not permitted.
- 4 Where the corresponding assets backing the non-participating features in the insurance liability are not underlying items, the investment result do not adjust CSM

¹ At inception the overall contract may qualify for the VFA even if the annuity phase would not qualify separately.

but impacts profit or loss based on IFRS 9. This would mean that while the interest accretion adjusts the CSM, the same is not true for income earned on the related assets which would mean that a loss component may arise relatively quickly on these contracts even if the contract is not onerous.

- 5 The IASB staff in a paper for the February 2020 IASB meeting² considered the following suggestions to amend IFRS 17 to:
- (a) Exclude the resulting cash flows from the exercise of some options from the contract boundary;
 - (b) Provide an accounting policy choice to separate some components of an insurance contract; or
 - (c) Make the requirements around financial guarantees in B113 (b) optional.
- 6 The IASB agreed with the staff that such adjustments would touch on the key aspects of IFRS 17 and there could be unintended consequences from such changes. Furthermore, more options would further reduce the comparability across insurers and increase the complexity of IFRS 17. Additionally, one of the suggested solutions relating to the inclusion of non-derivative financial instruments at fair value through profit and loss in the risk mitigation option has already been agreed by the IASB.

Questions for EFRAG TEG/IAWG about these contracts

- 7 Are there other types of contracts that need to be included in consideration of this issue?
- 8 Please explain whether you agree with the description of the accounting implications under IFRS 17 or explain where there are further aspects to be considered.
- 9 Please provide information as to the prevalence of the contracts impacted by these issues – as a percentage of the line of business per country.

Questions for EFRAG TEG: DEA

- 10 Should this issue be included in the draft endorsement advice? Please explain your answer. Please also indicate which of the technical criteria are impacted by the concerns around these contracts.

² Refer to the IASB staff paper for further details : <https://cdn.ifrs.org/-/media/feature/meetings/2020/february/iasb/ap2f-amendments-to-ifs.pdf>