Republic of the Philippines
Professional Regulation Commission
Manila

CERTIFICATION INTERNATIONAL ISO 9001:2008 CIP/5193/16/06/977
ACCREDITED QMS Certification Body Accreditation No: MSA-001

PROFESSIONAL REGULATORY BOARD OF ACCOUNTANCY

Resolution No. 31
Series of 2018

WHEREAS, the Financial Reporting Standards Council (FRSC) has approved and submitted hereunder pronouncements to the Board for approval;

1. PFRS 17, *Insurance Contracts.*
2. Amendments to PAS 19, *Plan Amendment, Curtailment or Settlement.*
3. *Annual Improvements* to PFRS 2015-2017 Cycle.
4. PIC Q&A No. 2018-01 PAS 8 – *Voluntary changes in accounting policy.*
5. PIC Q&A No. 2018-02 *PAS 36 – Non-controlling interests and goodwill impairment test.*
6. PIC Q&A No. 2018-03 *PFRS 13, PAS 16 and PAS 36 – Fair value of property, plant and equipment and depreciated replacement cost.*
7. PIC Q&A No. 2018-04 *PAS 41- Inability to measure fair value reliably for biological assets within the scope of PAS 41, Agriculture.*
8. PIC Q&A No. 2018-05 *PAS 37 – Liability arising from maintenance requirement of an asset held under a lease.*
9. PIC Q&A No. 2018-06 PAS 27- *Cost of investment in subsidiaries in separate financial statements when pooling is applied in consolidated financial statements.*
10. PIC Q&A No. 2018-07 PAS 27 and PAS 28 - *Cost of an associate, joint venture, or subsidiary in separate financial statements.*
11. PIC Q&A No. 2018-08 PFRS 10 and PFRS 3 – *Accounting for the acquisition of a non-wholly owned subsidiary that is not a business.*
12. PIC Q&A No. 2018-09 PAS 21- *Classification of deposits and progress payments as monetary or non-monetary items.*
13. PIC Q&A No. 2018-10 PAS 2 – *Scope of disclosure of inventory write-downs*
14. PIC Q&A No. 2018-11 *Classification of land by real estate developer.*

WHEREAS, after study and review of the provisions of the above-stated pronouncements as adopted by the FRSC, the Board finds them to be well-taken and instructive for compliance by practicing Certified Public Accountants;

WHEREFORE, the Board **RESOLVES**, as it is hereby **RESOLVED,** to adopt the above-stated pronouncements as part of the Philippine Accounting Standards.

RESOLVED FURTHER, that this Resolution and the above-stated pronouncements shall take effect after fifteen (15) days following its full and complete publication in the Official Gazette or in any newspaper of general circulation in the Philippines.

Done in the City of Manila, this **20th** day of **July**, 2018.

JOEL L. TAN-TORRES
Chairman

GLORIA T. BAYSA
Vice-Chairperson

ARLYN S. VILLANUEVA
Member

SAMUEL B. PADILLA
Member

GERVACIO I. PIATOR
Member

THELMA S. CIUDADANO
Member

MARKO ROMEO L. FUENTES
Member

ATTESTED:

ATTY. LOVELIKA T. BAUTISTA
Chief
Secretariat to the Professional Regulatory Boards

APPROVED:

TEOFILO S. PILANDO, JR.
Chairman

YOLANDA D. REYES
Commissioner

JOSE Y. CUETO, JR.
Commissioner

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DATE OF EFFECTIVITY : APRIL 24, 2019

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Financial Reporting Standards Council

March 19, 2018

Hon. Teofilo S. Pilando, Jr.
Chairman
Professional Regulation Commission
P. Paredes Street corner N. Reyes Street
Sampaloc, Manila

Dear Chairman Pilando:

The Financial Reporting Standards Council (FRSC) has approved the adoption of the following pronouncements:

- PFRS 17, *Insurance Contracts*
- Amendments to PAS 19, *Plan Amendment, Curtailment or Settlement*
- *Annual Improvements to PFRSs* 2015–2017 Cycle
- PIC Q&A No. 2018-01 *PAS 8 - Voluntary changes in accounting policy*
- PIC Q&A No. 2018-02 *PAS 36 - Non-controlling interests and goodwill impairment test*
- PIC Q&A No. 2018-03 *PFRS 13, PAS 16 and PAS 36 - Fair value of property, plant and equipment and depreciated replacement cost*
- PIC Q&A No. 2018-04 *PAS 41 - Inability to measure fair value reliably for biological assets within the scope of PAS 41, Agriculture*
- PIC Q&A No. 2018-05 *PAS 37 - Liability arising from maintenance requirement of an asset held under a lease*
- PIC Q&A No. 2018-06 *PAS 27 - Cost of investment in subsidiaries in separate financial statements when pooling is applied in consolidated financial statements*
- PIC Q&A No. 2018-07 *PAS 27 and PAS 28 - Cost of an associate, joint venture, or subsidiary in separate financial statements*
- PIC Q&A No. 2018-08 *PFRS 10 and PFRS 3 - Accounting for the acquisition of a non-wholly owned subsidiary that is not a business*
- PIC Q&A No. 2018-09 *PAS 21 - Classification of deposits and progress payments as monetary or non-monetary items*
- PIC Q&A No. 2018-10 *PAS 2 - Scope of disclosure of inventory write-downs*
- PIC Q&A No. 2018-11 *Classification of land by real estate developer*

We are submitting the aforementioned pronouncements for approval through the Board of Accountancy.

Thank you for your continued cooperation in this effort to establish financial reporting standards in the Philippines.

Very truly yours,

Josephine Adrienne A. Abarca
Chairman

PICPA Building, 700 Shaw Boulevard, Mandaluyong City
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Financial Reporting Standards Council

PFRS 17, *Insurance Contracts*

PFRS 17, *Insurance Contracts*

Contents

FRSC PREFACE TO PFRS 17, *INSURANCE CONTRACTS*

1. The Financial Reporting Standards Council (FRSC) has approved on March 14, 2018 the adoption of IFRS 17 *Insurance Contracts,* issued by the International Accounting Standards Board (IASB) in May 2017, as PFRS 17, *Insurance Contracts*.

2. PFRS 17 is the first bona fide accounting standard for insurance contracts. The new standard supersedes PFRS 4, *Insurance Contracts*, the current interim standard that deals with insurance contracts.

3. An entity shall apply this standard for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted for entities that apply PFRS 9, *Financial Instruments*, and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

* * * * * * *

FRSC Members

Josephine Adrienne A. Abarca, Chairman

June Cheryl A. Cabal-Revilla | **Ester F. Ledesma**

Antonieta F. Ibe | **Michael D. Roxas**

Leonardo D. Cuaresma, Jr. | **Lyn I. Javier**

Samuel B. Padilla | **Carmelita O. Antasuda**

IFRS 17 *INSURANCE CONTRACTS*

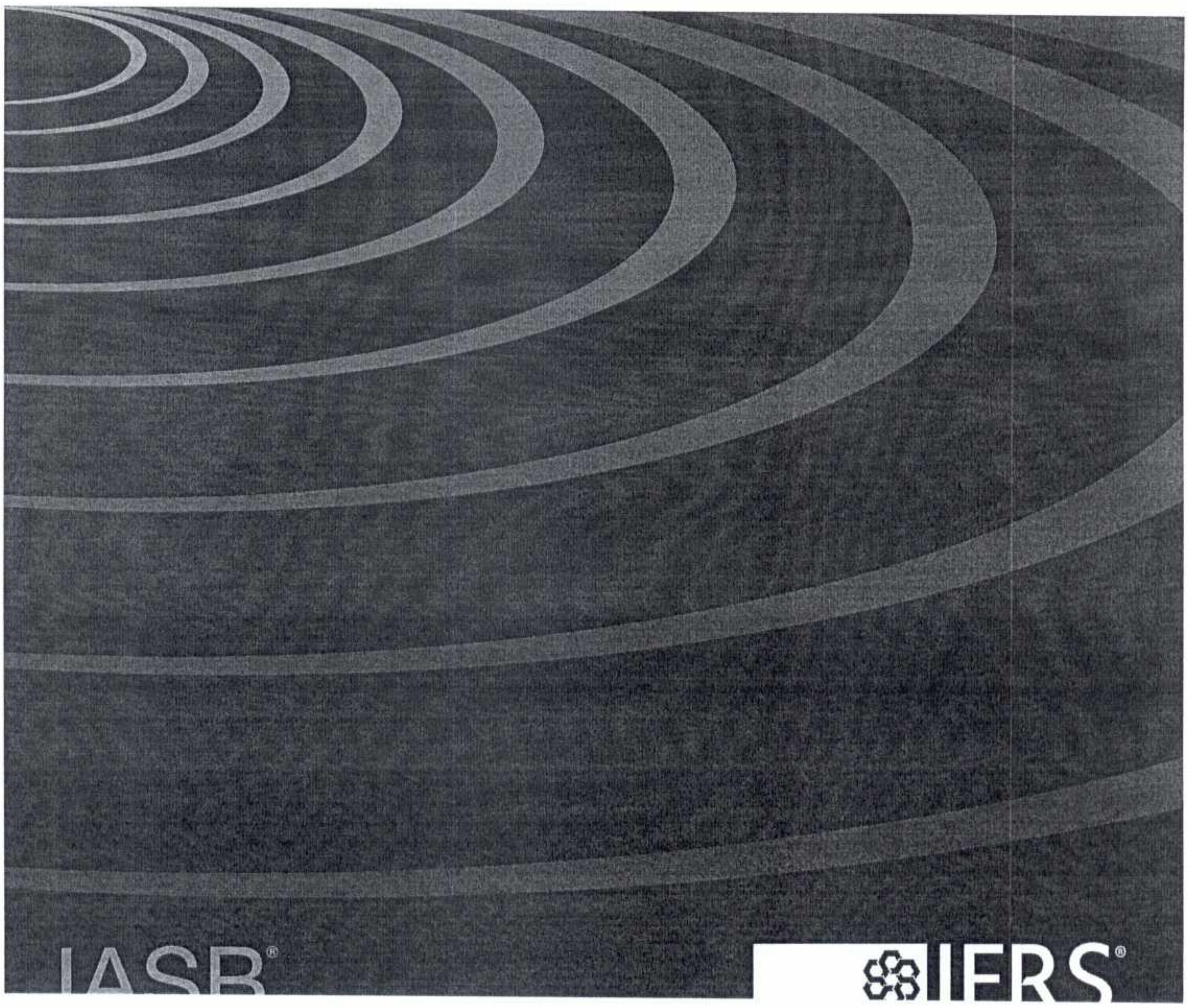
CONTENTS

THE DOCUMENTS LISTED BELOW ARE NOT INCLUDED HEREIN.

May 2017

IFRS® Standards

IFRS 17 Insurance Contracts



IFRS 17 *Insurance Contracts* together with its accompanying documents is issued by the International Accounting Standards Board (the Board).

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Introduction

Overview

IN1 IFRS 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IN2 IFRS 17 is effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

IN3 IFRS 17 supersedes IFRS 4 *Insurance Contracts*.

Reasons for issuing the Standard

IN4 The previous IFRS Standard on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements. The differences in accounting treatment across jurisdictions and products made it difficult for investors and analysts to understand and compare insurers' results. Most stakeholders, including insurers, agreed on the need for a common global insurance accounting standard even though opinions varied as to what it should be. Long-term and complex insurance risks are difficult to reflect in the measurement of insurance contracts. In addition, insurance contracts are not typically traded in markets and may include a significant investment component, posing further measurement challenges. Some previous insurance accounting practices permitted under IFRS 4 did not adequately reflect the true underlying financial positions or the financial performance of these insurance contracts. To address these issues, the International Accounting Standards Board (the Board) undertook a project to make insurers' financial statements more useful and insurance accounting practices consistent across jurisdictions.

Main features

IN5 IFRS 17 reflects the Board's view that an insurance contract combines features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, the Board developed an approach that:

(a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;

(b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and

(c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognise all insurance finance income or expenses for the reporting period in profit or loss or to recognise some of that income or expenses in other comprehensive income.

IN6 The key principles in IFRS 17 are that an entity:

(a) identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

(b) separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.

(c) divides the contracts into groups it will recognise and measure.

(d) recognises and measures groups of insurance contracts at:

  (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)

  (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin).

(e) recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately.

(f) presents separately insurance revenue, insurance service expenses and insurance finance income or expenses.

(g) discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. To do this, an entity discloses qualitative and quantitative information about:

  (i) the amounts recognised in its financial statements from insurance contracts;

  (ii) the significant judgements, and changes in those judgements, made when applying the Standard; and

  (iii) the nature and extent of the risks from contracts within the scope of this Standard.

IN7 The measurement required by IFRS 17 results in:

(a) the liability for a group of insurance contracts relating to performance obligations for remaining service being measured broadly consistent with IFRS 15 *Revenue from Contracts with Customers* except that:

  (i) the measurement is updated for changes in financial assumptions (to differing degrees depending on the type of insurance contract); and

  (ii) the liability often includes an investment component typically not in contracts within the scope of IFRS 15.

(b) the liability for a group of insurance contracts relating to incurred claims being measured broadly consistently with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, except that the liability often includes an investment component that is typically not in contracts within the scope of IAS 37.

IN8 An entity may apply a simplified measurement approach (the premium allocation approach) to some insurance contracts. The simplified measurement approach allows an entity to measure the amount relating to remaining service by allocating the premium over the coverage period.

IFRS 17 *Insurance Contracts*

Objective

1 **IFRS 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of *insurance contracts* within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.**

2 An entity shall consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying IFRS 17. A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (ie no discernible effect on the economics of the contract). Implied terms in a contract include those imposed by law or regulation. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services).

Scope

3 An entity shall apply IFRS 17 to:

(a) insurance contracts, including *reinsurance contracts*, it issues;

(b) reinsurance contracts it holds; and

(c) *investment contracts with discretionary participation features* it issues, provided the entity also issues insurance contracts.

4 All references in IFRS 17 to insurance contracts also apply to:

(a) reinsurance contracts held, except:

(i) for references to insurance contracts issued; and

(ii) as described in paragraphs 60–70.

(b) investment contracts with discretionary participation features as set out in paragraph 3(c), except for the reference to insurance contracts in paragraph 3(c) and as described in paragraph 71.

5 All references in IFRS 17 to insurance contracts issued also apply to insurance contracts acquired by the entity in a transfer of insurance contracts or a business combination other than reinsurance contracts held.

6 Appendix A defines an insurance contract and paragraphs B2–B30 of Appendix B provide guidance on the definition of an insurance contract.

7 An entity shall not apply IFRS 17 to:

(a) warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see IFRS 15 *Revenue from Contracts with Customers*).

(b) employers' assets and liabilities from employee benefit plans (see IAS 19 *Employee Benefits* and IFRS 2 *Share-based Payment*) and retirement benefit obligations reported by defined benefit retirement plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

(c) contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, variable and other contingent lease payments and similar items: see IFRS 15, IAS 38 *Intangible Assets* and IFRS 16 *Leases*).

(d) residual value guarantees provided by a manufacturer, dealer or retailer and a lessee's residual value guarantees when they are embedded in a lease (see IFRS 15 and IFRS 16).

(e) financial guarantee contracts, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. The issuer shall choose to apply either IFRS 17 or IAS 32 *Financial Instruments: Presentation*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* to such financial guarantee contracts. The issuer may make that choice contract by contract, but the choice for each contract is irrevocable.

(f) contingent consideration payable or receivable in a business combination (see IFRS 3 *Business Combinations*).

(g) insurance contracts in which the entity is the *policyholder*, unless those contracts are reinsurance contracts held (see paragraph 3(b)).

8 Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. An entity may choose to apply IFRS 15 instead of IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are:

(a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;

(b) the contract compensates the customer by providing services, rather than by making cash payments to the customer; and

(c) the *insurance risk* transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

Combination of insurance contracts

9 A set or series of insurance contracts with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it may be necessary to treat the set or series of contracts as a whole. For example, if the rights or obligations in one contract do nothing other than entirely negate the rights or obligations in another contract entered into at the same time with the same counterparty, the combined effect is that no rights or obligations exist.

Separating components from an insurance contract (paragraphs B31–B35)

10 An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an *investment component* or a service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11 An entity shall:

(a) apply IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative.

(b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component.

12 After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer distinct goods or non-insurance services to a policyholder, applying paragraph 7 of IFRS 15. The entity shall account for such promises applying IFRS 15. In applying paragraph 7 of IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of IFRS 17 and, on initial recognition, shall:

(a) apply IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or non-insurance services; and

(b) attribute the cash outflows between the insurance component and any promised goods or non-insurance services accounted for applying IFRS 15 so that:

  (i) cash outflows that relate directly to each component are attributed to that component; and

  (ii) any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows the entity would expect to arise if that component were a separate contract.

13 After applying paragraphs 11–12, an entity shall apply IFRS 17 to all remaining components of the host insurance contract. Hereafter, all references in IFRS 17 to embedded derivatives refer to derivatives that have not been separated from

the host insurance contract and all references to investment components refer to investment components that have not been separated from the host insurance contract (except those references in paragraphs B31–B32).

Level of aggregation of insurance contracts

14 **An entity shall identify *portfolios of insurance contracts*. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines (for example single premium fixed annuities compared with regular term life assurance) would not be expected to have similar risks and hence would be expected to be in different portfolios.**

15 **Paragraphs 16–24 apply to insurance contracts issued. The requirements for the level of aggregation of reinsurance contracts held are set out in paragraph 61.**

16 **An entity shall divide a portfolio of insurance contracts issued into a minimum of:**

(a) **a group of contracts that are onerous at initial recognition, if any;**

(b) **a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and**

(c) **a group of the remaining contracts in the portfolio, if any.**

17 If an entity has reasonable and supportable information to conclude that a set of contracts will all be in the same group applying paragraph 16, it may measure the set of contracts to determine if the contracts are onerous (see paragraph 47) and assess the set of contracts to determine if the contracts have no significant possibility of becoming onerous subsequently (see paragraph 19). If the entity does not have reasonable and supportable information to conclude that a set of contracts will all be in the same group, it shall determine the group to which contracts belong by considering individual contracts.

18 For contracts issued to which an entity applies the premium allocation approach (see paragraphs 53–59), the entity shall assume no contracts in the portfolio are onerous at initial recognition, unless facts and circumstances indicate otherwise. An entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.

19 For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–59), an entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

(a) based on the likelihood of changes in assumptions which, if they occurred, would result in the contracts becoming onerous.

(b) using information about estimates provided by the entity's internal reporting. Hence, in assessing whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

(i) an entity shall not disregard information provided by its internal reporting about the effect of changes in assumptions on different contracts on the possibility of their becoming onerous; but

(ii) an entity is not required to gather additional information beyond that provided by the entity's internal reporting about the effect of changes in assumptions on different contracts.

20 If, applying paragraphs 14–19, contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. The entity shall not apply this paragraph by analogy to other items.

21 An entity is permitted to subdivide the groups described in paragraph 16. For example, an entity may choose to divide the portfolios into:

(a) more groups that are not onerous at initial recognition—if the entity's internal reporting provides information that distinguishes:

(i) different levels of profitability; or

(ii) different possibilities of contracts becoming onerous after initial recognition; and

(b) more than one group of contracts that are onerous at initial recognition—if the entity's internal reporting provides information at a more detailed level about the extent to which the contracts are onerous.

22 An entity shall not include contracts issued more than one year apart in the same group. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.

23 A *group of insurance contracts* shall comprise a single contract if that is the result of applying paragraphs 14–22.

24 An entity shall apply the recognition and measurement requirements of IFRS 17 to the groups of contracts issued determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition, and shall not reassess the composition of the groups subsequently. To measure a group of contracts, an entity may estimate the *fulfilment cash flows* at a higher level of aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.

Recognition

25 An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

(a) **the beginning of the coverage period of the group of contracts;**

(b) **the date when the first payment from a policyholder in the group becomes due; and**

(c) **for a group of onerous contracts, when the group becomes onerous.**

26 If there is no contractual due date, the first payment from the policyholder is deemed to be due when it is received. An entity is required to determine whether any contracts form a group of onerous contracts applying paragraph 16 before the earlier of the dates set out in paragraphs 25(a) and 25(b) if facts and circumstances indicate there is such a group.

27 An entity shall recognise an asset or liability for any *insurance acquisition cash flows* relating to a group of issued insurance contracts that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).

28 In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts issued by the end of the reporting period and shall make estimates for the discount rates at the date of initial recognition (see paragraph B73) and the coverage units provided in the reporting period (see paragraph B119). An entity may issue more contracts in the group after the end of a reporting period, subject to paragraph 22. An entity shall add the contracts to the group in the reporting period in which the contracts are issued. This may result in a change to the determination of the discount rates at the date of initial recognition applying paragraph B73. An entity shall apply the revised rates from the start of the reporting period in which the new contracts are added to the group.

Measurement (paragraphs B36–B119)

29 An entity shall apply paragraphs 30–52 to all groups of insurance contracts within the scope of IFRS 17, with the following exceptions:

(a) for groups of insurance contracts meeting either of the criteria specified in paragraph 53, an entity may simplify the measurement of the group using the premium allocation approach in paragraphs 55–59.

(b) for groups of reinsurance contracts held, an entity shall apply paragraphs 32–46 as required by paragraphs 63–70. Paragraphs 45 (on *insurance contracts with direct participation features*) and 47–52 (on onerous contracts) do not apply to groups of reinsurance contracts held.

(c) for groups of investment contracts with discretionary participation features, an entity shall apply paragraphs 32–52 as modified by paragraph 71.

30 When applying IAS 21 *The Effects of Changes in Foreign Exchange Rates* to a group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the *contractual service margin*, as a monetary item.

31 In the financial statements of an entity that issues insurance contracts, the fulfilment cash flows shall not reflect the non-performance risk of that entity (non-performance risk is defined in IFRS 13 *Fair Value Measurement*).

Measurement on initial recognition (paragraphs B36–B95)

32 **On initial recognition, an entity shall measure a group of insurance contracts at the total of:**

(a) the fulfilment cash flows, which comprise:

(i) estimates of future cash flows (paragraphs 33–35);

(ii) an adjustment to reflect the time value of money and the *financial risks* related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows (paragraph 36); and

(iii) a *risk adjustment for non-financial risk* (paragraph 37).

(b) the contractual service margin, measured applying paragraphs 38–39.

Estimates of future cash flows (paragraphs B36–B71)

33 **An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:**

(a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes.

(b) reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53).

(c) be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60).

(d) be explicit—the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows

separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).

34 Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services (see paragraphs B61–B71). A substantive obligation to provide services ends when:

(a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or

(b) both of the following criteria are satisfied:

  (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and

  (ii) the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

35 An entity shall not recognise as a liability or as an asset any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract. Such amounts relate to future insurance contracts.

Discount rates (paragraphs B72–B85)

36 An entity shall adjust the estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows, to the extent that the financial risks are not included in the estimates of cash flows. The discount rates applied to the estimates of the future cash flows described in paragraph 33 shall:

(a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;

(b) be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and

(c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

Risk adjustment for non-financial risk (paragraphs B86–B92)

37 An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

Contractual service margin

38 **The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides services in the future. An entity shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) applies, results in no income or expenses arising from:**

(a) the initial recognition of an amount for the fulfilment cash flows, measured by applying paragraphs 32–37;

(b) the derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows applying paragraph 27; and

(c) any cash flows arising from the contracts in the group at that date.

39 For insurance contracts acquired in a transfer of insurance contracts or a business combination, an entity shall apply paragraph 38 in accordance with paragraphs B93–B95.

Subsequent measurement

40 **The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:**

(a) the *liability for remaining coverage* comprising:

(i) the fulfilment cash flows related to future service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92;

(ii) the contractual service margin of the group at that date, measured applying paragraphs 43–46; and

(b) the *liability for incurred claims*, comprising the fulfilment cash flows related to past service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92.

41 **An entity shall recognise income and expenses for the following changes in the carrying amount of the liability for remaining coverage:**

(a) insurance revenue—for the reduction in the liability for remaining coverage because of services provided in the period, measured applying paragraphs B120–B124;

(b) insurance service expenses—for losses on groups of onerous contracts, and reversals of such losses (see paragraphs 47–52); and

(c) insurance finance income or expenses—for the effect of the time value of money and the effect of financial risk as specified in paragraph 87.

42 **An entity shall recognise income and expenses for the following changes in the carrying amount of the liability for incurred claims:**

(a) insurance service expenses—for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;

(b) insurance service expenses—for any subsequent changes in fulfilment cash flows relating to incurred claims and incurred expenses; and

(c) insurance finance income or expenses—for the effect of the time value of money and the effect of financial risk as specified in paragraph 87.

Contractual service margin (paragraphs B96—B119)

43 **The contractual service margin at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss because it relates to the future service to be provided under the contracts in the group.**

44 For *insurance contracts without direct participation features*, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) interest accreted on the carrying amount of the contractual service margin during the reporting period, measured at the discount rates specified in paragraph B72(b);

(c) the changes in fulfilment cash flows relating to future service as specified in paragraphs B96–B100, except to the extent that:

  (i) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48(a)); or

  (ii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).

(d) the effect of any currency exchange differences on the contractual service margin; and

(e) the amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph B119.

45 For insurance contracts with direct participation features (see paragraphs B101–B118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these

adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) the entity's share of the change in the fair value of the *underlying items* (see paragraph B104(b)(i)), except to the extent that:

  (i) paragraph B115 (on risk mitigation) applies;

  (ii) the entity's share of a decrease in the fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

  (iii) the entity's share of an increase in the fair value of the underlying items reverses the amount in (ii).

(c) the changes in fulfilment cash flows relating to future service, as specified in paragraphs B101–B118, except to the extent that:

  (i) paragraph B115 (on risk mitigation) applies;

  (ii) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

  (iii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).

(d) the effect of any currency exchange differences arising on the contractual service margin; and

(e) the amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period, applying paragraph B119.

46 Some changes in the contractual service margin offset changes in the fulfilment cash flows for the liability for remaining coverage, resulting in no change in the total carrying amount of the liability for remaining coverage. To the extent that changes in the contractual service margin do not offset changes in the fulfilment cash flows for the liability for remaining coverage, an entity shall recognise income and expenses for the changes, applying paragraph 41.

Onerous contracts

47 An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. Applying paragraph 16(a), an entity shall group such contracts separately from contracts that are not onerous. To the extent that paragraph 17 applies, an entity may identify the group of onerous contracts by measuring a set of contracts rather than individual contracts. An entity shall recognise a loss in profit or loss for the net outflow for

the group of onerous contracts, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin of the group being zero.

48 A group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if the following amounts exceed the carrying amount of the contractual service margin:

(a) unfavourable changes in the fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows relating to future service; and

(b) for a group of insurance contracts with direct participation features, the entity's share of a decrease in the fair value of the underlying items.

Applying paragraphs 44(c)(i), 45(b)(ii) and 45(c)(ii), an entity shall recognise a loss in profit or loss to the extent of that excess.

49 An entity shall establish (or increase) a loss component of the liability for remaining coverage for an onerous group depicting the losses recognised applying paragraphs 47–48. The loss component determines the amounts that are presented in profit or loss as reversals of losses on onerous groups and are consequently excluded from the determination of insurance revenue.

50 After an entity has recognised a loss on an onerous group of insurance contracts, it shall allocate:

(a) the subsequent changes in fulfilment cash flows of the liability for remaining coverage specified in paragraph 51 on a systematic basis between:

  (i) the loss component of the liability for remaining coverage; and

  (ii) the liability for remaining coverage, excluding the loss component.

(b) any subsequent decrease in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows relating to future service and any subsequent increases in the entity's share in the fair value of the underlying items solely to the loss component until that component is reduced to zero. Applying paragraphs 44(c)(ii), 45(b)(iii) and 45(c)(iii), an entity shall adjust the contractual service margin only for the excess of the decrease over the amount allocated to the loss component.

51 The subsequent changes in the fulfilment cash flows of the liability for remaining coverage to be allocated applying paragraph 50(a) are:

(a) estimates of the present value of future cash flows for claims and expenses released from the liability for remaining coverage because of incurred insurance service expenses;

(b) changes in the risk adjustment for non-financial risk recognised in profit or loss because of the release from risk; and

(c) insurance finance income or expenses.

52 The systematic allocation required by paragraph 50(a) shall result in the total amounts allocated to the loss component in accordance with paragraphs 48–50 being equal to zero by the end of the coverage period of a group of contracts.

Premium allocation approach

53 An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:

(a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or

(b) the coverage period of each contract in the group (including coverage arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

54 The criterion in paragraph 53(a) is not met if at the inception of the group an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

(a) the extent of future cash flows relating to any derivatives embedded in the contracts; and

(b) the length of the coverage period of the group of contracts.

55 Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:

(a) on initial recognition, the carrying amount of the liability is:

(i) the premiums, if any, received at initial recognition;

(ii) minus any insurance acquisition cash flows at that date, unless the entity chooses to recognise the payments as an expense applying paragraph 59(a); and

(iii) plus or minus any amount arising from the derecognition at that date of the asset or liability recognised for insurance acquisition cash flows applying paragraph 27.

(b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:

(i) plus the premiums received in the period;

(ii) minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a);

(iii) plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a);

(iv) plus any adjustment to a financing component, applying paragraph 56;

(v) minus the amount recognised as insurance revenue for coverage provided in that period (see paragraph B126); and

(vi) minus any investment component paid or transferred to the liability for incurred claims.

56 If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the coverage and the related premium due date is no more than a year.

57 If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an entity shall calculate the difference between:

(a) the carrying amount of the liability for remaining coverage determined applying paragraph 55; and

(b) the fulfilment cash flows that relate to remaining coverage of the group, applying paragraphs 33–37 and B36–B92. However, if, in applying paragraph 59(b), the entity does not adjust the liability for incurred claims for the time value of money and the effect of financial risk, it shall not include in the fulfilment cash flows any such adjustment.

58 To the extent that the fulfilment cash flows described in paragraph 57(b) exceed the carrying amount described in paragraph 57(a), the entity shall recognise a loss in profit or loss and increase the liability for remaining coverage.

59 In applying the premium allocation approach, an entity:

(a) may choose to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year.

(b) shall measure the liability for incurred claims for the group of insurance contracts at the fulfilment cash flows relating to incurred claims, applying paragraphs 33–37 and B36–B92. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.

Reinsurance contracts held

60 The requirements in IFRS 17 are modified for reinsurance contracts held, as set out in paragraphs 61–70.

61 An entity shall divide portfolios of reinsurance contracts held applying paragraphs 14–24, except that the references to onerous contracts in those paragraphs shall be replaced with a reference to contracts on which there is a net gain on initial recognition. For some reinsurance contracts held, applying paragraphs 14–24 will result in a group that comprises a single contract.

Recognition

62 Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held:

(a) if the reinsurance contracts held provide proportionate coverage—at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the later; and

(b) in all other cases—from the beginning of the coverage period of the group of reinsurance contracts held.

Measurement

63 In applying the measurement requirements of paragraphs 32–36 to reinsurance contracts held, to the extent that the underlying contracts are also measured applying those paragraphs, the entity shall use consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of the future cash flows for the group(s) of underlying insurance contracts. In addition, the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.

64 Instead of applying paragraph 37, an entity shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts.

65 The requirements of paragraph 38 that relate to determining the contractual service margin on initial recognition are modified to reflect the fact that for a group of reinsurance contracts held there is no unearned profit but instead a net cost or net gain on purchasing the reinsurance. Hence, on initial recognition:

(a) the entity shall recognise any net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin measured at an amount equal to the sum of the fulfilment cash flows, the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held, and any cash flows arising at that date; unless

(b) the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts, in which case, notwithstanding the requirements of paragraph B5, the entity shall recognise such a cost immediately in profit or loss as an expense.

66 Instead of applying paragraph 44, an entity shall measure the contractual service margin at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) interest accreted on the carrying amount of the contractual service margin, measured at the discount rates specified in paragraph B72(b);

(c) changes in the fulfilment cash flows to the extent that the change:

 (i) relates to future service; unless

 (ii) the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts.

(d) the effect of any currency exchange differences arising on the contractual service margin; and

(e) the amount recognised in profit or loss because of services received in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of reinsurance contracts held, applying paragraph B119.

67 Changes in the fulfilment cash flows that result from changes in the risk of non-performance by the issuer of a reinsurance contract held do not relate to future service and shall not adjust the contractual service margin.

68 Reinsurance contracts held cannot be onerous. Accordingly, the requirements of paragraphs 47–52 do not apply.

Premium allocation approach for reinsurance contracts held

69 An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group:

(a) the entity reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 63–68; or

(b) the coverage period of each contract in the group of reinsurance contracts held (including coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

70 An entity cannot meet the condition in paragraph 69(a) if, at the inception of the group, an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the asset for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

(a) the extent of future cash flows relating to any derivatives embedded in the contracts; and

(b) the length of the coverage period of the group of reinsurance contracts held.

Investment contracts with discretionary participation features

71 An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements in IFRS 17 for insurance contracts are modified for investment contracts with discretionary participation features as follows:

(a) the date of initial recognition (see paragraph 25) is the date the entity becomes party to the contract.

(b) the contract boundary (see paragraph 34) is modified so that cash flows are within the contract boundary if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.

(c) the allocation of the contractual service margin (see paragraphs 44(e) and 45(e)) is modified so that the entity shall recognise the contractual service margin over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.

Modification and derecognition

Modification of an insurance contract

72 If the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying IFRS 17 or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:

(a) if the modified terms had been included at contract inception:

   (i) the modified contract would have been excluded from the scope of IFRS 17, applying paragraphs 3–8;

   (ii) an entity would have separated different components from the host insurance contract applying paragraphs 10–13, resulting in a different insurance contract to which IFRS 17 would have applied;

   (iii) the modified contract would have had a substantially different contract boundary applying paragraph 34; or

   (iv) the modified contract would have been included in a different group of contracts applying paragraphs 14–24.

(b) the original contract met the definition of an *insurance contract with direct participation features*, but the modified contract no longer meets that definition, or vice versa; or

(c) the entity applied the premium allocation approach in paragraphs 53–59 or paragraphs 69–70 to the original contract, but the modifications mean that the contract no longer meets the eligibility criteria for that approach in paragraph 53 or paragraph 69.

73 If a contract modification meets none of the conditions in paragraph 72, the entity shall treat changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows by applying paragraphs 40–52.

Derecognition

74 An entity shall derecognise an insurance contract when, and only when:

(a) it is extinguished, ie when the obligation specified in the insurance contract expires or is discharged or cancelled; or

(b) any of the conditions in paragraph 72 are met.

75 When an insurance contract is extinguished, the entity is no longer at risk and is therefore no longer required to transfer any economic resources to satisfy the insurance contract. For example, when an entity buys reinsurance, it shall derecognise the underlying insurance contract(s) when, and only when, the underlying insurance contract(s) is or are extinguished.

76 An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in IFRS 17:

(a) the fulfilment cash flows allocated to the group are adjusted to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognised from the group, applying paragraphs 40(a)(i) and 40(b);

(b) the contractual service margin of the group is adjusted for the change in fulfilment cash flows described in (a), to the extent required by paragraphs 44(c) and 45(c), unless paragraph 77 applies; and

(c) the number of coverage units for expected remaining coverage is adjusted to reflect the coverage units derecognised from the group, and the amount of the contractual service margin recognised in profit or loss in the period is based on that adjusted number, applying paragraph B119.

77 When an entity derecognises an insurance contract because it transfers the contract to a third party or derecognises an insurance contract and recognises a new contract applying paragraph 72, the entity shall instead of applying paragraph 76(b):

(a) adjust the contractual service margin of the group from which the contract has been derecognised, to the extent required by paragraphs 44(c) and 45(c), for the difference between (i) and either (ii) for contracts transferred to a third party or (iii) for contracts derecognised applying paragraph 72:

(i) the change in the carrying amount of the group of insurance contracts resulting from the derecognition of the contract, applying paragraph 76(a).

(ii) the premium charged by the third party.

(iii) the premium the entity would have charged had it entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.

(b) measure the new contract recognised applying paragraph 72 assuming that the entity received the premium described in (a)(iii) at the date of the modification.

Presentation in the statement of financial position

78 **An entity shall present separately in the statement of financial position the carrying amount of groups of:**

(a) insurance contracts issued that are assets;

(b) insurance contracts issued that are liabilities;

(c) reinsurance contracts held that are assets; and

(d) reinsurance contracts held that are liabilities.

79 An entity shall include any assets or liabilities for insurance acquisition cash flows recognised applying paragraph 27 in the carrying amount of the related groups of insurance contracts issued, and any assets or liabilities for cash flows related to groups of reinsurance contracts held (see paragraph 65(a)) in the carrying amount of the groups of reinsurance contracts held.

Recognition and presentation in the statement(s) of financial performance (paragraphs B120–B136)

80 **Applying paragraphs 41 and 42, an entity shall disaggregate the amounts recognised in the statement(s) of profit or loss and other comprehensive income (hereafter referred to as the statement(s) of financial performance) into:**

(a) an insurance service result (paragraphs 83–86), comprising insurance revenue and insurance service expenses; and

(b) insurance finance income or expenses (paragraphs 87–92).

81 An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. If an entity does not make such a disaggregation, it shall include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.

82 **An entity shall present income or expenses from reinsurance contracts held separately from the expenses or income from insurance contracts issued.**

Insurance service result

83 **An entity shall present in profit or loss insurance revenue arising from the groups of insurance contracts issued. Insurance revenue shall depict the provision of coverage and other services arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Paragraphs B120–B127 specify how an entity measures insurance revenue.**

84 **An entity shall present in profit or loss insurance service expenses arising from a group of insurance contracts issued, comprising incurred claims (excluding repayments of investment components), other incurred insurance service expenses and other amounts as described in paragraph 103(b).**

85 **Insurance revenue and insurance service expenses presented in profit or loss shall exclude any investment components. An entity shall not present premium information in profit or loss if that information is inconsistent with paragraph 83.**

86 An entity may present the income or expenses from a group of reinsurance contracts held (see paragraphs 60–70), other than insurance finance income or expenses, as a single amount; or the entity may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount. If an entity presents separately the amounts recovered from the reinsurer and an allocation of the premiums paid, it shall:

(a) treat reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held;

(b) treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer; and

(c) not present the allocation of premiums paid as a reduction in revenue.

Insurance finance income or expenses (see paragraphs B128–B136)

87 **Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from:**

(a) the effect of the time value of money and changes in the time value of money; and

(b) the effect of financial risk and changes in financial risk; but

(c) excluding any such changes for groups of insurance contracts with direct participation features that would adjust the contractual service margin but do not do so when applying paragraphs 45(b)(ii), 45(b)(iii), 45(c)(ii) or 45(c)(iii). These are included in insurance service expenses.

88 **Unless paragraph 89 applies, an entity shall make an accounting policy choice between:**

(a) **including insurance finance income or expenses for the period in profit or loss; or**

(b) **disaggregating insurance finance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts, applying paragraphs B130–B133.**

89 **For insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:**

(a) **including insurance finance income or expenses for the period in profit or loss; or**

(b) **disaggregating insurance finance income or expenses for the period to include in profit or loss an amount that eliminates accounting mismatches with income or expenses included in profit or loss on the underlying items held, applying paragraphs B134–B136.**

90 **If an entity chooses the accounting policy set out in paragraph 88(b) or in paragraph 89(b), it shall include in other comprehensive income the difference between the insurance finance income or expenses measured on the basis set out in those paragraphs and the total insurance finance income or expenses for the period.**

91 **If an entity transfers a group of insurance contracts or derecognises an insurance contract applying paragraph 77:**

(a) **it shall reclassify to profit or loss as a reclassification adjustment (see IAS 1 *Presentation of Financial Statements*) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 88(b).**

(b) **it shall not reclassify to profit or loss as a reclassification adjustment (see IAS 1) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 89(b).**

92 Paragraph 30 requires an entity to treat an insurance contract as a monetary item under IAS 21 for the purpose of translating foreign exchange items into the entity's functional currency. An entity includes exchange differences on changes in the carrying amount of groups of insurance contracts in the statement of profit or loss, unless they relate to changes in the carrying amount of groups of insurance contracts included in other comprehensive income applying paragraph 90, in which case they shall be included in other comprehensive income.

Disclosure

93 **The objective of the disclosure requirements is for an entity to disclose information in the notes that, together with the information provided in the statement of financial position, statement(s) of financial performance and statement of cash flows, gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the entity's financial position, financial performance and cash flows. To achieve that objective, an entity shall disclose qualitative and quantitative information about:**

(a) the amounts recognised in its financial statements for contracts within the scope of IFRS 17 (see paragraphs 97–116);

(b) the significant judgements, and changes in those judgements, made when applying IFRS 17 (see paragraphs 117–120); and

(c) the nature and extent of the risks from contracts within the scope of IFRS 17 (see paragraphs 121–132).

94 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. If the disclosures provided, applying paragraphs 97–132, are not enough to meet the objective in paragraph 93, an entity shall disclose additional information necessary to meet that objective.

95 An entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.

96 Paragraphs 29–31 of IAS 1 set out requirements relating to materiality and aggregation of information. Examples of aggregation bases that might be appropriate for information disclosed about insurance contracts are:

(a) type of contract (for example, major product lines);

(b) geographical area (for example, country or region); or

(c) reportable segment, as defined in IFRS 8 *Operating Segments*.

Explanation of recognised amounts

97 Of the disclosures required by paragraphs 98–109, only those in paragraphs 98–100 and 102–105 apply to contracts to which the premium allocation approach has been applied. If an entity uses the premium allocation approach, it shall also disclose:

(a) which of the criteria in paragraphs 53 and 69 it has satisfied;

(b) whether it makes an adjustment for the time value of money and the effect of financial risk applying paragraphs 56 and 57(b); and

(c) the method it has chosen to recognise insurance acquisition cash flows applying paragraph 59(a).

98 An entity shall disclose reconciliations that show how the net carrying amounts of contracts within the scope of IFRS 17 changed during the period because of

cash flows and income and expenses recognised in the statement(s) of financial performance. Separate reconciliations shall be disclosed for insurance contracts issued and reinsurance contracts held. An entity shall adapt the requirements of paragraphs 100–109 to reflect the features of reinsurance contracts held that differ from insurance contracts issued; for example, the generation of expenses or reduction in expenses rather than revenue.

99 An entity shall provide enough information in the reconciliations to enable users of financial statements to identify changes from cash flows and amounts that are recognised in the statement(s) of financial performance. To comply with this requirement, an entity shall:

(a) disclose, in a table, the reconciliations set out in paragraphs 100–105; and

(b) for each reconciliation, present the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for groups of contracts that are assets and a total for groups of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78.

100 An entity shall disclose reconciliations from the opening to the closing balances separately for each of:

(a) the net liabilities (or assets) for the remaining coverage component, excluding any loss component.

(b) any loss component (see paragraphs 47–52 and 57–58).

(c) the liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose separate reconciliations for:

(i) the estimates of the present value of the future cash flows; and

(ii) the risk adjustment for non-financial risk.

101 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of:

(a) the estimates of the present value of the future cash flows;

(b) the risk adjustment for non-financial risk; and

(c) the contractual service margin.

102 The objective of the reconciliations in paragraphs 100–101 is to provide different types of information about the insurance service result.

103 An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to insurance services, if applicable:

(a) insurance revenue.

(b) insurance service expenses, showing separately:

(i) incurred claims (excluding investment components) and other incurred insurance service expenses;

(ii) amortisation of insurance acquisition cash flows;

(iii) changes that relate to past service, ie changes in fulfilment cash flows relating to the liability for incurred claims; and

(iv) changes that relate to future service, ie losses on onerous groups of contracts and reversals of such losses.

(c) investment components excluded from insurance revenue and insurance service expenses.

104 An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to insurance services, if applicable:

(a) changes that relate to future service, applying paragraphs B96–B118, showing separately:

(i) changes in estimates that adjust the contractual service margin;

(ii) changes in estimates that do not adjust the contractual service margin, ie losses on groups of onerous contracts and reversals of such losses; and

(iii) the effects of contracts initially recognised in the period.

(b) changes that relate to current service, ie:

(i) the amount of the contractual service margin recognised in profit or loss to reflect the transfer of services;

(ii) the change in the risk adjustment for non-financial risk that does not relate to future service or past service; and

(iii) *experience adjustments* (see paragraphs B96(a), B97(c) and B113(a)).

(c) changes that relate to past service, ie changes in fulfilment cash flows relating to incurred claims (see paragraphs B97(b) and B113(a)).

105 To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to insurance services provided in the period, if applicable:

(a) cash flows in the period, including:

(i) premiums received for insurance contracts issued (or paid for reinsurance contracts held);

(ii) insurance acquisition cash flows; and

(iii) incurred claims paid and other insurance service expenses paid for insurance contracts issued (or recovered under reinsurance contracts held), excluding insurance acquisition cash flows.

(b) the effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;

(c) insurance finance income or expenses; and

(d) any additional line items that may be necessary to understand the change in the net carrying amount of the insurance contracts.

106 For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognised in the period comprising:

(a) the amounts relating to the changes in the liability for remaining coverage as specified in paragraph B124, separately disclosing:

(i) the insurance service expenses incurred during the period as specified in paragraph B124(a);

(ii) the change in the risk adjustment for non-financial risk, as specified in paragraph B124(b); and

(iii) the amount of the contractual service margin recognised in profit or loss because of the transfer of services in the period, as specified in paragraph B124(c).

(b) the allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows.

107 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognised in the period, showing their effect at initial recognition on:

(a) the estimates of the present value of future cash outflows, showing separately the amount of the insurance acquisition cash flows;

(b) the estimates of the present value of future cash inflows;

(c) the risk adjustment for non-financial risk; and

(d) the contractual service margin.

108 In the disclosures required by paragraph 107, an entity shall separately disclose amounts resulting from:

(a) contracts acquired from other entities in transfers of insurance contracts or business combinations; and

(b) groups of contracts that are onerous.

109 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose an explanation of when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss, either quantitatively, in appropriate time bands, or by providing qualitative information. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.

Insurance finance income or expenses

110 An entity shall disclose and explain the total amount of insurance finance income or expenses in the reporting period. In particular, an entity shall explain the relationship between insurance finance income or expenses and the investment return on its assets, to enable users of its financial statements to evaluate the sources of finance income or expenses recognised in profit or loss and other comprehensive income.

111 For contracts with direct participation features, the entity shall describe the composition of the underlying items and disclose their fair value.

112 For contracts with direct participation features, if an entity chooses not to adjust the contractual service margin for some changes in the fulfilment cash flows, applying paragraph B115, it shall disclose the effect of that choice on the adjustment to the contractual service margin in the current period.

113 For contracts with direct participation features, if an entity changes the basis of disaggregation of insurance finance income or expenses between profit or loss and other comprehensive income, applying paragraph B135, it shall disclose, in the period when the change in approach occurred:

(a) the reason why the entity was required to change the basis of disaggregation;

(b) the amount of any adjustment for each financial statement line item affected; and

(c) the carrying amount of the group of insurance contracts to which the change applied at the date of the change.

Transition amounts

114 An entity shall provide disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach (see paragraphs C6–C19) or the fair value approach (see paragraphs C20–C24) on the contractual service margin and insurance revenue in subsequent periods. Hence an entity shall disclose the reconciliation of the contractual service margin applying paragraph 101(c), and the amount of insurance revenue applying paragraph 103(a), separately for:

(a) insurance contracts that existed at the transition date to which the entity has applied the modified retrospective approach;

(b) insurance contracts that existed at the transition date to which the entity has applied the fair value approach; and

(c) all other insurance contracts.

115 For all periods in which disclosures are made applying paragraphs 114(a) or 114(b), to enable users of financial statements to understand the nature and significance of the methods used and judgements applied in determining the transition amounts, an entity shall explain how it determined the measurement of insurance contracts at the transition date.

116 An entity that chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income applies paragraphs C18(b), C19(b), C24(b) and C24(c) to determine the cumulative difference between the insurance finance income or expenses that would have been recognised in profit or loss and the total insurance finance income or expenses at the transition date for the groups of insurance contracts to which the disaggregation applies. For all periods in which amounts determined applying these paragraphs exist, the entity shall disclose a reconciliation from the opening to the closing balance of the cumulative amounts included in other comprehensive income for financial assets measured at fair value through other comprehensive income related to the groups of insurance contracts. The reconciliation shall include, for example, gains or losses recognised in other comprehensive income in the period and gains or losses previously recognised in other comprehensive income in previous periods reclassified in the period to profit or loss.

Significant judgements in applying IFRS 17

117 An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

(a) the methods used to measure insurance contracts within the scope of IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.

(b) any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected.

(c) to the extent not covered in (a), the approach used:

(i) to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features (see paragraph B98);

(ii) to determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result;

(iii) to determine discount rates; and

(iv) to determine investment components.

118 If, applying paragraph 88(b) or paragraph 89(b), an entity chooses to disaggregate insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income, the entity shall disclose an explanation of the methods used to determine the insurance finance income or expenses recognised in profit or loss.

119 **An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.**

120 **An entity shall disclose the yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items, applying paragraph 36. When an entity provides this disclosure in aggregate for a number of groups of insurance contracts, it shall provide such disclosures in the form of weighted averages, or relatively narrow ranges.**

Nature and extent of risks that arise from contracts within the scope of IFRS 17

121 **An entity shall disclose information that enables users of its financial statements to evaluate the nature, amount, timing and uncertainty of future cash flows that arise from contracts within the scope of IFRS 17.** Paragraphs 122–132 contain requirements for disclosures that would normally be necessary to meet this requirement.

122 These disclosures focus on the insurance and financial risks that arise from insurance contracts and how they have been managed. Financial risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

123 If the information disclosed about an entity's exposure to risk at the end of the reporting period is not representative of its exposure to risk during the period, the entity shall disclose that fact, the reason why the period-end exposure is not representative, and further information that is representative of its risk exposure during the period.

124 For each type of risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

(a) the exposures to risks and how they arise;

(b) the entity's objectives, policies and processes for managing the risks and the methods used to measure the risks; and

(c) any changes in (a) or (b) from the previous period.

125 For each type of risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

(a) summary quantitative information about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to the entity's key management personnel.

(b) the disclosures required by paragraphs 127–132, to the extent not provided applying (a) of this paragraph.

126 An entity shall disclose information about the effect of the regulatory frameworks in which it operates; for example, minimum capital requirements or required interest-rate guarantees. If an entity applies paragraph 20 in

determining the groups of insurance contracts to which it applies the recognition and measurement requirements of IFRS 17, it shall disclose that fact.

All types of risk—concentrations of risk

127 An entity shall disclose information about concentrations of risk arising from contracts within the scope of IFRS 17, including a description of how the entity determines the concentrations, and a description of the shared characteristic that identifies each concentration (for example, the type of *insured event*, industry, geographical area, or currency). Concentrations of financial risk might arise, for example, from interest-rate guarantees that come into effect at the same level for a large number of contracts. Concentrations of financial risk might also arise from concentrations of non-financial risk; for example, if an entity provides product liability protection to pharmaceutical companies and also holds investments in those companies.

Insurance and market risks—sensitivity analysis

128 An entity shall disclose information about sensitivities to changes in risk exposures arising from contracts within the scope of IFRS 17. To comply with this requirement, an entity shall disclose:

(a) a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in risk exposures that were reasonably possible at the end of the reporting period:

(i) for insurance risk–showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; and

(ii) for each type of market risk–in a way that explains the relationship between the sensitivities to changes in risk exposures arising from insurance contracts and those arising from financial assets held by the entity.

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis, and the reasons for such changes.

129 If an entity prepares a sensitivity analysis that shows how amounts different from those specified in paragraph 128(a) are affected by changes in risk exposures and uses that sensitivity analysis to manage risks arising from contracts within the scope of IFRS 17, it may use that sensitivity analysis in place of the analysis specified in paragraph 128(a). The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the information provided; and

(b) an explanation of the objective of the method used and of any limitations that may result in the information provided.

Insurance risk—claims development

130 An entity shall disclose actual claims compared with previous estimates of the undiscounted amount of the claims (ie claims development). The disclosure about claims development shall start with the period when the earliest material claim(s) arose and for which there is still uncertainty about the amount and timing of the claims payments at the end of the reporting period; but the disclosure is not required to start more than 10 years before the end of the reporting period. The entity is not required to disclose information about the development of claims for which uncertainty about the amount and timing of the claims payments is typically resolved within one year. An entity shall reconcile the disclosure about claims development with the aggregate carrying amount of the groups of insurance contracts, which the entity discloses applying paragraph 100(c).

Credit risk—other information

131 For credit risk that arises from contracts within the scope of IFRS 17, an entity shall disclose:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period, separately for insurance contracts issued and reinsurance contracts held; and

(b) information about the credit quality of reinsurance contracts held that are assets.

Liquidity risk—other information

132 For liquidity risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

(a) a description of how it manages the liquidity risk.

(b) separate maturity analyses for groups of insurance contracts issued that are liabilities and groups of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the groups for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59. The analyses may take the form of:

    (i) an analysis, by estimated timing, of the remaining contractual undiscounted net cash flows; or

    (ii) an analysis, by estimated timing, of the estimates of the present value of the future cash flows.

(c) the amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related groups of contracts, if not disclosed applying (b) of this paragraph.

Appendix A
Defined terms

This appendix is an integral part of IFRS 17 Insurance Contracts.

contractual service margin	A component of the carrying amount of the asset or liability for a **group of insurance contracts** representing the unearned profit the entity will recognise as it provides services under the **insurance contracts** in the group.
coverage period	The period during which the entity provides coverage for **insured events**. This period includes the coverage that relates to all premiums within the boundary of the **insurance contract**.
experience adjustment	A difference between: (a) for premium receipts (and any related cash flows such as **insurance acquisition cash flows** and insurance premium taxes)–the estimate at the beginning of the period of the amounts expected in the period and the actual cash flows in the period; or (b) for insurance service expenses (excluding insurance acquisition expenses)–the estimate at the beginning of the period of the amounts expected to be incurred in the period and the actual amounts incurred in the period.
financial risk	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
fulfilment cash flows	An explicit, unbiased and probability-weighted estimate (ie expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils **insurance contracts**, including a **risk adjustment for non-financial risk**.
group of insurance contracts	A set of **insurance contracts** resulting from the division of a **portfolio of insurance contracts** into, at a minimum, contracts written within a period of no longer than one year and that, at initial recognition: (a) are onerous, if any; (b) have no significant possibility of becoming onerous subsequently, if any; or (c) do not fall into either (a) or (b), if any.

insurance acquisition cash flows	Cash flows arising from the costs of selling, underwriting and starting a **group of insurance contracts** that are directly attributable to the **portfolio of insurance contracts** to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or **groups of insurance contracts** within the portfolio.
insurance contract	A contract under which one party (the issuer) accepts significant **insurance risk** from another party (the **policyholder**) by agreeing to compensate the **policyholder** if a specified uncertain future event (the **insured event**) adversely affects the **policyholder**.
insurance contract with direct participation features	An **insurance contract** for which, at inception: (a) the contractual terms specify that the **policyholder** participates in a share of a clearly identified pool of **underlying items**; (b) the entity expects to pay to the **policyholder** an amount equal to a substantial share of the fair value returns on the **underlying items**; and (c) the entity expects a substantial proportion of any change in the amounts to be paid to the **policyholder** to vary with the change in fair value of the **underlying items**.
insurance contract without direct participation features	An **insurance contract** that is not an **insurance contract with direct participation features**.
insurance risk	Risk, other than **financial risk**, transferred from the holder of a contract to the issuer.
insured event	An uncertain future event covered by an **insurance contract** that creates **insurance risk**.
investment component	The amounts that an **insurance contract** requires the entity to repay to a **policyholder** even if an **insured event** does not occur.

investment contract with discretionary participation features	A financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts: (a) that are expected to be a significant portion of the total contractual benefits; (b) the timing or amount of which are contractually at the discretion of the issuer; and (c) that are contractually based on: (i) the returns on a specified pool of contracts or a specified type of contract; (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or (iii) the profit or loss of the entity or fund that issues the contract.
liability for incurred claims	An entity's obligation to investigate and pay valid claims for **insured events** that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses.
liability for remaining coverage	An entity's obligation to investigate and pay valid claims under existing **insurance contracts** for **insured events** that have not yet occurred (ie the obligation that relates to the unexpired portion of the **coverage period**).
policyholder	A party that has a right to compensation under an **insurance contract** if an **insured event** occurs.
portfolio of insurance contracts	**Insurance contracts** subject to similar risks and managed together.
reinsurance contract	An **insurance contract** issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more **insurance contracts** issued by that other entity (underlying contracts).
risk adjustment for non-financial risk	The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils **insurance contracts**.
underlying items	Items that determine some of the amounts payable to a **policyholder**. **Underlying items** can comprise any items; for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity.

Appendix B
Application guidance

This appendix is an integral part of IFRS 17 Insurance Contracts.

B1 This appendix provides guidance on the following:

(a) definition of an insurance contract (see paragraphs B2–B30);

(b) separation of components from an insurance contract (see paragraphs B31–B35);

(c) measurement (see paragraphs B36–B119);

(d) insurance revenue (see paragraphs B120–B127);

(e) insurance finance income or expenses (see paragraphs B128–B136); and

(f) interim financial statements (see paragraph B137).

Definition of an insurance contract (Appendix A)

B2 This section provides guidance on the definition of an insurance contract as specified in Appendix A. It addresses the following:

(a) uncertain future event (see paragraphs B3–B5);

(b) payments in kind (see paragraph B6);

(c) the distinction between insurance risk and other risks (see paragraphs B7–B16);

(d) significant insurance risk (see paragraphs B17–B23);

(e) changes in the level of insurance risk (see paragraphs B24–B25); and

(f) examples of insurance contracts (see paragraphs B26–B30).

Uncertain future event

B3 Uncertainty (or risk) is the essence of an insurance contract. Accordingly, at least one of the following is uncertain at the inception of an insurance contract:

(a) the probability of an insured event occurring;

(b) when the insured event will occur; or

(c) how much the entity will need to pay if the insured event occurs.

B4 In some insurance contracts, the insured event is the discovery of a loss during the term of the contract, even if that loss arises from an event that occurred before the inception of the contract. In other insurance contracts, the insured event is an event that occurs during the term of the contract, even if the resulting loss is discovered after the end of the contract term.

B5 Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides coverage against an adverse development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

Payments in kind

B6 Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. Fixed-fee service contracts that meet the conditions specified in paragraph 8 are also insurance contracts, but applying paragraph 8, an entity may choose to account for them applying either IFRS 17 or IFRS 15 *Revenue from Contracts with Customers*.

The distinction between insurance risk and other risks

B7 The definition of an insurance contract requires that one party accepts significant insurance risk from another party. IFRS 17 defines insurance risk as 'risk, other than financial risk, transferred from the holder of a contract to the issuer'. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

B8 The definition of financial risk in Appendix A refers to financial and non-financial variables. Examples of non-financial variables not specific to a party to the contract include an index of earthquake losses in a particular region or temperatures in a particular city. Financial risk excludes risk from non-financial variables that are specific to a party to the contract, such as the occurrence or non-occurrence of a fire that damages or destroys an asset of that party. Furthermore, the risk of changes in the fair value of a non-financial asset is not a financial risk if the fair value reflects changes in the market prices for such assets (ie a financial variable) and the condition of a specific non-financial asset held by a party to a contract (ie a non-financial variable). For example, if a guarantee of the residual value of a specific car in which the policyholder has an insurable interest exposes the guarantor to the risk of changes in the car's physical condition, that risk is insurance risk, not financial risk.

B9 Some contracts expose the issuer to financial risk in addition to significant insurance risk. For example, many life insurance contracts guarantee a minimum rate of return to policyholders, creating financial risk, and at the same time promise death benefits that may significantly exceed the policyholder's account balance, creating insurance risk in the form of mortality risk. Such contracts are insurance contracts.

B10 Under some contracts, an insured event triggers the payment of an amount linked to a price index. Such contracts are insurance contracts, provided that the payment contingent on the insured event could be significant. For example, a life-contingent annuity linked to a cost-of-living index transfers insurance risk because the payment is triggered by an uncertain future event—the survival of the person who receives the annuity. The link to the price index is a derivative, but it also transfers insurance risk because the number of payments to which the index applies depends on the survival of the annuitant. If the resulting transfer of insurance risk is significant, the derivative meets the definition of an insurance contract, in which case it shall not be separated from the host contract (see paragraph 11(a)).

B11 Insurance risk is the risk the entity accepts from the policyholder. This means the entity must accept, from the policyholder, a risk to which the policyholder was already exposed. Any new risk created by the contract for the entity or the policyholder is not insurance risk.

B12 The definition of an insurance contract refers to an adverse effect on the policyholder. This definition does not limit the payment by the entity to an amount equal to the financial effect of the adverse event. For example, the definition includes 'new for old' coverage that pays the policyholder an amount that permits the replacement of a used and damaged asset with a new one. Similarly, the definition does not limit the payment under a life insurance contract to the financial loss suffered by the deceased's dependants, nor does it exclude contracts that specify the payment of predetermined amounts to quantify the loss caused by death or an accident.

B13 Some contracts require a payment if a specified uncertain future event occurs, but do not require an adverse effect on the policyholder as a precondition for the payment. This type of contract is not an insurance contract even if the holder uses it to mitigate an underlying risk exposure. For example, if the holder uses a derivative to hedge an underlying financial or non-financial variable correlated with the cash flows from an asset of the entity, the derivative is not an insurance contract because the payment is not conditional on whether the holder is adversely affected by a reduction in the cash flows from the asset. The definition of an insurance contract refers to an uncertain future event for which an adverse effect on the policyholder is a contractual precondition for payment. A contractual precondition does not require the entity to investigate whether the event actually caused an adverse effect, but it does permit the entity to deny the payment if it is not satisfied that the event did cause an adverse effect.

B14 Lapse or persistency risk (the risk that the policyholder will cancel the contract earlier or later than the issuer had expected when pricing the contract) is not insurance risk because the resulting variability in the payment to the policyholder is not contingent on an uncertain future event that adversely affects the policyholder. Similarly, expense risk (ie the risk of unexpected increases in the administrative costs associated with the servicing of a contract, rather than in the costs associated with insured events) is not insurance risk because an unexpected increase in such expenses does not adversely affect the policyholder.

B15 Consequently, a contract that exposes the entity to lapse risk, persistency risk or expense risk is not an insurance contract unless it also exposes the entity to significant insurance risk. However, if the entity mitigates its risk by using a second contract to transfer part of the non-insurance risk to another party, the second contract exposes the other party to insurance risk.

B16 An entity can accept significant insurance risk from the policyholder only if the entity is separate from the policyholder. In the case of a mutual entity, the mutual entity accepts risk from each policyholder and pools that risk. Although policyholders bear that pooled risk collectively because they hold the residual interest in the entity, the mutual entity is a separate entity that has accepted the risk.

Significant insurance risk

B17 A contract is an insurance contract only if it transfers significant insurance risk. Paragraphs B7–B16 discuss insurance risk. Paragraphs B18–B23 discuss the assessment of whether the insurance risk is significant.

B18 Insurance risk is significant if, and only if, an insured event could cause the issuer to pay additional amounts that are significant in any single scenario, excluding scenarios that have no commercial substance (ie no discernible effect on the economics of the transaction). If an insured event could mean significant additional amounts would be payable in any scenario that has commercial substance, the condition in the previous sentence can be met even if the insured event is extremely unlikely, or even if the expected (ie probability-weighted) present value of the contingent cash flows is a small proportion of the expected present value of the remaining cash flows from the insurance contract.

B19 In addition, a contract transfers significant insurance risk only if there is a scenario that has commercial substance in which the issuer has a possibility of a loss on a present value basis. However, even if a reinsurance contract does not expose the issuer to the possibility of a significant loss, that contract is deemed to transfer significant insurance risk if it transfers to the reinsurer substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts.

B20 The additional amounts described in paragraph B18 are determined on a present-value basis. If an insurance contract requires payment when an event with uncertain timing occurs and if the payment is not adjusted for the time value of money, there may be scenarios in which the present value of the payment increases, even if its nominal value is fixed. An example is insurance that provides a fixed death benefit when the policyholder dies, with no expiry date for the cover (often referred to as whole-life insurance for a fixed amount). It is certain that the policyholder will die, but the date of death is uncertain. Payments may be made when an individual policyholder dies earlier than expected. Because those payments are not adjusted for the time value of money, significant insurance risk could exist even if there is no overall loss on the portfolio of contracts. Similarly, contractual terms that delay timely reimbursement to the policyholder can eliminate significant insurance risk. An entity shall use the discount rates required in paragraph 36 to determine the present value of the additional amounts.

B21 The additional amounts described in paragraph B18 refer to the present value of amounts that exceed those that would be payable if no insured event had occurred (excluding scenarios that lack commercial substance). Those additional amounts include claims handling and assessment costs, but exclude:

(a) the loss of the ability to charge the policyholder for future service. For example, in an investment-linked life insurance contract, the death of the policyholder means that the entity can no longer perform investment management services and collect a fee for doing so. However, this economic loss for the entity does not result from insurance risk, just as a mutual fund manager does not take on insurance risk in relation to the possible death of a client. Consequently, the potential loss of future investment management fees is not relevant when assessing how much insurance risk is transferred by a contract.

(b) a waiver, on death, of charges that would be made on cancellation or surrender. Because the contract brought those charges into existence, their waiver does not compensate the policyholder for a pre-existing risk. Consequently, they are not relevant when assessing how much insurance risk is transferred by a contract.

(c) a payment conditional on an event that does not cause a significant loss to the holder of the contract. For example, consider a contract that requires the issuer to pay CU1 million[1] if an asset suffers physical damage that causes an insignificant economic loss of CU1 to the holder. In this contract, the holder transfers the insignificant risk of losing CU1 to the issuer. At the same time, the contract creates a non-insurance risk that the issuer will need to pay CU999,999 if the specified event occurs. Because there is no scenario in which an insured event causes a significant loss to the holder of the contract, the issuer does not accept significant insurance risk from the holder and this contract is not an insurance contract.

(d) possible reinsurance recoveries. The entity accounts for these separately.

B22 An entity shall assess the significance of insurance risk contract by contract. Consequently, the insurance risk can be significant even if there is minimal probability of significant losses for a portfolio or group of contracts.

B23 It follows from paragraphs B18–B22 that, if a contract pays a death benefit that exceeds the amount payable on survival, the contract is an insurance contract unless the additional death benefit is not significant (judged by reference to the contract itself rather than to an entire portfolio of contracts). As noted in paragraph B21(b), the waiver on death of cancellation or surrender charges is not included in this assessment if that waiver does not compensate the policyholder for a pre-existing risk. Similarly, an annuity contract that pays out regular sums for the rest of a policyholder's life is an insurance contract, unless the aggregate life-contingent payments are insignificant.

Changes in the level of insurance risk

B24 For some contracts, the transfer of insurance risk to the issuer occurs after a period of time. For example, consider a contract that provides a specified investment return and includes an option for the policyholder to use the proceeds of the investment on maturity to buy a life-contingent annuity at the same rates the entity charges other new annuitants at the time the policyholder exercises that option. Such a contract transfers insurance risk to the issuer only after the option is exercised, because the entity remains free to price the annuity on a basis that reflects the insurance risk that will be transferred to the entity at

1 CU denotes currency unit.

that time. Consequently, the cash flows that would occur on the exercise of the option fall outside the boundary of the contract, and before exercise there are no insurance cash flows within the boundary of the contract. However, if the contract specifies the annuity rates (or a basis other than market rates for setting the annuity rates), the contract transfers insurance risk to the issuer because the issuer is exposed to the risk that the annuity rates will be unfavourable to the issuer when the policyholder exercises the option. In that case, the cash flows that would occur when the option is exercised are within the boundary of the contract.

B25 A contract that meets the definition of an insurance contract remains an insurance contract until all rights and obligations are extinguished (ie discharged, cancelled or expired), unless the contract is derecognised applying paragraphs 74–77, because of a contract modification.

Examples of insurance contracts

B26 The following are examples of contracts that are insurance contracts if the transfer of insurance risk is significant:

(a) insurance against theft or damage.

(b) insurance against product liability, professional liability, civil liability or legal expenses.

(c) life insurance and prepaid funeral plans (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance).

(d) life-contingent annuities and pensions, ie contracts that provide compensation for the uncertain future event—the survival of the annuitant or pensioner—to provide the annuitant or pensioner with a level of income that would otherwise be adversely affected by his or her survival. (Employers' liabilities that arise from employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans are outside the scope of IFRS 17, applying paragraph 7(b)).

(e) insurance against disability and medical costs.

(f) surety bonds, fidelity bonds, performance bonds and bid bonds, ie contracts that compensate the holder if another party fails to perform a contractual obligation; for example, an obligation to construct a building.

(g) product warranties. Product warranties issued by another party for goods sold by a manufacturer, dealer or retailer are within the scope of IFRS 17. However, product warranties issued directly by a manufacturer, dealer or retailer are outside the scope of IFRS 17 applying paragraph 7(a), and are instead within the scope of IFRS 15 or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(h) title insurance (insurance against the discovery of defects in the title to land or buildings that were not apparent when the insurance contract was issued). In this case, the insured event is the discovery of a defect in the title, not the defect itself.

(i) travel insurance (compensation in cash or in kind to policyholders for losses suffered in advance of, or during, travel).

(j) catastrophe bonds that provide for reduced payments of principal, interest or both, if a specified event adversely affects the issuer of the bond (unless the specified event does not create significant insurance risk; for example, if the event is a change in an interest rate or a foreign exchange rate).

(k) insurance swaps and other contracts that require a payment depending on changes in climatic, geological or other physical variables that are specific to a party to the contract.

B27 The following are examples of items that are not insurance contracts:

(a) investment contracts that have the legal form of an insurance contract but do not transfer significant insurance risk to the issuer. For example, life insurance contracts in which the entity bears no significant mortality or morbidity risk are not insurance contracts; such contracts are financial instruments or service contracts–see paragraph B28. Investment contracts with discretionary participation features do not meet the definition of an insurance contract; however, they are within the scope of IFRS 17 provided they are issued by an entity that also issues insurance contracts, applying paragraph 3(c).

(b) contracts that have the legal form of insurance, but return all significant insurance risk to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder to the issuer as a direct result of insured losses. For example, some financial reinsurance contracts or some group contracts return all significant insurance risk to the policyholders; such contracts are normally financial instruments or service contracts (see paragraph B28).

(c) self-insurance (ie retaining a risk that could have been covered by insurance). In such situations, there is no insurance contract because there is no agreement with another party. Thus, if an entity issues an insurance contract to its parent, subsidiary or fellow subsidiary, there is no insurance contract in the consolidated financial statements because there is no contract with another party. However, for the individual or separate financial statements of the issuer or holder, there is an insurance contract.

(d) contracts (such as gambling contracts) that require a payment if a specified uncertain future event occurs, but do not require, as a contractual precondition for payment, the event to adversely affect the policyholder. However, this does not exclude from the definition of an insurance contract contracts that specify a predetermined payout to quantify the loss caused by a specified event such as a death or an accident (see paragraph B12).

(e) derivatives that expose a party to financial risk but not insurance risk, because the derivatives require that party to make (or give them the right to receive) payment solely based on the changes in one or more of a specified interest rate, a financial instrument price, a commodity price, a foreign exchange rate, an index of prices or rates, a credit rating or a credit index or any other variable, provided that, in the case of a non-financial variable, the variable is not specific to a party to the contract.

(f) credit-related guarantees that require payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due; such contracts are accounted for applying IFRS 9 *Financial Instruments* (see paragraph B29).

(g) contracts that require a payment that depends on a climatic, geological or any other physical variable not specific to a party to the contract (commonly described as weather derivatives).

(h) contracts that provide for reduced payments of principal, interest or both, that depend on a climatic, geological or any other physical variable, the effect of which is not specific to a party to the contract (commonly referred to as catastrophe bonds).

B28 An entity shall apply other applicable Standards, such as IFRS 9 and IFRS 15, to the contracts described in paragraph B27.

B29 The credit-related guarantees and credit insurance contracts discussed in paragraph B27(f) can have various legal forms, such as that of a guarantee, some types of letters of credit, a credit default contract or an insurance contract. Those contracts are insurance contracts if they require the issuer to make specified payments to reimburse the holder for a loss that the holder incurs because a specified debtor fails to make payment when due to the policyholder applying the original or modified terms of a debt instrument. However, such insurance contracts are excluded from the scope of IFRS 17 unless the issuer has previously asserted explicitly that it regards the contracts as insurance contracts and has used accounting applicable to insurance contracts (see paragraph 7(e)).

B30 Credit-related guarantees and credit insurance contracts that require payment, even if the policyholder has not incurred a loss on the failure of the debtor to make payments when due, are outside the scope of IFRS 17 because they do not transfer significant insurance risk. Such contracts include those that require payment:

(a) regardless of whether the counterparty holds the underlying debt instrument; or

(b) on a change in the credit rating or the credit index, rather than on the failure of a specified debtor to make payments when due.

Separating components from an insurance contract (paragraphs 10–13)

Investment components (paragraph 11(b))

B31 Paragraph 11(b) requires an entity to separate a distinct investment component from the host insurance contract. An investment component is distinct if, and only if, both the following conditions are met:

(a) the investment component and the insurance component are not highly interrelated.

(b) a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties. The entity shall take into account all information reasonably available in making this determination. The entity is not required to undertake an exhaustive search to identify whether an investment component is sold separately.

B32 An investment component and an insurance component are highly interrelated if, and only if:

(a) the entity is unable to measure one component without considering the other. Thus, if the value of one component varies according to the value of the other, an entity shall apply IFRS 17 to account for the combined investment and insurance component; or

(b) the policyholder is unable to benefit from one component unless the other is also present. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other, the entity shall apply IFRS 17 to account for the combined investment component and insurance component.

Promises to transfer distinct goods or non-insurance services (paragraph 12)

B33 Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or non-insurance services to a policyholder. For the purpose of separation, an entity shall not consider activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.

B34 A good or non-insurance service promised to a policyholder is distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).

B35 A good or non-insurance service that is promised to the policyholder is not distinct if:

(a) the cash flows and risks associated with the good or service are highly interrelated with the cash flows and risks associated with the insurance components in the contract; and

(b) the entity provides a significant service in integrating the good or non-insurance service with the insurance components.

Measurement (paragraphs 29–71)

Estimates of future cash flows (paragraphs 33–35)

B36 This section addresses:

(a) unbiased use of all reasonable and supportable information available without undue cost or effort (see paragraphs B37–B41);

(b) market variables and non-market variables (see paragraphs B42–B53);

(c) using current estimates (see paragraphs B54–B60); and

(d) cash flows within the contract boundary (see paragraphs B61–B71).

Unbiased use of all reasonable and supportable information available without undue cost or effort (paragraph 33(a))

B37 The objective of estimating future cash flows is to determine the expected value, or probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information about past events and current conditions, and forecasts of future conditions (see paragraph B41). Information available from an entity's own information systems is considered to be available without undue cost or effort.

B38 The starting point for an estimate of the cash flows is a range of scenarios that reflects the full range of possible outcomes. Each scenario specifies the amount and timing of the cash flows for a particular outcome, and the estimated probability of that outcome. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. Consequently, the objective is not to develop a most likely outcome, or a more-likely-than-not outcome, for future cash flows.

B39 When considering the full range of possible outcomes, the objective is to incorporate all reasonable and supportable information available without undue cost or effort in an unbiased way, rather than to identify every possible scenario. In practice, developing explicit scenarios is unnecessary if the resulting estimate is consistent with the measurement objective of considering all reasonable and supportable information available without undue cost or effort when determining the mean. For example, if an entity estimates that the probability distribution of outcomes is broadly consistent with a probability distribution that can be described completely with a small number of parameters, it will be sufficient to estimate the smaller number of parameters. Similarly, in some cases, relatively simple modelling may give an answer within an acceptable range of precision, without the need for many detailed simulations. However, in some cases, the cash flows may be driven by complex underlying factors and may respond in a non-linear fashion to changes in economic conditions. This may happen if, for example, the cash flows reflect a series of interrelated options that are implicit or explicit. In such cases, more sophisticated stochastic modelling is likely to be necessary to satisfy the measurement objective.

B40 The scenarios developed shall include unbiased estimates of the probability of catastrophic losses under existing contracts. Those scenarios exclude possible claims under possible future contracts.

B41 An entity shall estimate the probabilities and amounts of future payments under existing contracts on the basis of information obtained including:

(a) information about claims already reported by policyholders.

(b) other information about the known or estimated characteristics of the insurance contracts.

(c) historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted to reflect current conditions, for example, if:

   (i) the characteristics of the insured population differ (or will differ, for example, because of adverse selection) from those of the population that has been used as a basis for the historical data;

   (ii) there are indications that historical trends will not continue, that new trends will emerge or that economic, demographic and other changes may affect the cash flows that arise from the existing insurance contracts; or

   (iii) there have been changes in items such as underwriting procedures and claims management procedures that may affect the relevance of historical data to the insurance contracts.

(d) current price information, if available, for reinsurance contracts and other financial instruments (if any) covering similar risks, such as catastrophe bonds and weather derivatives, and recent market prices for transfers of insurance contracts. This information shall be adjusted to reflect the differences between the cash flows that arise from those reinsurance contracts or other financial instruments, and the cash flows that would arise as the entity fulfils the underlying contracts with the policyholder.

Market variables and non-market variables

B42 IFRS 17 identifies two types of variables:

(a) market variables—variables that can be observed in, or derived directly from, markets (for example, prices of publicly traded securities and interest rates); and

(b) non-market variables—all other variables (for example, the frequency and severity of insurance claims and mortality).

B43 Market variables will generally give rise to financial risk (for example, observable interest rates) and non-market variables will generally give rise to non-financial risk (for example, mortality rates). However, this will not always be the case. For example, there may be assumptions that relate to financial risks for which variables cannot be observed in, or derived directly from, markets (for example, interest rates that cannot be observed in, or derived directly from, markets).

Market variables (paragraph 33(b))

B44 Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall maximise the use of observable inputs and shall not substitute its own estimates for observable market data except as described in paragraph 79 of IFRS 13 *Fair Value Measurement*. Consistent with IFRS 13, if variables need to be derived (for example, because no observable market variables exist) they shall be as consistent as possible with observable market variables.

B45 Market prices blend a range of views about possible future outcomes and also reflect the risk preferences of market participants. Consequently, they are not a single-point forecast of the future outcome. If the actual outcome differs from the previous market price, this does not mean that the market price was 'wrong'.

B46 An important application of market variables is the notion of a replicating asset or a replicating portfolio of assets. A replicating asset is one whose cash flows *exactly* match, in all scenarios, the contractual cash flows of a group of insurance contracts in amount, timing and uncertainty. In some cases, a replicating asset may exist for some of the cash flows that arise from a group of insurance contracts. The fair value of that asset reflects both the expected present value of the cash flows from the asset and the risk associated with those cash flows. If a replicating portfolio of assets exists for some of the cash flows that arise from a group of insurance contracts, the entity can use the fair value of those assets to measure the relevant fulfilment cash flows instead of explicitly estimating the cash flows and discount rate.

B47 IFRS 17 does not require an entity to use a replicating portfolio technique. However, if a replicating asset or portfolio does exist for some of the cash flows that arise from insurance contracts and an entity chooses to use a different technique, the entity shall satisfy itself that a replicating portfolio technique would be unlikely to lead to a materially different measurement of those cash flows.

B48 Techniques other than a replicating portfolio technique, such as stochastic modelling techniques, may be more robust or easier to implement if there are significant interdependencies between cash flows that vary based on returns on assets and other cash flows. Judgement is required to determine the technique that best meets the objective of consistency with observable market variables in specific circumstances. In particular, the technique used must result in the measurement of any options and guarantees included in the insurance contracts being consistent with observable market prices (if any) for such options and guarantees.

Non-market variables

B49 Estimates of non-market variables shall reflect all reasonable and supportable evidence available without undue cost or effort, both external and internal.

B50 Non-market external data (for example, national mortality statistics) may have more or less relevance than internal data (for example, internally developed mortality statistics), depending on the circumstances. For example, an entity that issues life insurance contracts shall not rely solely on national mortality statistics, but shall consider all other reasonable and supportable internal and external sources of information available without undue cost or effort when developing unbiased estimates of probabilities for mortality scenarios for its insurance contracts. In developing those probabilities, an entity shall give more weight to the more persuasive information. For example:

(a) internal mortality statistics may be more persuasive than national mortality data if national data is derived from a large population that is not representative of the insured population. This might be because, for example, the demographic characteristics of the insured population could significantly differ from those of the national population, meaning that an entity would need to place more weight on the internal data and less weight on the national statistics.

(b) conversely, if the internal statistics are derived from a small population with characteristics that are believed to be close to those of the national population, and the national statistics are current, an entity shall place more weight on the national statistics.

B51 Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

B52 In some cases, an entity may conclude that market variables vary independently of non-market variables. If so, the entity shall consider scenarios that reflect the range of outcomes for the non-market variables, with each scenario using the same observed value of the market variable.

B53 In other cases, market variables and non-market variables may be correlated. For example, there may be evidence that lapse rates (a non-market variable) are correlated with interest rates (a market variable). Similarly, there may be evidence that claim levels for house or car insurance are correlated with economic cycles and therefore with interest rates and expense amounts. The entity shall ensure that the probabilities for the scenarios and the risk adjustments for the non-financial risk that relates to the market variables are consistent with the observed market prices that depend on those market variables.

Using current estimates (paragraph 33(c))

B54 In estimating each cash flow scenario and its probability, an entity shall use all reasonable and supportable information available without undue cost or effort.

An entity shall review the estimates that it made at the end of the previous reporting period and update them. In doing so, an entity shall consider whether:

(a) the updated estimates faithfully represent the conditions at the end of the reporting period.

(b) the changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, shifting the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all newly available evidence, giving more weight to the more persuasive evidence.

B55 The probability assigned to each scenario shall reflect the conditions at the end of the reporting period. Consequently, applying IAS 10 *Events after the Reporting Period*, an event occurring after the end of the reporting period that resolves an uncertainty that existed at the end of the reporting period does not provide evidence of the conditions that existed at that date. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike during the remaining six months of an insurance contract. After the end of the reporting period but before the financial statements are authorised for issue, a major storm strikes. The fulfilment cash flows under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the cash flows included in the measurement include the 20 per cent probability apparent at the end of the reporting period (with disclosure applying IAS 10 that a non-adjusting event occurred after the end of the reporting period).

B56 Current estimates of expected cash flows are not necessarily identical to the most recent actual experience. For example, suppose that mortality experience in the reporting period was 20 per cent worse than the previous mortality experience and previous expectations of mortality experience. Several factors could have caused the sudden change in experience, including:

(a) lasting changes in mortality;

(b) changes in the characteristics of the insured population (for example, changes in underwriting or distribution, or selective lapses by policyholders in unusually good health);

(c) random fluctuations; or

(d) identifiable non-recurring causes.

B57 An entity shall investigate the reasons for the change in experience and develop new estimates of cash flows and probabilities in the light of the most recent experience, the earlier experience and other information. The result for the example in paragraph B56 would typically be that the expected present value of death benefits changes, but not by as much as 20 per cent. In the example in paragraph B56, if mortality rates continue to be significantly higher than the previous estimates for reasons that are expected to continue, the estimated probability assigned to the high-mortality scenarios will increase.

B58 Estimates of non-market variables shall include information about the current level of insured events and information about trends. For example, mortality rates have consistently declined over long periods in many countries. The determination of the fulfilment cash flows reflects the probabilities that would be assigned to each possible trend scenario, taking account of all reasonable and supportable information available without undue cost or effort.

B59 Similarly, if cash flows allocated to a group of insurance contracts are sensitive to inflation, the determination of the fulfilment cash flows shall reflect current estimates of possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of fulfilment cash flows shall reflect the probabilities for each inflation scenario in a way that is consistent with the probabilities implied by the market interest rates used in estimating the discount rate (see paragraph B51).

B60 When estimating the cash flows, an entity shall take into account current expectations of future events that might affect those cash flows. The entity shall develop cash flow scenarios that reflect those future events, as well as unbiased estimates of the probability of each scenario. However, an entity shall not take into account current expectations of future changes in legislation that would change or discharge the present obligation or create new obligations under the existing insurance contract until the change in legislation is substantively enacted.

Cash flows within the contract boundary (paragraph 34)

B61 Estimates of cash flows in a scenario shall include all cash flows within the boundary of an existing contract and no other cash flows. An entity shall apply paragraph 2 in determining the boundary of an existing contract.

B62 Many insurance contracts have features that enable policyholders to take actions that change the amount, timing, nature or uncertainty of the amounts they will receive. Such features include renewal options, surrender options, conversion options and options to stop paying premiums while still receiving benefits under the contracts. The measurement of a group of insurance contracts shall reflect, on an expected value basis, the entity's current estimates of how the policyholders in the group will exercise the options available, and the risk adjustment for non-financial risk shall reflect the entity's current estimates of how the actual behaviour of the policyholders may differ from the expected behaviour. This requirement to determine the expected value applies regardless of the number of contracts in a group; for example it applies even if the group comprises a single contract. Thus, the measurement of a group of insurance contracts shall not assume a 100 per cent probability that policyholders will:

(a) surrender their contracts, if there is some probability that some of the policyholders will not; or

(b) continue their contracts, if there is some probability that some of the policyholders will not.

B63 When an issuer of an insurance contract is required by the contract to renew or otherwise continue the contract, it shall apply paragraph 34 to assess whether premiums and related cash flows that arise from the renewed contract are within the boundary of the original contract.

B64 Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining coverage. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

B65 Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

(a) premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.

(b) payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (ie reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34).

(c) payments to (or on behalf of) a policyholder that vary depending on returns on underlying items.

(d) payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)).

(e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.

(f) claim handling costs (ie the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments).

(g) costs the entity will incur in providing contractual benefits paid in kind.

(h) policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract.

(i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.

(j) payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts.

(k) potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.

(l) an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics.

(m) any other costs specifically chargeable to the policyholder under the terms of the contract.

B66 The following cash flows shall not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:

(a) investment returns. Investments are recognised, measured and presented separately.

(b) cash flows (payments or receipts) that arise under reinsurance contracts held. Reinsurance contracts held are recognised, measured and presented separately.

(c) cash flows that may arise from future insurance contracts, ie cash flows outside the boundary of existing contracts (see paragraphs 34–35).

(d) cash flows relating to costs that cannot be directly attributed to the portfolio of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred.

(e) cash flows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss when incurred.

(f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity. Such payments and receipts are recognised, measured and presented separately applying IAS 12 *Income Taxes*.

(g) cash flows between different components of the reporting entity, such as policyholder funds and shareholder funds, if those cash flows do not change the amount that will be paid to the policyholders.

(h) cash flows arising from components separated from the insurance contract and accounted for using other applicable Standards (see paragraphs 10–13).

Contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts

B67 Some insurance contracts affect the cash flows to policyholders of other contracts by requiring:

(a) the policyholder to share with policyholders of other contracts the returns on the same specified pool of underlying items; and

(b) either:

(i) the policyholder to bear a reduction in their share of the returns on the underlying items because of payments to policyholders of other contracts that share in that pool, including payments arising under guarantees made to policyholders of those other contracts; or

(ii) policyholders of other contracts to bear a reduction in their share of returns on the underlying items because of payments to the policyholder, including payments arising from guarantees made to the policyholder.

B68 Sometimes, such contracts will affect the cash flows to policyholders of contracts in other groups. The fulfilment cash flows of each group reflect the extent to which the contracts in the group cause the entity to be affected by expected cash flows, whether to policyholders in that group or to policyholders in another group. Hence the fulfilment cash flows for a group:

(a) include payments arising from the terms of existing contracts to policyholders of contracts in other groups, regardless of whether those payments are expected to be made to current or future policyholders; and

(b) exclude payments to policyholders in the group that, applying (a), have been included in the fulfilment cash flows of another group.

B69 For example, to the extent that payments to policyholders in one group are reduced from a share in the returns on underlying items of CU350 to CU250 because of payments of a guaranteed amount to policyholders in another group, the fulfilment cash flows of the first group would include the payments of CU100 (ie would be CU350) and the fulfilment cash flows of the second group would exclude CU100 of the guaranteed amount.

B70 Different practical approaches can be used to determine the fulfilment cash flows of groups of contracts that affect or are affected by cash flows to policyholders of contracts in other groups. In some cases, an entity might be able to identify the change in the underlying items and resulting change in the cash flows only at a higher level of aggregation than the groups. In such cases, the entity shall allocate the effect of the change in the underlying items to each group on a systematic and rational basis.

B71 After all the coverage has been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.

Discount rates (paragraph 36)

B72 An entity shall use the following discount rates in applying IFRS 17:

(a) to measure the fulfilment cash flows—current discount rates applying paragraph 36;

(b) to determine the interest to accrete on the contractual service margin applying paragraph 44(b) for insurance contracts without direct participation features—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;

(c) to measure the changes to the contractual service margin applying paragraph B96(a)–B96(c) for insurance contracts without direct participation features—discount rates applying paragraph 36 determined on initial recognition;

(d) for groups of contracts applying the premium allocation approach that have a significant financing component, to adjust the carrying amount of the liability for remaining coverage applying paragraph 56—discount rates applying paragraph 36 determined on initial recognition;

(e) if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (see paragraph 88), to determine the amount of the insurance finance income or expenses included in profit or loss:

(i) for groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders, applying paragraph B131—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;

(ii) for groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to policyholders, applying paragraph B132(a)(i)—discount rates that allocate the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; and

(iii) for groups of contracts applying the premium allocation approach applying paragraphs 59(b) and B133—discount rates determined at the date of the incurred claim, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items.

B73 To determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)–B72(e), an entity may use weighted-average discount rates over the period that contracts in the group are issued, which applying paragraph 22 cannot exceed one year.

B74 Estimates of discount rates shall be consistent with other estimates used to measure insurance contracts to avoid double counting or omissions; for example:

(a) cash flows that do not vary based on the returns on any underlying items shall be discounted at rates that do not reflect any such variability;

(b) cash flows that vary based on the returns on any financial underlying items shall be:

(i) discounted using rates that reflect that variability; or

(ii) adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made.

(c) nominal cash flows (ie those that include the effect of inflation) shall be discounted at rates that include the effect of inflation; and

(d) real cash flows (ie those that exclude the effect of inflation) shall be discounted at rates that exclude the effect of inflation.

B75 Paragraph B74(b) requires cash flows that vary based on the returns on underlying items to be discounted using rates that reflect that variability, or to be adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made. The variability is a relevant factor regardless of whether it arises because of contractual terms or because the entity exercises discretion, and regardless of whether the entity holds the underlying items.

B76 Cash flows that vary with returns on underlying items with variable returns, but that are subject to a guarantee of a minimum return, do not vary solely based on the returns on the underlying items, even when the guaranteed amount is lower than the expected return on the underlying items. Hence, an entity shall adjust the rate that reflects the variability of the returns on the underlying items for the effect of the guarantee, even when the guaranteed amount is lower than the expected return on the underlying items.

B77 IFRS 17 does not require an entity to divide estimated cash flows into those that vary based on the returns on underlying items and those that do not. If an entity does not divide the estimated cash flows in this way, the entity shall apply discount rates appropriate for the estimated cash flows as a whole; for example, using stochastic modelling techniques or risk-neutral measurement techniques.

B78 Discount rates shall include only relevant factors, ie factors that arise from the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Such discount rates may not be directly observable in the market. Hence, when observable market rates for an instrument with the same characteristics are not available, or observable market rates for similar instruments are available but do not separately identify the factors that distinguish the instrument from the insurance contracts, an entity shall estimate the appropriate rates. IFRS 17 does not require a particular estimation technique for determining discount rates. In applying an estimation technique, an entity shall:

(a) maximise the use of observable inputs (see paragraph B44) and reflect all reasonable and supportable information on non-market variables available without undue cost or effort, both external and internal (see paragraph B49). In particular, the discount rates used shall not contradict any available and relevant market data, and any non-market variables used shall not contradict observable market variables.

(b) reflect current market conditions from the perspective of a market participant.

(c) exercise judgement to assess the degree of similarity between the features of the insurance contracts being measured and the features of the instrument for which observable market prices are available and adjust those prices to reflect the differences between them.

B79 For cash flows of insurance contracts that do not vary based on the returns on underlying items, the discount rate reflects the yield curve in the appropriate currency for instruments that expose the holder to no or negligible credit risk, adjusted to reflect the liquidity characteristics of the group of insurance contracts. That adjustment shall reflect the difference between the liquidity characteristics of the group of insurance contracts and the liquidity characteristics of the assets used to determine the yield curve. Yield curves reflect assets traded in active markets that the holder can typically sell readily at any time without incurring significant costs. In contrast, under some insurance contracts the entity cannot be forced to make payments earlier than the occurrence of insured events, or dates specified in the contracts.

B80 Hence, for cash flows of insurance contracts that do not vary based on the returns on underlying items, an entity may determine discount rates by adjusting a liquid risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts (a bottom-up approach).

B81 Alternatively, an entity may determine the appropriate discount rates for insurance contracts based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets (a top-down approach). An entity shall adjust that yield curve to eliminate any factors that are not relevant to the insurance contracts, but is not required to adjust the yield curve for differences in liquidity characteristics of the insurance contracts and the reference portfolio.

B82 In estimating the yield curve described in paragraph B81:

(a) if there are observable market prices in active markets for assets in the reference portfolio, an entity shall use those prices (consistent with paragraph 69 of IFRS 13).

(b) if a market is not active, an entity shall adjust observable market prices for similar assets to make them comparable to market prices for the assets being measured (consistent with paragraph 83 of IFRS 13).

(c) if there is no market for assets in the reference portfolio, an entity shall apply an estimation technique. For such assets (consistent with paragraph 89 of IFRS 13) an entity shall:

(i) develop unobservable inputs using the best information available in the circumstances. Such inputs might include the entity's own data and, in the context of IFRS 17, the entity might place more weight on long-term estimates than on short-term fluctuations; and

(ii) adjust those data to reflect all information about market participant assumptions that is reasonably available.

B83 In adjusting the yield curve, an entity shall adjust market rates observed in recent transactions in instruments with similar characteristics for movements in market factors since the transaction date, and shall adjust observed market rates to reflect the degree of dissimilarity between the instrument being measured and the instrument for which transaction prices are observable. For cash flows of insurance contracts that do not vary based on the returns on the assets in the reference portfolio, such adjustments include:

(a) adjusting for differences between the amount, timing and uncertainty of the cash flows of the assets in the portfolio and the amount, timing and uncertainty of the cash flows of the insurance contracts; and

(b) excluding market risk premiums for credit risk, which are relevant only to the assets included in the reference portfolio.

B84 In principle, for cash flows of insurance contracts that do not vary based on the returns of the assets in the reference portfolio, there should be a single illiquid risk-free yield curve that eliminates all uncertainty about the amount and timing of cash flows. However, in practice the top-down approach and the bottom-up approach may result in different yield curves, even in the same currency. This is because of the inherent limitations in estimating the adjustments made under each approach, and the possible lack of an adjustment for different liquidity characteristics in the top-down approach. An entity is not required to reconcile the discount rate determined under its chosen approach with the discount rate that would have been determined under the other approach.

B85 IFRS 17 does not specify restrictions on the reference portfolio of assets used in applying paragraph B81. However, fewer adjustments would be required to eliminate factors that are not relevant to the insurance contracts when the reference portfolio of assets has similar characteristics. For example, if the cash flows from the insurance contracts do not vary based on the returns on underlying items, fewer adjustments would be required if an entity used debt instruments as a starting point rather than equity instruments. For debt instruments, the objective would be to eliminate from the total bond yield the effect of credit risk and other factors that are not relevant to the insurance contracts. One way to estimate the effect of credit risk is to use the market price of a credit derivative as a reference point.

Risk adjustment for non-financial risk (paragraph 37)

B86 The risk adjustment for non-financial risk relates to risk arising from insurance contracts other than financial risk. Financial risk is included in the estimates of the future cash flows or the discount rate used to adjust the cash flows. The risks covered by the risk adjustment for non-financial risk are insurance risk and other non-financial risks such as lapse risk and expense risk (see paragraph B14).

B87 The risk adjustment for non-financial risk for insurance contracts measures the compensation that the entity would require to make the entity indifferent between:

(a) fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and

(b) fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts.

For example, the risk adjustment for non-financial risk would measure the compensation the entity would require to make it indifferent between fulfilling a liability that—because of non-financial risk—has a 50 per cent probability of being CU90 and a 50 per cent probability of being CU110, and fulfilling a liability that is fixed at CU100. As a result, the risk adjustment for non-financial risk conveys information to users of financial statements about the amount charged by the entity for the uncertainty arising from non-financial risk about the amount and timing of cash flows.

B88 Because the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows, the risk adjustment for non-financial risk also reflects:

(a) the degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk; and

(b) both favourable and unfavourable outcomes, in a way that reflects the entity's degree of risk aversion.

B89 The purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cash flows that arise from insurance contracts, other than uncertainty arising from financial risk. Consequently, the risk adjustment for non-financial risk shall reflect all non-financial risks associated with the insurance contracts. It shall not reflect the risks that do not arise from the insurance contracts, such as general operational risk.

B90 The risk adjustment for non-financial risk shall be included in the measurement in an explicit way. The risk adjustment for non-financial risk is conceptually separate from the estimates of future cash flows and the discount rates that adjust those cash flows. The entity shall not double-count the risk adjustment for non-financial risk by, for example, also including the risk adjustment for non-financial risk implicitly when determining the estimates of future cash flows or the discount rates. The discount rates that are disclosed to comply with paragraph 120 shall not include any implicit adjustments for non-financial risk.

B91 IFRS 17 does not specify the estimation technique(s) used to determine the risk adjustment for non-financial risk. However, to reflect the compensation the entity would require for bearing the non-financial risk, the risk adjustment for non-financial risk shall have the following characteristics:

(a) risks with low frequency and high severity will result in higher risk adjustments for non-financial risk than risks with high frequency and low severity;

(b) for similar risks, contracts with a longer duration will result in higher risk adjustments for non-financial risk than contracts with a shorter duration;

(c) risks with a wider probability distribution will result in higher risk adjustments for non-financial risk than risks with a narrower distribution;

(d) the less that is known about the current estimate and its trend, the higher will be the risk adjustment for non-financial risk; and

(e) to the extent that emerging experience reduces uncertainty about the amount and timing of cash flows, risk adjustments for non-financial risk will decrease and vice versa.

B92 An entity shall apply judgement when determining an appropriate estimation technique for the risk adjustment for non-financial risk. When applying that judgement, an entity shall also consider whether the technique provides concise and informative disclosure so that users of financial statements can benchmark the entity's performance against the performance of other entities. Paragraph 119 requires an entity that uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk to disclose the technique used and the confidence level corresponding to the results of that technique.

Initial recognition of transfers of insurance contracts and business combinations (paragraph 39)

B93 When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or in a business combination, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.

B94 An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination, the consideration received or paid is the fair value of the contracts at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 (relating to demand features).

B95 Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition. If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination or as a loss in profit or loss for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.

Changes in the carrying amount of the contractual service margin for insurance contracts without direct participation features (paragraph 44)

B96 For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

(a) experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph B72(c);

(b) changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph B97(a), measured at the discount rates specified in paragraph B72(c);

(c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, measured at the discount rates specified in paragraph B72(c); and

(d) changes in the risk adjustment for non-financial risk that relate to future service.

B97 An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

(a) the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk (being the effect, if any, on estimated future cash flows and the effect of a change in discount rate);

(b) changes in estimates of fulfilment cash flows in the liability for incurred claims; and

(c) experience adjustments, except those described in paragraph B96(a).

B98 The terms of some insurance contracts without direct participation features give an entity discretion over the cash flows to be paid to policyholders. A change in the discretionary cash flows is regarded as relating to future service, and accordingly adjusts the contractual service margin. To determine how to identify a change in discretionary cash flows, an entity shall specify at inception of the contract the basis on which it expects to determine its commitment under the contract; for example, based on a fixed interest rate, or on returns that vary based on specified asset returns.

B99 An entity shall use that specification to distinguish between the effect of changes in assumptions that relate to financial risk on that commitment (which do not adjust the contractual service margin) and the effect of discretionary changes to that commitment (which adjust the contractual service margin).

B100 If an entity cannot specify at inception of the contract what it regards as its commitment under the contract and what it regards as discretionary, it shall regard its commitment to be the return implicit in the estimate of the fulfilment cash flows at inception of the contract, updated to reflect current assumptions that relate to financial risk.

Changes in the carrying amount of the contractual service margin for insurance contracts with direct participation features (paragraph 45)

B101 Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

(a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs B105–B106);

(b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph B107); and

(c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph B107).

B102 An entity shall assess whether the conditions in paragraph B101 are met using its expectations at inception of the contract and shall not reassess the conditions afterwards, unless the contract is modified, applying paragraph 72.

B103 To the extent that insurance contracts in a group affect the cash flows to policyholders of contracts in other groups (see paragraphs B67–B71), an entity shall assess whether the conditions in paragraph B101 are met by considering the cash flows that the entity expects to pay the policyholders determined applying paragraphs B68–B70.

B104 The conditions in paragraph B101 ensure that insurance contracts with direct participation features are contracts under which the entity's obligation to the policyholder is the net of:

(a) the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and

(b) a variable fee (see paragraphs B110–B118) that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:

  (i) the entity's share of the fair value of the underlying items; less

  (ii) fulfilment cash flows that do not vary based on the returns on underlying items.

B105 A share referred to in paragraph B101(a) does not preclude the existence of the entity's discretion to vary the amounts paid to the policyholder. However, the link to the underlying items must be enforceable (see paragraph 2).

B106 The pool of underlying items referred to in paragraph B101(a) can comprise any items, for example a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity, as long as they are clearly identified by the contract. An entity need not hold the identified pool of underlying items. However, a clearly identified pool of underlying items does not exist when:

(a) an entity can change the underlying items that determine the amount of the entity's obligation with retrospective effect; or

(b) there are no underlying items identified, even if the policyholder could be provided with a return that generally reflects the entity's overall performance and expectations, or the performance and expectations of a subset of assets the entity holds. An example of such a return is a crediting rate or dividend payment set at the end of the period to which it relates. In this case, the obligation to the policyholder reflects the crediting rate or dividend amounts the entity has set, and does not reflect identified underlying items.

B107 Paragraph B101(b) requires that the entity expects a substantial share of the fair value returns on the underlying items will be paid to the policyholder and paragraph B101(c) requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. An entity shall:

(a) interpret the term 'substantial' in both paragraphs in the context of the objective of insurance contracts with direct participation features being contracts under which the entity provides investment-related services and is compensated for the services by a fee that is determined by reference to the underlying items; and

(b) assess the variability in the amounts in paragraphs B101(b) and B101(c):

(i) over the duration of the group of insurance contracts; and

(ii) on a present value probability-weighted average basis, not a best or worst outcome basis (see paragraphs B37–B38).

B108 For example, if the entity expects to pay a substantial share of the fair value returns on underlying items, subject to a guarantee of a minimum return, there will be scenarios in which:

(a) the cash flows that the entity expects to pay to the policyholder vary with the changes in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items do not exceed the fair value return on the underlying items; and

(b) the cash flows that the entity expects to pay to the policyholder do not vary with the changes in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items exceed the fair value return on the underlying items.

The entity's assessment of the variability in paragraph B101(c) for this example will reflect a present value probability-weighted average of all these scenarios.

B109 Reinsurance contracts issued and reinsurance contracts held cannot be insurance contracts with direct participation features for the purposes of IFRS 17.

B110 For insurance contracts with direct participation features, the contractual service margin is adjusted to reflect the variable nature of the fee. Hence, changes in the amounts set out in paragraph B104 are treated as set out in paragraphs B111–B114.

B111 Changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items (paragraph B104(a)) do not relate to future service and do not adjust the contractual service margin.

B112 Changes in the entity's share of the fair value of the underlying items (paragraph B104(b)(i)) relate to future service and adjust the contractual service margin, applying paragraph 45(b).

B113 Changes in the fulfilment cash flows that do not vary based on the returns on underlying items (paragraph B104(b)(ii)) comprise:

(a) changes in estimates of the fulfilment cash flows other than those specified in (b). An entity shall apply paragraphs B96–B97, consistent with insurance contracts without direct participation features, to determine to what extent they relate to future service and, applying paragraph 45(c), adjust the contractual service margin. All the adjustments are measured using current discount rates.

(b) the change in the effect of the time value of money and financial risks not arising from the underlying items; for example, the effect of financial guarantees. These relate to future service and, applying paragraph 45(c), adjust the contractual service margin, except to the extent that paragraph B115 applies.

B114 An entity is not required to identify the adjustments to the contractual service margin required by paragraphs B112 and B113 separately. Instead, a combined amount may be determined for some or all of the adjustments.

Risk mitigation

B115 To the extent that an entity meets the conditions in paragraph B116, it may choose not to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of financial risk on the entity's share of the underlying items (see paragraph B112) or the fulfilment cash flows set out in paragraph B113(b).

B116 To apply paragraph B115, an entity must have a previously documented risk-management objective and strategy for using derivatives to mitigate financial risk arising from the insurance contracts and, in applying that objective and strategy:

(a) the entity uses a derivative to mitigate the financial risk arising from the insurance contracts.

(b) an economic offset exists between the insurance contracts and the derivative, ie the values of the insurance contracts and the derivative generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity shall not consider accounting measurement differences in assessing the economic offset.

(c) credit risk does not dominate the economic offset.

B117 The entity shall determine the fulfilment cash flows in a group to which paragraph B115 applies in a consistent manner in each reporting period.

B118 If any of the conditions in paragraph B116 ceases to be met, an entity shall:

(a) cease to apply paragraph B115 from that date; and

(b) not make any adjustment for changes previously recognised in profit or loss.

Recognition of the contractual service margin in profit or loss

B119 An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by:

(a) identifying the coverage units in the group. The number of coverage units in a group is the quantity of coverage provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage duration.

(b) allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.

(c) recognising in profit or loss the amount allocated to coverage units provided in the period.

Insurance revenue (paragraphs 83 and 85)

B120 The total insurance revenue for a group of insurance contracts is the consideration for the contracts, ie the amount of premiums paid to the entity:

(a) adjusted for a financing effect; and

(b) excluding any investment components.

B121 Paragraph 83 requires the amount of insurance revenue recognised in a period to depict the transfer of promised services at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The total consideration for a group of contracts covers the following amounts:

(a) amounts related to the provision of services, comprising:

(i) insurance service expenses, excluding any amounts allocated to the loss component of the liability for remaining coverage;

(ii) the risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and

(iii) the contractual service margin.

(b) amounts related to insurance acquisition cash flows.

B122 Insurance revenue for a period relating to the amounts described in paragraph B121(a) is determined as set out in paragraphs B123–B124. Insurance revenue for a period relating to the amounts described in paragraph B121(b) is determined as set out in paragraph B125.

B123 Applying IFRS 15, when an entity provides services, it derecognises the performance obligation for those services and recognises revenue. Consistently, applying IFRS 17, when an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:

(a) changes that do not relate to services provided in the period, for example:

 (i) changes resulting from cash inflows from premiums received;

 (ii) changes that relate to investment components in the period;

 (iii) changes that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i));

 (iv) insurance finance income or expenses;

 (v) insurance acquisition cash flows (see paragraph B125); and

 (vi) derecognition of liabilities transferred to a third party.

(b) changes that relate to services, but for which the entity does not expect consideration, ie increases and decreases in the loss component of the liability for remaining coverage (see paragraphs 47–52).

B124 Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:

(a) insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:

 (i) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(a);

 (ii) repayments of investment components;

 (iii) amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i)); and

 (iv) insurance acquisition expenses (see paragraph B125).

(b) the change in the risk adjustment for non-financial risk, excluding:

 (i) changes included in insurance finance income or expenses applying paragraph 87;

 (ii) changes that adjust the contractual service margin because they relate to future service applying paragraphs 44(c) and 45(c); and

 (iii) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(b).

(c) the amount of the contractual service margin recognised in profit or loss in the period, applying paragraphs 44(e) and 45(e).

B125 An entity shall determine insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relate to recovering those cash flows to each reporting period in a systematic way on the basis of the passage of time. An entity shall recognise the same amount as insurance service expenses.

B126 When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of coverage:

(a) on the basis of the passage of time; but

(b) if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses.

B127 An entity shall change the basis of allocation between paragraphs B126(a) and B126(b) as necessary if facts and circumstances change.

Insurance finance income or expenses (paragraphs 87–92)

B128 Paragraph 87 requires an entity to include in insurance finance income or expenses the effect of changes in assumptions that relate to financial risk. For the purposes of IFRS 17:

(a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; and

(b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk.

B129 Paragraphs 88–89 require an entity to make an accounting policy choice as to whether to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. An entity shall apply its choice of accounting policy to portfolios of insurance contracts. In assessing the appropriate accounting policy for a portfolio of insurance contracts, applying paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the entity shall consider for each portfolio the assets that the entity holds and how it accounts for those assets.

B130 If paragraph 88(b) applies, an entity shall include in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of insurance contracts. In this context, a systematic allocation is an allocation of the total expected finance income or expenses of a group of insurance contracts over the duration of the group that:

(a) is based on characteristics of the contracts, without reference to factors that do not affect the cash flows expected to arise under the contracts. For example, the allocation of the finance income or expenses shall not be based on expected recognised returns on assets if those expected recognised returns do not affect the cash flows of the contracts in the group.

(b) results in the amounts recognised in other comprehensive income over the duration of the group of contracts totalling zero. The cumulative amount recognised in other comprehensive income at any date is the difference between the carrying amount of the group of contracts and the amount that the group would be measured at when applying the systematic allocation.

B131 For groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholder, the systematic allocation is determined using the discount rates specified in paragraph B72(e)(i).

B132 For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders:

(a) a systematic allocation for the finance income or expenses arising from the estimates of future cash flows can be determined in one of the following ways:

 (i) using a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; or

 (ii) for contracts that use a crediting rate to determine amounts due to the policyholders–using an allocation that is based on the amounts credited in the period and expected to be credited in future periods.

(b) a systematic allocation for the finance income or expenses arising from the risk adjustment for non-financial risk, if separately disaggregated from other changes in the risk adjustment for non-financial risk applying paragraph 81, is determined using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.

(c) a systematic allocation for the finance income or expenses arising from the contractual service margin is determined:

 (i) for insurance contracts that do not have direct participation features, using the discount rates specified in paragraph B72(b); and

 (ii) for insurance contracts with direct participation features, using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.

B133 In applying the premium allocation approach to insurance contracts described in paragraphs 53–59, an entity may be required, or may choose, to discount the liability for incurred claims. In such cases, it may choose to disaggregate the insurance finance income or expenses applying paragraph 88(b). If the entity makes this choice, it shall determine the insurance finance income or expenses in profit or loss using the discount rate specified in paragraph B72(e)(iii).

B134 Paragraph 89 applies if an entity, either by choice or because it is required to, holds the underlying items for insurance contracts with direct participation features. If an entity chooses to disaggregate insurance finance income or expenses applying paragraph 89(b), it shall include in profit or loss expenses or income that exactly match the income or expenses included in profit or loss for the underlying items, resulting in the net of the two separately presented items being nil.

B135 An entity may qualify for the accounting policy choice in paragraph 89 in some periods but not in others because of a change in whether it holds the underlying items. If such a change occurs, the accounting policy choice available to the entity changes from that set out in paragraph 88 to that set out in paragraph 89, or vice versa. Hence, an entity might change its accounting policy between that set out in paragraph 88(b) and that set out in paragraph 89(b). In making such a change an entity shall:

(a) include the accumulated amount previously included in other comprehensive income by the date of the change as a reclassification adjustment in profit or loss in the period of change and in future periods, as follows:

  (i) if the entity had previously applied paragraph 88(b)—the entity shall include in profit or loss the accumulated amount included in other comprehensive income before the change as if the entity were continuing the approach in paragraph 88(b) based on the assumptions that applied immediately before the change; and

  (ii) if the entity had previously applied paragraph 89(b)—the entity shall include in profit or loss the accumulated amount included in other comprehensive income before the change as if the entity were continuing the approach in paragraph 89(b) based on the assumptions that applied immediately before the change.

(b) not restate prior period comparative information.

B136 When applying paragraph B135(a), an entity shall not recalculate the accumulated amount previously included in other comprehensive income as if the new disaggregation had always applied; and the assumptions used for the reclassification in future periods shall not be updated after the date of the change.

Interim financial statements

B137 Notwithstanding the requirement in IAS 34 *Interim Financial Reporting* that the frequency of an entity's reporting shall not affect the measurement of its annual results, an entity shall not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period.

Appendix C
Effective date and transition

This appendix is an integral part of IFRS 17 Insurance Contracts.

Effective date

C1 An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2021. If an entity applies IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on or before the date of initial application of IFRS 17.

C2 For the purposes of the transition requirements in paragraphs C1 and C3–C33:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 17; and

(b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

Transition

C3 An entity shall apply IFRS 17 retrospectively unless impracticable, except that:

(a) an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(b) an entity shall not apply the option in paragraph B115 for periods before the date of initial application of IFRS 17.

C4 To apply IFRS 17 retrospectively, an entity shall at the transition date:

(a) identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied;

(b) derecognise any existing balances that would not exist had IFRS 17 always applied; and

(c) recognise any resulting net difference in equity.

C5 If, and only if, it is impracticable for an entity to apply paragraph C3 for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph C4(a):

(a) the modified retrospective approach in paragraphs C6–C19, subject to paragraph C6(a); or

(b) the fair value approach in paragraphs C20–C24.

Modified retrospective approach

C6 The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Accordingly, in applying this approach, an entity shall:

(a) use reasonable and supportable information. If the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it shall apply the fair value approach.

(b) maximise the use of information that would have been used to apply a fully retrospective approach, but need only use information available without undue cost or effort.

C7 Paragraphs C9–C19 set out permitted modifications to retrospective application in the following areas:

(a) assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition;

(b) amounts related to the contractual service margin or loss component for insurance contracts without direct participation features;

(c) amounts related to the contractual service margin or loss component for insurance contracts with direct participation features; and

(d) insurance finance income or expenses.

C8 To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–C19 only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at inception or initial recognition

C9 To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date:

(a) how to identify groups of insurance contracts, applying paragraphs 14–24;

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; and

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100.

C10 To the extent permitted by paragraph C8, an entity shall not apply paragraph 22 to divide groups into those that do not include contracts issued more than one year apart.

Determining the contractual service margin or loss component for groups of insurance contracts without direct participation features

C11 To the extent permitted by paragraph C8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs C12–C16.

C12 To the extent permitted by paragraph C8, an entity shall estimate the future cash flows at the date of initial recognition of a group of insurance contracts as the amount of the future cash flows at the transition date (or earlier date, if the future cash flows at that earlier date can be determined retrospectively, applying paragraph C4(a)), adjusted by the cash flows that are known to have occurred between the date of initial recognition of a group of insurance contracts and the transition date (or earlier date). The cash flows that are known to have occurred include cash flows resulting from contracts that ceased to exist before the transition date.

C13 To the extent permitted by paragraph C8, an entity shall determine the discount rates that applied at the date of initial recognition of a group of insurance contracts (or subsequently):

(a) using an observable yield curve that, for at least three years immediately before the transition date, approximates the yield curve estimated applying paragraphs 36 and B72–B85, if such an observable yield curve exists.

(b) if the observable yield curve in paragraph (a) does not exist, estimate the discount rates that applied at the date of initial recognition (or subsequently) by determining an average spread between an observable yield curve and the yield curve estimated applying paragraphs 36 and B72–B85, and applying that spread to that observable yield curve. That spread shall be an average over at least three years immediately before the transition date.

C14 To the extent permitted by paragraph C8, an entity shall determine the risk adjustment for non-financial risk at the date of initial recognition of a group of insurance contracts (or subsequently) by adjusting the risk adjustment for non-financial risk at the transition date by the expected release of risk before the transition date. The expected release of risk shall be determined by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

C15 If applying paragraphs C12–C14 results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:

(a) if the entity applies C13 to estimate the discount rates that apply on initial recognition, use those rates to accrete interest on the contractual service margin; and

(b) to the extent permitted by paragraph C8, determine the amount of the contractual service margin recognised in profit or loss because of the transfer of services before the transition date, by comparing the remaining coverage units at that date with the coverage units provided under the group of contracts before the transition date (see paragraph B119).

C16 If applying paragraphs C12–C14 results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs C12–C14 and using a systematic basis of allocation.

Determining the contractual service margin or loss component for groups of insurance contracts with direct participation features

C17 To the extent permitted by paragraph C8, for contracts with direct participation features an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:

(a) the total fair value of the underlying items at that date; minus

(b) the fulfilment cash flows at that date; plus or minus

(c) an adjustment for:

  (i) amounts charged by the entity to the policyholders (including amounts deducted from the underlying items) before that date.

  (ii) amounts paid before that date that would not have varied based on the underlying items.

  (iii) the change in the risk adjustment for non-financial risk caused by the release from risk before that date. The entity shall estimate this amount by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

(d) if (a)–(c) result in a contractual service margin—minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts, ie before any amounts that would have been recognised in profit or loss for services provided. The entity shall estimate the amounts that would have been recognised in profit or loss for services provided by comparing the remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or

(e) if (a)–(c) result in a loss component—adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

Insurance finance income or expenses

C18 For groups of insurance contracts that, applying paragraph C10, include contracts issued more than one year apart:

(a) an entity is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.

(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity is permitted to determine that cumulative difference either by applying paragraph C19(b) or:

(i) as nil, unless (ii) applies; and

(ii) for insurance contracts with direct participation features to which paragraph B134 applies, as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

C19 For groups of insurance contracts that do not include contracts issued more than one year apart:

(a) if an entity applies paragraph C13 to estimate the discount rates that applied at initial recognition (or subsequently), it shall also determine the discount rates specified in paragraphs B72(b)–B72(e) applying paragraph C13; and

(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income, applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative difference:

(i) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B131—if the entity applies paragraph C13 to estimate the discount rates at initial recognition—using the discount rates that applied at the date of initial recognition, also applying paragraph C13;

(ii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B132—on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, ie as nil;

(iii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B133—if the entity applies paragraph C13 to estimate the discount rates at initial recognition (or subsequently)—using the discount rates that applied at the date of the incurred claim, also applying paragraph C13; and

(iv) for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

Fair value approach

C20 To apply the fair value approach, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 *Fair Value Measurement* (relating to demand features).

C21 In applying the fair value approach, an entity may apply paragraph C22 to determine:

(a) how to identify groups of insurance contracts, applying paragraphs 14–24;

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; and

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100.

C22 An entity may choose to determine the matters in paragraph C21 using:

(a) reasonable and supportable information for what the entity would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate; or

(b) reasonable and supportable information available at the transition date.

C23 In applying the fair value approach, an entity is not required to apply paragraph 22, and may include in a group contracts issued more than one year apart. An entity shall only divide groups into those including only contracts issued within a year (or less) if it has reasonable and supportable information to make the division. Whether or not an entity applies paragraph 22, it is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.

C24 In applying the fair value approach, if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income, it is permitted to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date:

(a) retrospectively—but only if it has reasonable and supportable information to do so; or

(b) as nil—unless (c) applies; and

(c) for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income from the underlying items.

Comparative information

C25 Notwithstanding the reference to the annual reporting period immediately preceding the date of initial application in paragraph C2(b), an entity may also present adjusted comparative information applying IFRS 17 for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, the reference to 'the beginning of the annual reporting period immediately preceding the date of initial application' in paragraph C2(b) shall be read as 'the beginning of the earliest adjusted comparative period presented'.

C26 An entity is not required to provide the disclosures specified in paragraphs 93–132 for any period presented before the beginning of the annual reporting period immediately preceding the date of initial application.

C27 If an entity presents unadjusted comparative information and disclosures for any earlier periods, it shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

C28 An entity need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies IFRS 17. However, if an entity does not disclose that information, it shall disclose that fact.

Redesignation of financial assets

C29 At the date of initial application of IFRS 17, an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:

(a) may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of IFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of IFRS 17.

(b) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is no longer met because of the application of IFRS 17.

(c) may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is met.

(d) may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

(e) may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

C30 An entity shall apply paragraph C29 on the basis of the facts and circumstances that exist at the date of initial application of IFRS 17. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in IFRS 9. The date of initial application for that purpose shall be deemed to be the date of initial application of IFRS 17.

C31 An entity that applies paragraph C29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between:

(a) the previous carrying amount of those financial assets; and

(b) the carrying amount of those financial assets at the date of initial application.

C32 When an entity applies paragraph C29, it shall disclose in that annual reporting period for those financial assets by class:

(a) if paragraph C29(a) applies—its basis for determining eligible financial assets;

(b) if any of paragraphs C29(a)–C29(e) apply:

  (i) the measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of IFRS 17; and

  (ii) the new measurement category and carrying amount of the affected financial assets determined after applying paragraph C29.

(c) if paragraph C29(b) applies—the carrying amount of financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.

C33 When an entity applies paragraph C29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

(a) how it applied paragraph C29 to financial assets the classification of which has changed on initially applying IFRS 17;

(b) the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9; and

(c) why the entity came to any different conclusions in the new assessment applying paragraphs 4.1.2(a) or 4.1.2A(a) of IFRS 9.

Withdrawal of other IFRS Standards

C34 IFRS 17 supersedes IFRS 4 *Insurance Contracts*, as amended in 2016.

Appendix D
Amendments to other IFRS Standards

This appendix sets out the amendments to other Standards that are a consequence of the International Accounting Standards Board issuing IFRS 17 Insurance Contracts. *An entity shall apply these amendments when it applies IFRS 17.*

An entity is not permitted to apply IFRS 17 before applying IFRS 9 Financial Instruments *and IFRS 15* Revenue from Contracts with Customers *(see paragraph C1). Consequently, unless otherwise stated, the amendments in this appendix are presented based on the text of Standards that are effective on 1 January 2017 as amended by IFRS 9 and IFRS 15.*

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39AE is added.

Effective date

...

39AE IFRS 17 *Insurance Contracts*, issued in May 2017, amended paragraphs B1 and D1, deleted the heading before paragraph D4 and paragraph D4, and after paragraph B12 added a heading and paragraph B13. An entity shall apply those amendments when it applies IFRS 17.

In Appendix B, paragraph B1 is amended. New text is underlined and deleted text is struck through. After paragraph B12, a heading and paragraph B13 are added.

Appendix B
Exceptions to the retrospective application of other IFRSs

...

B1 An entity shall apply the following exceptions:

(a) ...

(f) embedded derivatives (paragraph B9); ~~and~~

(g) government loans (paragraphs B10–B12)~~.~~<u>; and</u>

<u>(h)</u> <u>insurance contracts (paragraph B13).</u>

...

Insurance contracts

B13 An entity shall apply the transition provisions in paragraphs C1–C24 and C28 in Appendix C of IFRS 17 to contracts within the scope of IFRS 17. The references in those paragraphs in IFRS 17 to the transition date shall be read as the date of transition to IFRSs.

In Appendix D, paragraph D1 is amended and paragraph D4 and its related heading are deleted. New text is underlined and deleted text is struck through.

Appendix D
Exemptions from other IFRSs

...

D1 An entity may elect to use one or more of the following exemptions:

(a) ...

(b) [deleted]~~insurance contracts (paragraph D4);~~

(c) ...

~~Insurance contracts~~

D4 [Deleted]~~A first-time adopter may apply the transitional provisions in IFRS 4 *Insurance Contracts*. IFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.~~

IFRS 3 *Business Combinations*

Paragraphs 17, 20, 21 and 35 are amended. New text is underlined and deleted text is struck through. After paragraph 31, a heading and paragraph 31A are added. Paragraph 64N is added.

Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

...

17 This IFRS provides ~~two~~an exceptions~~s~~ to the principle in paragraph 15:

(a) classification of a lease contract as either an operating lease or a finance lease in accordance with IAS 17 *Leases*.~~; and~~

(b) [deleted]~~classification of a contract as an insurance contract in accordance with IFRS 4 *Insurance Contracts*.~~

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

...

Measurement principle

...

20 Paragraphs 24–~~31~~31A specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the measurement principle.

Exceptions to the recognition or measurement principles

21 This IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs 22–~~31~~31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 22–~~31~~31A, which will result in some items being:

...

Insurance contracts

31A The acquirer shall measure a group of contracts within the scope of IFRS 17 *Insurance Contracts* acquired in a business combination as a liability or asset in accordance with paragraphs 39 and B93–B95 of IFRS 17, at the acquisition date.

...

Bargain purchases

...

35 A bargain purchase might happen, for example, in a business combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 22–~~31~~31A may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

...

Effective date

...

64N IFRS 17, issued in May 2017, amended paragraphs 17, 20, 21, 35 and B63, and after paragraph 31 added a heading and paragraph 31A. An entity shall apply those amendments when it applies IFRS 17.

In Appendix B, paragraph B63 is amended. New text is underlined and deleted text is struck through.

Other IFRSs that provide guidance on subsequent measurement and accounting (application of paragraph 54)

B63 Examples of other IFRSs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:

(a) ...

(b) [deleted]~~IFRS 4 *Insurance Contracts* provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.~~

(c) ...

IFRS 3 *Business Combinations* (as amended by IFRS 16)

Paragraphs 17, 20, 21 and 35 are amended. New text is underlined and deleted text is struck through. After paragraph 31, a heading and paragraph 31A are added. Paragraph 64N is added.

Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

...

17 This IFRS provides ~~two~~an exceptions to the principle in paragraph 15:

(a) classification of a lease contract in which the acquiree is the lessor as either an operating lease or a finance lease in accordance with IFRS 16 *Leases*.~~; and~~

(b) [deleted]~~classification of a contract as an insurance contract in accordance with IFRS 4 *Insurance Contracts*.~~

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

...

Measurement principle

...

20 Paragraphs 24–~~31~~31A specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the measurement principle.

Exceptions to the recognition or measurement principles

21 This IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs 22–~~31~~31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 22–~~31~~31A, which will result in some items being:

...

Insurance contracts

31A The acquirer shall measure a group of contracts within the scope of IFRS 17 *Insurance Contracts* acquired in a business combination as a liability or asset in accordance with paragraphs 39 and B93–B95 of IFRS 17, at the acquisition date.

...

Bargain purchases

...

35 A bargain purchase might happen, for example, in a business combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 22–~~31~~31A may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

...

Effective date

...

64N IFRS 17, issued in May 2017, amended paragraphs 17, 20, 21, 35 and B63, and after paragraph 31 added a heading and paragraph 31A. An entity shall apply those amendments when it applies IFRS 17.

In Appendix B, paragraph B63 is amended. New text is underlined and deleted text is struck through.

Other IFRSs that provide guidance on subsequent measurement and accounting (application of paragraph 54)

B63 Examples of other IFRSs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:

(a) ...

(b) [deleted]~~IFRS 4 *Insurance Contracts* provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.~~

(c) ...

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 5 is amended. New text is underlined and deleted text is struck through. Paragraph 44M is added.

Scope

...

5 The measurement provisions of this IFRS [footnote omitted] do not apply to the following assets, which are covered by the IFRSs listed, either as individual assets or as part of a disposal group:

(a) ...

(f) ~~contractual rights under insurance contracts as defined in IFRS 4~~groups of contracts within the scope of IFRS 17 *Insurance Contracts*.

...

Effective date

...

44M IFRS 17, issued in May 2017, amended paragraph 5. An entity shall apply that amendment when it applies IFRS 17.

IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 3, 8 and 29 are amended. Paragraph 30 is deleted. New text is underlined and deleted text is struck through. Paragraph 44DD is added.

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) ...

(d) ~~insurance~~ contracts ~~as defined in IFRS 4~~within the scope of IFRS 17 *Insurance Contracts*. However, this IFRS applies to:

(i) derivatives that are embedded in ~~insurance~~ contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately~~.~~; and

(ii) investment components that are separated from contracts within the scope of IFRS 17, if IFRS 17 requires such separation.

Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IFRS 9 in recognising and measuring the contracts, but shall apply ~~IFRS 4~~IFRS 17 if the issuer elects, in accordance with paragraph ~~4(d) of IFRS 4~~7(e) of IFRS 17, to apply ~~IFRS 4~~IFRS 17 in recognising and measuring them.

(e) ...

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as specified in IFRS 9, shall be disclosed either in the statement of financial position or in the notes:

(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9; (ii) those measured as such in accordance with the election in paragraph 3.3.5 of IFRS 9; (iii) those measured as such in accordance with the election in paragraph 33A of IAS 32 and (~~ii~~iv) those mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

(b) ...

Fair value

...

29 Disclosures of fair value are not required:

(a) ...

(c) [deleted]~~for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.~~

30 [Deleted]~~In the case described in paragraph 29(c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those contracts and their fair value, including:~~

~~(a)~~ ~~the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;~~

~~(b)~~ ~~a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;~~

~~(c)~~ ~~information about the market for the instruments;~~

~~(d)~~ ~~information about whether and how the entity intends to dispose of the financial instruments; and~~

~~(e)~~ ~~if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.~~

...

Effective date and transition

...

44DD IFRS 17, issued in May 2017, amended paragraphs 3, 8 and 29 and deleted paragraph 30. An entity shall apply those amendments when it applies IFRS 17.

IFRS 7 *Financial Instruments: Disclosures* (as amended by IFRS 16)

Paragraphs 3, 8 and 29 are amended. Paragraph 30 is deleted. New text is underlined and deleted text is struck through. Paragraph 44DD is added.

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) ...

(d) ~~insurance~~ contracts ~~as defined in IFRS 4~~within the scope of IFRS 17 *Insurance Contracts*. However, this IFRS applies to:

(i) derivatives that are embedded in ~~insurance~~ contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately~~,~~; and

(ii) investment components that are separated from contracts within the scope of IFRS 17, if IFRS 17 requires such separation.

Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IFRS 9 in recognising and measuring the contracts, but shall apply ~~IFRS 4~~IFRS 17 if the issuer elects, in accordance with paragraph ~~4(d) of IFRS 4~~7(e) of IFRS 17, to apply ~~IFRS 4~~IFRS 17 in recognising and measuring them.

(e) ...

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as specified in IFRS 9, shall be disclosed either in the statement of financial position or in the notes:

(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9; (ii) those measured as such in accordance with the election in paragraph 3.3.5 of IFRS 9; (iii) those measured as such in accordance with the election in paragraph 33A of IAS 32 and (~~ii~~iv) those mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

(b) ...

Fair value

...

29 Disclosures of fair value are not required:

(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables; or

(b) [deleted]

(c) [deleted]~~for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably; or~~

(d) for lease liabilities.

30 [Deleted]~~In the case described in paragraph 29(c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those contracts and their fair value, including:~~

~~(a)~~ ~~the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;~~

~~(b)~~ ~~a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;~~

~~(c)~~ ~~information about the market for the instruments;~~

~~(d)~~ ~~information about whether and how the entity intends to dispose of the financial instruments; and~~

~~(e)~~ ~~if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.~~

...

Effective date and transition

...

44DD IFRS 17, issued in May 2017, amended paragraphs 3, 8 and 29 and deleted paragraph 30. An entity shall apply those amendments when it applies IFRS 17.

IFRS 9 *Financial Instruments*

Paragraph 2.1 is amended. New text is underlined and deleted text is struck through. Paragraphs 3.3.5 and 7.1.6 are added.

Chapter 2 Scope

2.1 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) ...

(e) **rights and obligations arising under ~~(i) an insurance~~ a contract ~~as defined in IFRS 4~~within the scope of IFRS 17 *Insurance Contracts*, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract~~, or (ii) a contract that is within the scope of IFRS 4 because it contains a discretionary participation feature~~. However, this Standard applies to (i) a derivative that is embedded in a contract within the scope of ~~IFRS 4~~IFRS 17, if the derivative is not itself a contract within the scope of ~~IFRS 4~~IFRS 17; and (ii) an investment component that is separated from a contract within the scope of IFRS 17, if IFRS 17 requires such separation. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or ~~IFRS 4~~IFRS 17 to such financial guarantee contracts (see paragraphs B2.5–B2.6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.**

...

3.3 Derecognition of financial liabilities

...

3.3.5 Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity's financial liability (for example, a corporate bond issued). Despite the other requirements in this Standard for the derecognition of financial liabilities, an entity may elect not to derecognise its financial liability that is included in such a fund or is an underlying item when, and only when, the entity repurchases its financial liability for such purposes. Instead, the entity may elect to continue to account for that instrument as a financial liability and to account for the repurchased instrument as if the instrument were a financial asset, and measure it at fair value through profit or loss in accordance with this Standard. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See IFRS 17 for terms used in this paragraph that are defined in that Standard.)

...

7.1 Effective date

...

7.1.6 IFRS 17, issued in May 2017, amended paragraphs 2.1, B2.1, B2.4, B2.5 and B4.1.30, and added paragraph 3.3.5. An entity shall apply those amendments when it applies IFRS 17.

In Appendix B, paragraphs B2.1, B2.4, B2.5 and B4.1.30 are amended. New text is underlined and deleted text is struck through.

Scope (Chapter 2)

B2.1 Some contracts require a payment based on climatic, geological or other physical variables. (Those based on climatic variables are sometimes referred to as 'weather derivatives'.) If those contracts are not within the scope of ~~IFRS 4~~IFRS 17 *Insurance Contracts*, they are within the scope of this Standard.

...

B2.4 This Standard applies to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2.1(e) excludes because they arise under contracts within the scope of ~~IFRS 4~~IFRS 17.

B2.5 Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2.1(e)):

(a) Although a financial guarantee contract meets the definition of an insurance contract in ~~IFRS 4~~IFRS 17 (see paragraph 7(e) of IFRS 17) if the risk transferred is significant, the issuer applies this Standard. Nevertheless, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or ~~IFRS 4~~IFRS 17 to such financial guarantee contracts. ...

(b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts as defined in this

Standard, and are not insurance contracts as defined in ~~IFRS 4~~IFRS 17. Such guarantees are derivatives and the issuer applies this Standard to them.

(c) ...

Designation eliminates or significantly reduces an accounting mismatch

...

B4.1.30 The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 4.1.5 or 4.2.2(a):

(a) an entity has ~~liabilities under insurance~~ contracts within the scope of IFRS 17 (the measurement of which~~whose measurement~~ incorporates current information ~~(as permitted by paragraph 24 of IFRS 4)~~ and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive income or amortised cost.

(b) ...

IFRS 15 *Revenue from Contracts with Customers*

Paragraph 5 is amended. New text is underlined and deleted text is struck through.

Scope

5 An entity shall apply this Standard to all contracts with customers, except the following:

(a) ...

(b) ~~insurance~~ contracts within the scope of ~~IFRS 4~~IFRS 17 *Insurance Contracts*~~;~~. However, an entity may choose to apply this Standard to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with paragraph 8 of IFRS 17.

(c) ...

In Appendix C, paragraph C1C is added.

Effective date

...

C1C IFRS 17, issued in May 2017, amended paragraph 5. An entity shall apply that amendment when it applies IFRS 17.

IAS 1 *Presentation of Financial Statements*

Paragraphs 7, 54 and 82 are amended. New text is underlined and deleted text is struck through. Paragraph 139R is added.

Definitions

7 ...

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

The components of other comprehensive income include:

(a) ...

(g) ...; ~~and~~

(h) ... ~~.~~;

(i) insurance finance income and expenses from contracts issued within the scope of IFRS 17 *Insurance Contracts* excluded from profit or loss when total insurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of IFRS 17, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying paragraph 89(b) of IFRS 17; and

(j) finance income and expenses from reinsurance contracts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of IFRS 17.

...

Information to be presented in the statement of financial position

54 **The statement of financial position shall include line items that present the following amounts:**

(a) ...

(da) groups of contracts within the scope of IFRS 17 that are assets, disaggregated as required by paragraph 78 of IFRS 17;

(e) ...

(ma) groups of contracts within the scope of IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of IFRS 17;

(n) ...

Information to be presented in the profit or loss section or the statement of profit or loss

82 **In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:**

(a) revenue, presenting separately:

(i) interest revenue calculated using the effective interest method; and

(ii) insurance revenue (see IFRS 17);

(aa) ...

(ab) insurance service expenses from contracts issued within the scope of IFRS 17 (see IFRS 17);

(ac) income or expenses from reinsurance contracts held (see IFRS 17);

(b) ...

(bb) insurance finance income or expenses from contracts issued within the scope of IFRS 17 (see IFRS 17);

(bc) finance income or expenses from reinsurance contracts held (see IFRS 17);

(c) ...

Transition and effective date

...

139R IFRS 17, issued in May 2017, amended paragraphs 7, 54 and 82. An entity shall apply those amendments when it applies IFRS 17.

IAS 7 *Statement of Cash Flows*

Paragraph 14 is amended. New text is underlined and deleted text is struck through. Paragraph 61 is added.

Operating activities

...

14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(a) ...

(e) [deleted]~~cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;~~

(f) ...

Effective date

...

61 IFRS 17 *Insurance Contracts*, issued in May 2017, amended paragraph 14. An entity shall apply that amendment when it applies IFRS 17.

IAS 16 *Property, Plant and Equipment*

Paragraphs 29A, 29B and 81M are added.

Measurement after recognition

...

29A Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund. Similarly, some entities issue groups of insurance contracts with direct participation features and hold the underlying items. Some such funds or underlying items include owner-occupied property. The entity applies IAS 16 to owner-occupied properties that are included in such a fund or are underlying items. Despite paragraph 29, the entity may elect to measure such properties using the fair value model in accordance with IAS 40. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard).

29B An entity shall treat owner-occupied property measured using the investment property fair value model applying paragraph 29A as a separate class of property, plant and equipment.

...

Effective date

...

81M IFRS 17, issued in May 2017, added paragraphs 29A and 29B. An entity shall apply those amendments when it applies IFRS 17.

IAS 19 *Employee Benefits*

The footnote to paragraph 8 is amended. New text is underlined and deleted text is struck through. Paragraph 178 is added.

A qualifying insurance policy is not necessarily an insurance contract, as defined in ~~IFRS 4~~IFRS 17 *Insurance Contracts*.

...

Transition and effective date

...

178 IFRS 17, issued in May 2017, amended the footnote to paragraph 8. An entity shall apply that amendment when it applies IFRS 17.

IAS 28 *Investments in Associates and Joint Ventures*

Paragraph 18 is amended. New text is underlined and deleted text is struck through. Paragraph 45F is added.

Exemptions from applying the equity method

...

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

...

Effective date and transition

...

45F IFRS 17, issued in May 2017, amended paragraph 18. An entity shall apply that amendment when it applies IFRS 17.

IAS 28 *Investments in Associates and Joint Ventures* (as amended by Annual Improvements to IFRS Standards 2014–2016 Cycle)

Paragraph 18 is amended. New text is underlined and deleted text is struck through. Paragraph 45F is added.

Exemptions from applying the equity method

...

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. (See IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

...

Effective date and transition

...

45F IFRS 17, issued in May 2017, amended paragraph 18. An entity shall apply that amendment when it applies IFRS 17.

IAS 32 *Financial Instruments: Presentation*

Paragraph 4 is amended. New text is underlined and deleted text is struck through. Paragraphs 33A and 97T are added.

Scope

4 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) ...

(d) **~~insurance~~ contracts ~~as defined in IFRS 4~~within the scope of IFRS 17 *Insurance Contracts*. However, this Standard applies to:**

(i) **derivatives that are embedded in ~~insurance~~ contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately~~.~~; and**

(ii) **investment components that are separated from contracts within the scope of IFRS 17, if IFRS 17 requires such separation.**

Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies IFRS 9 in recognising and measuring the contracts, but shall apply ~~IFRS 4~~IFRS 17 if the issuer elects, in accordance with paragraph ~~4(d) of IFRS 4~~7(e) of IFRS 17, to apply ~~IFRS 4~~IFRS 17 in recognising and measuring them.

(e) [deleted]**~~financial instruments that are within the scope of IFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see IFRS 9).~~**

(f) ...

Treasury shares (see also paragraph AG36)

...

33A Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity's treasury shares. Despite paragraph 33, an entity may elect not to deduct from equity a treasury share that is included in such a fund or is an underlying item when, and only when, an entity reacquires its own equity instrument for such purposes. Instead, the entity may elect to continue to account for that treasury share as equity and to account for the reacquired instrument as if the instrument were a financial asset and measure it at fair value through profit or loss in accordance with IFRS 9. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See IFRS 17 for terms used in this paragraph that are defined in that Standard.)

...

Effective date and transition

...

97T IFRS 17, issued in May 2017, amended paragraphs 4 and AG8, and added paragraph 33A. An entity shall apply those amendments when it applies IFRS 17.

In the Application Guidance, paragraph AG8 is amended. New text is underlined and deleted text is struck through.

Financial assets and financial liabilities

...

AG8 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be ~~insurance~~ contracts within the scope of ~~IFRS 4~~<u>IFRS 17</u>.

IAS 36 *Impairment of Assets*

Paragraph 2 is amended. New text is underlined and deleted text is struck through. Paragraph 140N is added.

Scope

2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**

(a) ...

(h) **~~deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance~~ contracts within the scope of ~~IFRS 4~~<u>IFRS 17</u> *Insurance Contracts* <u>that are assets</u>; and**

(i) ...

Transition provisions and effective date

...

140N IFRS 17, issued in May 2017, amended paragraph 2. An entity shall apply that amendment when it applies IFRS 17.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 5 is amended. New text is underlined and deleted text is struck through. Paragraph 103 is added.

Scope

...

5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

(a) ...

(e) insurance contracts and other contracts within the scope of ~~(see IFRS 4~~ IFRS 17 *Insurance Contracts*~~)~~. ~~However, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of IFRS 4~~;

(f) ...

Effective date

...

103 IFRS 17, issued in May 2017, amended paragraph 5. An entity shall apply that amendment when it applies IFRS 17.

IAS 38 *Intangible Assets*

Paragraph 3 is amended. New text is underlined and deleted text is struck through. Paragraph 130M is added.

Scope

...

3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

(a) ...

(g) ~~deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance~~ contracts within the scope of ~~IFRS 4~~IFRS 17 *Insurance Contracts*. ~~IFRS 4 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets.~~

(h) ...

Transitional provisions and effective date

...

130M IFRS 17, issued in May 2017, amended paragraph 3. An entity shall apply that amendment when it applies IFRS 17.

IAS 40 *Investment Property*

Paragraph 32B is amended. New text is underlined and deleted text is struck through.
Paragraph 85H is added.

Accounting policy

...

32B Some ~~insurers and other~~ entities operate, either internally or externally, an investment~~an internal property~~ fund that provides investors with benefits determined by units in the fund. ~~issues notional units, with some units held by investors in linked contracts and others held by the entity~~Similarly, some entities issue insurance contracts with direct participation features, for which the underlying items include investment property. For the purposes of paragraphs 32A–32B only, insurance contracts include investment contracts with discretionary participation features. Paragraph 32A does not permit an entity to measure ~~the~~ property held by the fund (or property that is an underlying item) partly at cost and partly at fair value. (See IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

...

Effective date

...

85H IFRS 17, issued in May 2017, amended paragraph 32B. An entity shall apply that amendment when it applies IFRS 17.

SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

The references paragraph is amended. New text is underlined and deleted text is struck through.

References

...

- ~~IFRS 4~~IFRS 17 *Insurance Contracts*

...

Paragraph 7 is amended. New text is underlined and deleted text is struck through.

Consensus

...

7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under IAS 37, ~~IFRS 4 or~~ IFRS 9 or IFRS 17, depending on the terms.

The effective date paragraph is amended. New text is underlined.

Effective date

...

IFRS 17, issued in May 2017, amended paragraph 7. An entity shall apply that amendment when it applies IFRS 17.

Financial Reporting Standards Council

Plan Amendment, Curtailment or Settlement
(Amendments to PAS 19)

Plan Amendment, Curtailment or Settlement (Amendments to PAS 19)

Contents

FRSC PREFACE *PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT* (AMENDMENTS TO PAS 19)

1. The Financial Reporting Standards Council (FRSC) has approved on March 14, 2018 the adoption of amendments to IAS 19 *Employee Benefits, Plan Amendment, Curtailment or Settlement,* issued by the International Accounting Standards Board (IASB) in February 2018, as amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*.

2. The amendments specify how companies should determine pension expenses when changes to a defined benefit pension plan occur. Entities will be required to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement occurred.

3. An entity shall apply the amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

* * * * * * *

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***PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT* (AMENDMENTS TO IAS 19)**

CONTENTS

THE DOCUMENTS LISTED BELOW ARE NOT INCLUDED HEREIN.

February 2018

IFRS® Standards

Plan Amendment, Curtailment or Settlement

Amendments to IAS 19

IASB®

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Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) is issued by the International Accounting Standards Board (Board).

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Amendments to IAS 19 *Employee Benefits*

Paragraphs 101A, 122A, 123A and 179 are added and paragraphs 57, 99, 120, 123, 125, 126 and 156 are amended. A heading is added before paragraph 122A. New text is underlined and deleted text is struck through.

Post-employment benefits: defined benefit plans

...

Recognition and measurement

...

57 Accounting by an entity for defined benefit plans involves the following steps:

...

(c) determining amounts to be recognised in profit or loss:

(i) current service cost (see paragraphs 70–74 and paragraph 122A).

...

...

Past service cost and gains and losses on settlement

99 ~~Before~~ When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions, ~~(~~including current market interest rates and other current market prices~~)~~, reflecting:

(a) the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and

(b) the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.

...

101A When a plan amendment, curtailment or settlement occurs, an entity shall recognise and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 99–101 and paragraphs 102–112. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect in accordance with paragraph 57(d).

...

Components of defined benefit cost

120 An entity shall recognise the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:

(a) **service cost (see paragraphs 66–112 and paragraph 122A) in profit or loss;**

...

Current service cost

122A **An entity shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, it shall determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b).**

Net interest on the net defined benefit liability (asset)

123 **An entity shall determine ~~N~~net interest on the net defined benefit liability (asset) ~~shall be determined~~ by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83. ~~, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.~~**

123A **To determine net interest in accordance with paragraph 123, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:**

(a) **the net defined benefit liability (asset) determined in accordance with paragraph 99(b); and**

(b) **the discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b).**

In applying paragraph 123A, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

...

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 123A. ~~83, both as determined~~ An entity shall determine the fair value of the plan assets at the start of the annual reporting period~~, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments~~. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine interest income for the remainder of the annual reporting period after the plan amendment, curtailment or

settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b). In applying paragraph 125, the entity shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 123A. ~~83, both as determined at the start of the annual reporting period.~~ An entity shall determine the effect of the asset ceiling at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph 101A. The difference between ~~that amount~~ interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

...

Other long-term employee benefits

...

Recognition and measurement

...

156 For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset:

(a) service cost (see paragraphs 66–112 and paragraph 122A);

...

Transition and effective date

...

179 *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19), issued in February 2018, added paragraphs 101A, 122A and 123A, and amended paragraphs 57, 99, 120, 123, 125, 126 and 156. An entity shall apply these amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments earlier, it shall disclose that fact.

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Financial Reporting Standards Council

Annual Improvements to PFRSs
2015–2017 Cycle

Annual Improvements to PFRSs 2015–2017 Cycle

Contents

FRSC PREFACE TO *ANNUAL IMPROVEMENTS TO PFRSs* 2015–2017 CYCLE

1. The Financial Reporting Standards Council (FRSC) has approved on March 14, 2018 the adoption of *Annual Improvements to IFRS Standards* 2015–2017 Cycle, issued by the International Accounting Standards Board (IASB) in December 2017, as *Annual Improvements to PFRSs* 2015–2017 Cycle.

2. The Annual Improvements process provides a mechanism for dealing efficiently with a collection of minor amendments to the accounting standards.

3. The topics addressed by the *Annual Improvements to PFRSs* 2015–2017 Cycle are shown in the table below:

Standard	**Subject of amendment**
PFRS 3, *Business Combinations*	Previously held interest in a joint operation
PFRS 11, *Joint Arrangements*	
PAS 12, *Income Taxes*	Income tax consequences of payments on financial instruments classified as equity
PAS 23, *Borrowing Costs*	Borrowing costs eligible for capitalization

4. An entity shall apply each of the amendments for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted.

* * * * * * *

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ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2015–2017 CYCLE

CONTENTS

December 2017

IFRS® Standards

Annual Improvements to IFRS® Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle is issued by the International Accounting Standards Board (Board).

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Introduction

This document sets out amendments made by the International Accounting Standards Board (Board). The amendments are part of the Annual Improvements to IFRS® Standards.

The Annual Improvements provide a mechanism for dealing efficiently with a collection of minor amendments to IFRS Standards.

The amendments to IAS 12 *Income Taxes* resulted in amendments to the Basis for Conclusions on IAS 32 *Financial Instruments: Presentation*. These amendments are set out in the same section of this document as the amendments to IAS 12.

An entity shall apply each of the amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

The Standards amended

The following table shows the Standards amended and the subject of the amendments.

Standard	Subject of amendment
IFRS 3 *Business Combinations*	Previously held interest in a joint operation
IFRS 11 *Joint Arrangements*	
IAS 12 *Income Taxes*	Income tax consequences of payments on financial instruments classified as equity
IAS 23 *Borrowing Costs*	Borrowing costs eligible for capitalisation

Amendments to IFRS 3 *Business Combinations*

Paragraphs 42A and 64O are added.

Additional guidance for applying the acquisition method to particular types of business combinations

A business combination achieved in stages

...

42A When a party to a joint arrangement (as defined in IFRS 11 *Joint Arrangements*) obtains control of a business that is a joint operation (as defined in IFRS 11), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 42. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.

Effective date and transition

Effective date

...

64O *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, added paragraph 42A. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Amendments to IFRS 11 *Joint Arrangements*

Paragraph B33CA and paragraph C1AB are added.

Accounting for acquisitions of interests in joint operations

...

B33CA A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. In such cases, previously held interests in the joint operation are not remeasured.

...

Effective date

...

C1AB *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, added paragraph B33CA. An entity shall apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Amendments to IAS 12 *Income Taxes*

Paragraphs 57A and 98I are added, the heading of the example below paragraph 52B is amended and paragraph 52B is deleted. New text is underlined and deleted text is struck through.

Measurement

...

52B [Deleted] ~~In the circumstances described in paragraph 52A, the income tax consequences of dividends are recognised when a liability to pay the dividend is recognised. The income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners. Therefore, the income tax consequences of dividends are recognised in profit or loss for the period as required by paragraph 58 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58(a) and (b).~~

Example illustrating paragraphs 52A and ~~52B~~57A
...

...

Recognition of current and deferred tax

...

57A An entity shall recognise the income tax consequences of dividends as defined in IFRS 9 when it recognises a liability to pay a dividend. The income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

Effective date

...

98I *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, added paragraph 57A and deleted paragraph 52B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Amendments to IAS 23 *Borrowing Costs*

Paragraph 14 is amended, and paragraphs 28A and 29D are added. Deleted text is struck through and new text is underlined.

Recognition

...

Borrowing costs eligible for capitalisation

...

14 **To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to ~~the~~ <u>all</u> borrowings of the entity that are outstanding during the period<u>.</u>~~,~~ ~~other than borrowings~~ <u>However, an entity shall exclude from this calculation borrowing costs applicable to borrowings</u> made specifically for the purpose of obtaining a qualifying asset <u>until substantially all the activities necessary to prepare that asset for its intended use or sale are complete</u>. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.**

...

Transitional provisions

...

<u>28A</u> <u>*Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, amended paragraph 14. An entity shall apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.</u>

Effective date

...

<u>29D</u> <u>*Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, amended paragraph 14 and added paragraph 28A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.</u>

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PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-01

PAS 8 - Voluntary changes in accounting policy

Issue

What criteria are considered in assessing whether or not a proposed accounting policy provides information that is reliable and more relevant than the existing policy, when an entity wants to voluntarily change its accounting policy?

Fact pattern

An entity wishes to change its accounting policy in an area where Philippine Financial Reporting Standard (PFRS) permits an entity to choose from multiple accounting policies (either under the standard itself, or where PFRS is not clear).

Consensus

The criteria to consider when assessing whether a proposed new accounting policy is more relevant than the existing policy are:

- Whether support for the proposed accounting policy exists in PFRSs, Philippine Interpretations and rejection notices issued by the IFRS Interpretations Committee;

- Whether the proposed accounting policy is a widely recognized and prevalent practice;

- Whether, in the particular circumstances of the entity, the proposed accounting policy results in information that is more useful in enabling users to evaluate past, present or future events. In this regard, it is necessary to consider the substance, including the business purpose, of transactions or events that are subject to the change in accounting policy to assess whether the proposed policy results in financial information that fairly represents the substance and economic reality of those transactions and events. This includes a consideration of management's plans.

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When all the above criteria are satisfied, it is possible to conclude that the proposed accounting policy provides 'reliable and more relevant information'.

However, it is not always necessary for a proposed accounting policy to meet all the above criteria for it to provide 'reliable and more relevant information.' In rare cases, it is possible to demonstrate that the proposed accounting policy results in information that is more useful in helping readers to evaluate past, present or future events, even in the absence of authoritative support for the proposed policy in accounting literature and/or if the policy is not a widely recognized and prevalent practice.

For example, the fact that a majority of entities in the same industry adopted the proposed policy provides support for the change in policy, since it would result in greater comparability. Consequently, the proposed change is likely to result in 'reliable and more relevant information' as it would help users of the financial statements to evaluate past, present and future events. At the same time, the entity must determine whether the proposed accounting policy conflicts with the accounting policies applied by entities outside the industry for similar or analogous transactions. It is also necessary to determine that there is authoritative support for the proposed policy and that its adoption results in financial information that represents faithfully the substance and economic reality of the transactions entered into by the entity.

Further, an entity needs to disclose the reasons why applying the new accounting policy provides reliable and more relevant information.

Transition and effective date

The consensus in this Q&A is effective from the date of the approval by the FRSC.

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PIC

Philippine Interpretations Committee

PHILIPPINE INTERPRETATIONS COMMITTEE (PIC) QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-02

PAS 36 - Non-controlling interests and goodwill impairment test

Issues

Paragraph 19 of PFRS 3, *Business Combinations,* provides the acquirer a choice on the accounting for components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation (hereafter: non-controlling interest) at either fair value or the proportionate share in the recognized amount of the acquiree's identifiable net assets.

Paragraph C4 of Appendix C to PAS 36, *Impairment of Assets*, requires an entity to gross up the carrying amount of goodwill for the impairment test in certain situations.

1. In which scenario/s does an entity need to gross up goodwill for any amount of goodwill not recognized due to a current or previously outstanding non-controlling interest when performing a goodwill impairment test related to a subsidiary?

2. How does a subsequent acquisition of non-controlling interests affect this analysis?

Fact pattern

As of January 1, 20X0, Entity A owns 80% of the shares of Entity B. Entity A performs the required annual goodwill impairment test at December 31, 20X0. Entity B is a (single) cash-generating unit.

Scenario 1

On June 30, 20X0, Entity A acquires the remaining 20% ownership interest in Entity B. Entity A previously measured the non-controlling interest at initial recognition at its proportionate interest in the net identifiable assets.

Scenario 2

On June 30, 20X0, Entity A acquires the remaining 20% ownership interest in Entity B. Entity A previously measured the non-controlling interest at initial recognition at its fair value.

Scenario 3

On June 30, 20X0, Entity A acquires 10% of the remaining ownership interest in Entity B, leaving a non-controlling interest of 10% as of December 31, 20X0. Entity A previously measured the non-controlling interest at initial recognition at its proportionate interest in the net identifiable assets.

Scenario 4

On June 30, 20X0, Entity A acquires 10% of the remaining ownership interest in Entity B, leaving a non-controlling interest of 10% as of December 31, 20X0. Entity A previously measured the non-controlling interest at initial recognition at its fair value.

Scenario 5

On June 30, 20X0, Entity A sells 20% of the ownership interest in Entity B, resulting in a non-controlling interest of 40% as of December 31, 20X0. Entity A previously measured the non-controlling interest at initial recognition at its proportionate interest in the net identifiable assets.

Scenario 6

On June 30, 20X0, Entity A sells 20% of the ownership interest in Entity B, resulting in a non-controlling interest of 40% as of December 31, 20X0. Entity A previously measured the non-controlling interest at initial recognition at its fair value.

Consensus

Entity A does not adjust goodwill for the goodwill impairment test once it is wholly owned. Entity A compares the carrying amount of the unit (Entity B), including the recognized goodwill against the recoverable amount of the unit (Entity B).

Entity A grosses up the goodwill for the impairment test if a non-controlling interest exists at the date of the impairment test, and if Entity A measured the non-controlling interest at initial recognition at its proportionate interest in the net identifiable assets. In all other cases, Entity A does not gross up the goodwill.

The table below summarizes the scenarios and accounting:

	Measurement of non-controlling interest (NCI) at initial recognition	
	Proportionate share of net assets	Fair value
No NCI at date of impairment test (100% owned)	No gross up of goodwill (Scenario 1)	No gross up of goodwill (Scenario 2)
NCI outstanding at date of impairment test (<100% owned, stake increased after initial recognition)	Yes, gross up goodwill (Scenario 3)	No gross up of goodwill (Scenario 4)
NCI outstanding at date of impairment test (<100% owned, stake decreased after initial recognition)	Yes, gross up goodwill (Scenario 5)	No gross up of goodwill (Scenario 6)

Grossing up of goodwill may be complex in situations with subsequent transactions (scenarios 3 and 5). Suppose goodwill was calculated at 80 initially, where the NCI was measured at the proportionate interest in the net identifiable assets. Using a mechanical gross up, this would lead to a grossed up goodwill amount of 100 (80 x 100% / 80%). Using a similar approach in scenario 3 would lead to grossed up goodwill of 88.9 (80 x 100% / 90%). This would make an impairment less likely. This approach would be acceptable due to the analogy with scenario 1, where no gross up is required anymore. An alternative way would be where a company would still gross up goodwill to 100, similar to the calculation done before.

Using the approach where goodwill is grossed up with the effective interest held, scenario 5 would lead to grossed up goodwill of 133.3 (80 x 100% / 60%). It would not be appropriate to use this grossed up amount, as no additional goodwill was created due to the transaction. Additionally, only the original NCI of 20% was measured based on the identifiable net assets excluding goodwill. Because a NCI exists at reporting date and the NCI was accounted for at the proportionate share of the net assets, a gross-up is still required. In this situation, 100 should be used as the amount of grossed up goodwill.

Basis for consensus

Paragraph 90 of PAS 36 indicates that in testing a cash-generating unit for impairment, the entity compares the carrying amount of the unit, including goodwill, with the recoverable amount of the unit.

Once Entity B is wholly owned, following the acquisition of the non-controlling interest, no notional adjustment is required anymore. A gross up is only required under C4 of Appendix C to PAS 36, which states:

"If an entity measures non-controlling interests as its **proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value**, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the parent's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired." (emphasis added)

When Entity A is entitled to 100% of the recoverable amount of Entity B, no allocation between Entity A and the non-controlling shareholder is relevant.

Transition and effective date

The consensus in this Q&A is effective from the date of the approval by the FRSC.

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PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-03

PFRS 13, PAS 16 and PAS 36 - Fair value of property, plant and equipment and depreciated replacement cost

Issue

Can depreciated replacement cost be used to measure the fair value of an item of property, plant or equipment in accordance with PFRS 13, *Fair Value Measurement*?

Fact pattern

An entity provides port freight and logistics services. Its plant or equipment comprises highly-specialized assets from which the entity earns berthing and tonnage fees. The entity accounts for these assets in accordance with PAS 16, *Property, Plant and Equipment*, using the revaluation model.

At the end of the reporting period, the assets are tested for impairment under PAS 36, *Impairment of Assets*. As part of determining the assets' recoverable amount, the entity may need to determine their fair value less costs of disposal. However, there are few observable inputs available to use in measuring fair value because of the highly specialized nature of the assets and because there is no history of such assets ever being sold, other than as part of a business combination.

Relevant guidance

Paragraphs 2-3 of PFRS 13 clarify that fair value is not an entity-specific measurement. Rather it is a market-based measurement, regardless of whether observable information is available or not. The objective of all fair value measurements is:

"...to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

...Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk..."

In addition, paragraph 27 of PFRS 13 clarifies that:

"A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use."

An entity must select techniques and inputs that will ensure the resulting fair value measurement reflects this objective. Paragraph 61-62 of PFRS 13 states:

"An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used valuation techniques are the market approach, the cost approach and the income approach... An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value."

Using techniques that are consistent with the cost approach do not change the objective of a fair value measurement. Paragraph B8-B9 of PFRS 13 clarifies that:

"The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities."

Consensus

Depreciated replacement cost can be used to measure the fair value of an item of property, plant or equipment only in limited circumstances. PFRS 13 defines fair value as current exit price, whereas depreciated replacement cost measures the entry price for an asset. Therefore, only when this entry price equals a current exit price can depreciated replacement cost be used to measure fair value.

PFRS 13 permits the use of a cost approach for measuring fair value. However, care is needed in using depreciated replacement cost to ensure the resulting measurement is consistent with the requirements of PFRS 13 for measuring fair value.

Before using depreciated replacement cost as a method to measure fair value, an entity needs to ensure that both:

- The highest and best use of the asset is its current use, and
- The exit market for the asset (i.e., the principal market or in its absence, the most advantageous market) is the same as the entry market (i.e., the market in which the asset was/will be purchased).

In addition, the resulting depreciated replacement cost must be assessed to ensure market participants are willing to transact for the asset in its current condition and location at this price. In particular, an entity must ensure that both:

- The inputs used to determine replacement cost are consistent with what market participant buyers will pay to acquire or construct a substitute asset of comparable utility, and
- The replacement cost has been adjusted for obsolescence that market participant buyers will consider – i.e., that the depreciation adjustment reflects all forms of obsolescence (i.e., physical deterioration, technological (functional) and economic obsolescence), which is broader than depreciation calculated in accordance with PAS 16.

Transition and effective date

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PHILIPPINE INTERPRETATIONS COMMITTEE (PIC) QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-04

PAS 41 - Inability to measure fair value reliably for biological assets within the scope of PAS 41, *Agriculture*

Issue

Under PAS 41, *Agriculture*, there is a presumption that the fair value of all biological assets within the scope of the standard (including produce growing on a bearer plant) can be measured reliably. This presumption can only be rebutted on initial recognition for a biological asset (not agricultural produce).

What does an entity need to consider in order to rebut this presumption and determine that it is unable to reliably measure fair value for biological assets within the scope of PAS 41?

Relevant guidance and analysis

Paragraph 30 of PAS 41 states:

"There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable..."

Paragraph 31 of PAS 41 states:

"The presumption in paragraph 30 can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal."

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The first criterion in paragraph 30 of PAS 41 requires that there be no quoted market prices available. PAS 41 does not restrict the criteria to quoted prices in an active market. Therefore, in order to rebut the presumption, an entity would need to determine that quoted prices in both active and inactive markets are unavailable for the asset.

The second criterion requires that an entity consider measures of fair value that do not rely on quoted market prices and demonstrate that these are clearly unreliable. Complexity in determining fair value, in and of itself, is not sufficient to suggest fair value is unreliable.

If an entity is able to determine that quoted prices for the asset are unavailable, it would still need to determine that all other methods for measuring fair value are clearly unreliable before it can rebut the presumption. This is not the same as identifying that a fair value measurement is complex and/or subjective. That is, measuring fair value often involves estimation and significant judgement, but this does not mean that it is automatically unreliable. Furthermore, the requirement is for the measurements to be 'clearly unreliable', which is arguably a higher hurdle than 'unreliable'.

Consensus

PAS 41 assumes that reliable estimates of fair value will rarely, if ever, cease to be available. Therefore, in order to determine that fair value cannot be reliably measured, an entity must demonstrate both of the following:

a. quoted market prices for the biological asset are not available; and
b. alternative fair value measurements for the biological asset are determined to be clearly unreliable.

Both of these conditions must be met. Furthermore, determining that fair value cannot be reliably measured should be based on the weight of evidence available and in consideration of the requirements in PFRS 13, *Fair Value Measurement*.

<u>Demonstrating that quoted market prices are not available</u>

In order to meet this condition, an entity would need to determine that quoted prices are not available in active markets and inactive markets.

Demonstrating that alternative fair value measurements are clearly unreliable

To meet this condition, alternative fair value measurements must be 'clearly unreliable', which is arguably a higher hurdle than 'unreliable'. An entity's assessment should include, but not be limited to, considering the reliability of the following factors:

- Estimates of quantities on hand and the stage of development – while estimates are often required of quantities on hand (including current stage of biological transformation and anticipated yields for future agricultural produce), the mere fact that estimates are used is not sufficient to demonstrate that fair value is unreliable. Rather, an entity would need to demonstrate that their estimates of the quantity and current state of their biological assets are often incorrect. This may be challenging for entities to demonstrate if the underlying information is regularly used by management to make decisions about future operations of the business.

- Prices for the asset in a future state (e.g., for the mature biological asset or the agricultural produce that will ultimately be harvested).

- Price for similar assets that can be used as an input into the fair value measurement – this could include plants and animals that are similar to the asset held by the entity or the ultimate agricultural produce that will result from managing the biological transformation of the asset held by the entity.

- Cash flow projections for the asset.

- The replacement cost of the asset.

Entities may also need to consider whether other entities (within a country or globally) are able to demonstrate that fair value can be reliably measured for the same or similar assets.

Transition and effective date

The consensus in this Q&A is effective from the date of the approval by the FRSC.

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PHILIPPINE INTERPRETATIONS COMMITTEE (PIC) QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-05

PAS 37 - Liability arising from maintenance requirement of an asset held under a lease

Issue

If an entity is required to return an asset under a lease in the same condition as at its inception, does the entity recognize a liability for this obligation?

Fact pattern

An entity in the airline industry leases an aircraft. The requirements of the lease are such that the lessee is obliged to maintain the airworthiness of the aircraft. Airworthiness requirements for the airline industry are the same whether the entity owns or leases the aircraft. The lease requires the entity to return the aircraft in the same condition as at inception of the lease.

Relevant guidance and analysis

Paragraph 10 of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, defines as the following:

"[a provision is] a liability of uncertain timing or amount, [a liability is] a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits".

Paragraph 19 of PAS 37 states that an entity only recognizes those obligations arising from past events that exist independently of an entity's future actions (i.e., the future conduct of its business).

Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which lead to an outflow of resources embodying economic benefits in settlement, regardless of the future actions of the entity. Similarly, an entity recognizes a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused.

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An example similar to the issue described above is the situation whereby property leases often contain clauses that specify that the tenant must pay for maintenance, dilapidations, or other damage occurring during the rental period. Therefore, an entity recognizes a provision for specific damage or alteration to the property when the event creating the obligation under the lease occurs. Hence, if an entity erects partitioning, and under the lease the entity must remove the partitioning at the end of the lease, then the entity recognizes a provision for these costs at the time of the partitioning.

The fact that an entity recognizes a provision for repairs when leasing an asset might appear inconsistent with the fact that an entity may not recognize a provision for repairs when the entity owns an asset. There is, however, a difference between the two cases. If the entity owns the asset, it chooses whether to sell or repair the asset. Therefore, when an entity owns an asset, the obligation is dependent of the entity's future actions. However, for an entity leasing an asset, the entity is legally obliged to repair any damage under the terms of the contract.

Consensus

Yes. The overhaul and maintenance of an asset is a contractual obligation under the lease. The specific event that gives rise to the obligation is each flown hour or cycle completed by the aircraft as these determine the timing and nature of the overhaul that must be carried out. Provision should therefore be made for the costs of overhaul as the obligation towards the lessor arises (typically based upon the specific requirements of each aircraft type such as each flown hour or cycle), with a corresponding expense recognized in the statement of comprehensive income.

For certain aircraft types and aircraft leases, it is likely that the provision for the costs will be built up and then released, as the expenditure is incurred, a number of times during the term of the operating lease.

Transition and effective date

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PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-06

PAS 27 - Cost of investment in subsidiaries in separate financial statements when pooling is applied in consolidated financial statements

Issue

In the separate financial statements of the acquiring entity, where the acquirer accounts for its investments in subsidiaries at cost, how does the acquirer measure the cost of an investment in a subsidiary acquired as part of a common control business combination, when the pooling of interest method is applied in the consolidated financial statements?

This issue does not address when a new holding company is inserted above the parent. Such fact patterns are addressed by the guidance in paragraphs 12, 13 and 14 of PAS 27, *Separate Financial Statements*.

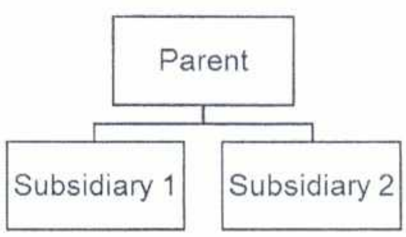
Fact pattern

Scenario 1 - Fair value of consideration equals the fair value of the subsidiary

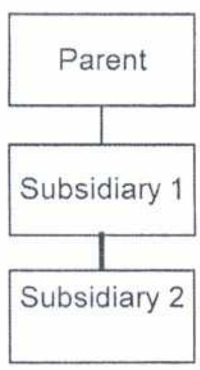
Parent owns a 100% direct interest in Sub 1 and Sub 2. As part of a group reorganization, the parent transfers its direct interest in Sub 2 to Sub 1 in exchange for consideration of CU200 (equal to the fair value of Sub 2).

The following diagram illustrates this fact pattern:

Before the transaction:



After the transaction:



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The following table summarizes details of the transaction:

Carrying amount of investment in Sub 2 in separate financial statements of parent (i.e., cost)	CU50
Carrying amount of Sub 2's net assets in the separate financial statements of Sub 2	CU110
Fair value of Sub 2	CU200
Fair value of consideration paid by Sub 1	CU200

Sub 1 also prepares separate financial statements and has an accounting policy of using cost for investments in subsidiaries.

Scenario 2 - Fair Value of consideration is more or less than the fair value of the subsidiary

Same as Scenario 1, except that the fair value of the consideration is CU150, which is less than the fair value of Sub 2.

Relevant guidance and analysis

When separate financial statements are prepared, paragraph 10 of PAS 27 permits investments in subsidiaries to be accounted for either (a) at cost, (b) in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments* when it becomes effective), or (c) using the equity method as described in PAS 28, *Investments in Associates and Joint Ventures*.

PAS 27 does not define 'cost'. However, where PFRS/IFRS uses the term elsewhere, cost generally means the fair value of the consideration plus incidental costs. In July 2009, the IFRS Interpretations Committee (IFRIC) also expressed this view, when they noted, that generally under IFRSs, cost comprises the purchase price and to other costs directly attributable to the acquisition. Whilst the IFRIC made this comment in the context of associates, this comment appears equally applicable to subsidiaries. Therefore, in the separate financial statements, it is appropriate to base the cost of the investment in a subsidiary on the fair value of the consideration given for the acquisition of the business (or the relevant part of it) in the consolidated financial statements under IFRS 3 *Business Combinations* (or PFRS 3, *Business Combinations*, the equivalent local accounting standard). This is the fair value of the consideration given plus any costs directly attributable to the acquisition of the investment.

Paragraph B86(b) of PFRS 10, *Consolidated Financial Statements*, also appears to require this measurement when it states:

"Consolidated financial statements ... offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (PFRS 3, *Business Combinations*, explains how to account for any related goodwill)."

Although the acquirer might choose to use book value accounting for the acquisition in its consolidated financial statements, that treatment is not available in its separate financial statements. Although PFRS 3 provides relief from the purchase method for common control business combinations, there is no corresponding relief from PAS 27 in determining the cost of the investment in the separate financial statements. In addition, since a parent does not account for an investment in a subsidiary as business combination, but rather as an investment, there is no basis for analogizing to the exemption for common control combinations.

Consensus

Scenario 1 - Fair value of consideration equals the fair value of the subsidiary

The cost of an investment in a subsidiary that is acquired as part of a group reorganizations is the fair value of the consideration given (be it cash, other assets or additional shares), plus, where applicable, any costs directly attributable to the acquisition. It is not appropriate to measure cost based upon either the cost of the transferring entity's investment or the acquired entity's net book value, because neither of these amounts represent the cost to the acquirer.

Therefore, the cost to Sub 1 in Scenario 1 is CU200. The cost is not the carrying amount of the investment in Sub 2 in separate financial statements of Parent (i.e., CU50) or the carrying amount of Sub 2's net assets in the separate financial statements of Sub 2 (i.e., CU110), because neither of these amounts represent the cost to Sub 1 of acquiring Sub 2.

Scenario 2 - Fair Value of consideration is more or less than the fair value of the subsidiary

The conclusion in Scenario 1 applies even if the fair value of the consideration given is more or less than the fair value of the acquiree. Therefore, the cost to Sub 1 in Scenario 2 is CU150.

Because this fact pattern is different from the fact pattern described in paragraphs 13 and 14 of PAS 27, it is clear that no analogy is permitted.

Transition and effective date

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Philippine Interpretations Committee

PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-07

PAS 27 and PAS 28 - Cost of an associate, joint venture, or subsidiary in separate financial statements

Issue

How is cost determined for an investment in an associate, joint venture, or subsidiary when valuing the investment at cost in the separate financial statements? In particular, how are the following factored into the determination of cost:

- Transaction costs
- Contingent consideration
- Step acquisitions

Fact pattern

Entity A accounts for its investments in associates, joint ventures and subsidiaries at cost in its separate financial statements. It entered into the following transactions:

Scenario 1

In June 20X0, Entity A acquires an 80% interest in Entity C. Entity A paid CU1,000 and will pay additional consideration in the future of CU2,000 if certain targets were met. The fair value of the contingent consideration recognized in the consolidated financial statements was CU1,400. Transaction costs of CU300 were also incurred.

Scenario 2

Entity A has a 10% interest in Entity B, which it acquired in 20X0 for CU300. This investment was a financial asset measured at fair value in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, in both the consolidated and separate financial statements of Entity A. In March 20X3, Entity A acquires a further 15% interest in Entity B for CU720 (its then fair value), giving Entity A significant influence over Entity B. The original 10% interest had a fair value of CU480 at that date. In addition, transaction costs were incurred for both tranches, in aggregate amounting to CU50.

Relevant guidance and analysis

Cost for this purpose is not separately defined in PAS 27 or PAS 28.

However, where PFRS/IFRS uses the term elsewhere, cost generally means the fair value of the consideration plus incidental costs. In July 2009, the IFRS Interpretations Committee (IFRIC) also expressed this view, when they noted, that generally under IFRSs, cost comprises the purchase price and to other costs directly attributable to the acquisition.

'Consideration given' is likewise not defined and the key sources of guidance are:

- 'consideration transferred' in the context of a business combination, as referred to in paragraph 37 of PFRS 3. The 'consideration transferred' in a business combination comprises the sum of the acquisition-date fair values of assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree, and equity interests issued by the acquirer, and any goodwill given up. This includes any liability (or asset) for contingent consideration, which is measured and recognized at its fair value at the acquisition date. The liability arising is a financial liability within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments* when it becomes effective); therefore, subsequent changes in measurement are recognized in profit or loss.

- 'cost' as applied in relation to acquisitions of property, plant and equipment in accordance with PAS 16, intangible assets in accordance with PAS 38 and investment property in accordance with PAS 40.

The IFRS Interpretations Committee and the International Accounting Standards Board (IASB) have discussed the topic *Variable payments for the separate acquisition of PPE and intangible assets* for a number of years, attempting to clarify how the initial recognition of the variable payments, such as contingent consideration, and subsequent changes in the value of those payments should be recognized.

The scope of the past deliberations did not specifically include the cost of an investment in a subsidiary, associate or joint venture. However, the general principles about the recognition of variable payments can be considered relevant in determining the cost of such investments. The Interpretations Committee decided that this issue is too broad for it to address and concluded that the IASB should address accounting for variable payments more comprehensively. Until the IASB issues further guidance, differing views remain about the circumstances in which, and to what extent, variable payments such as contingent consideration should be recognized when initially recognizing the underlying asset. There are also differing views about the extent to which subsequent changes should be recognized through profit or loss or capitalized as part of the cost of the asset.

Where entities have made an accounting policy choice regarding recognition of contingent consideration and subsequent changes in accounting for the cost of investments in subsidiaries, associates or joint ventures in separate financial statements, the policy should be disclosed and consistently applied.

Consensus

The cost of an investment in an associate, joint venture, or subsidiary in the separate financial statements of the parent is the sum of the consideration given for the transaction, including transaction costs, and, may also include, the fair value of any contingent consideration arrangement entered into at that date, depending on the entity's accounting policy.

In a step acquisition, the cost of an investment in an associate, joint venture or subsidiary is the sum of the consideration given for each tranche. Therefore, if there were any changes in the fair value of the previous tranches (between the acquisition date and the date that a later tranche was acquired), those changes in fair value must be analyzed to determine whether they are permitted to be reversed under PFRSs, which depends on the classification of the investment of that tranche. If so, they must be reversed upon acquisition of the tranche that led to the reclassification.

Scenario 1

The cost is the sum of the consideration paid and the transaction costs. If the entity has an accounting policy of recognizing contingent consideration, the fair value of the contingent consideration arrangement at the date of gaining control is also part of the cost – CU2,700 (CU1,000 + CU1,400 + CU300).

Scenario 2

The cost is the sum of the consideration given for each tranche plus transaction costs – CU1,070 (CU300 + CU720 + CU50). The increase in fair value of CU180 (CU480 – CU300) relating to the first 10% is reversed in the statement of comprehensive income and reflected in retained earnings (if the change was recognized in profit or loss) or equity reserves (if the change was recognized in other comprehensive income).

The conclusions in this Q&A apply only to transactions within the scope of PAS 27, *Separate Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*, and are not to be analogized to for other assets and liabilities where cost is based on transaction price.

Transition and effective date

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Philippine Interpretations Committee

PHILIPPINE INTERPRETATIONS COMMITTEE (PIC) QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-08

PFRS 10 and PFRS 3 - Accounting for the acquisition of a non-wholly owned subsidiary that is not a business

Issue

How does an acquirer account for the acquisition of a controlling interest in another entity that is not a business when there is a non-controlling interest (NCI) with no rights to the underlying assets - specifically, at what amounts are the assets acquired and the non-controlling interest recognized?

This Q&A focuses solely on the accounting for the acquisition where the acquiree (subsidiary) does not constitute a business, and once it is determined that an acquirer (the parent) controls that subsidiary. It does not address how to assess whether an acquiree is a business or whether the acquirer has control over the acquiree.

Fact pattern

Entity A acquires 80% of the share capital of Entity B, which holds a single asset, or a group of assets not constituting a business. The remaining 20% of the share capital is held by Entity M, an unrelated third party. The fair value of the asset is CU200. Entity A controls Entity B, as defined in PFRS 10, *Consolidated Financial Statements*.

Variations of this base fact pattern are reflected in the scenarios below:

Scenario	Rights of NCI (Entity M)	Cash paid by A	Fair value of NCI
1	Present ownership interest, entitled to a proportionate share of Entity B's net assets in the event of liquidation	CU160	CU40
2	Present ownership interest, entitled to a proportionate share of Entity B's net assets in the event of liquidation	CU170	CU40
3	Present ownership interest, **not** entitled to a proportionate share of net assets in the event of liquidation (e.g., preference shares).	CU170	CU40

Scenario	Rights of NCI (Entity M)	Cash paid by A	Fair value of NCI
4	Not a present ownership interest, but classified as NCI (e.g., options, warrants). In this case, however, Entity A will have acquired 100% of the outstanding equity.	CU170	CU40

Relevant guidance and analysis

Under PFRS 10, an entity must consolidate all investees that it controls, not just those that are businesses, and the parent will recognize any non-controlling interest in non-wholly owned subsidiaries.

When the acquisition of an entity is not a business combination, the remaining requirements of PFRS 3 relating to the allocation of the consideration transferred to the identifiable assets and liabilities and the recognition of goodwill are not applicable. Paragraph 2(b) of PFRS 3 states that upon the acquisition of an asset or a group of assets that does not constitute a business:

"...the acquirer shall identify and recognize the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in PAS 38, *Intangible Assets*) and liabilities assumed. The **cost** of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their **relative fair values** at the date of purchase. Such a transaction or event does not give rise to goodwill." (Emphasis added)

Therefore, paragraph 2 of PFRS 3 acknowledges that the cost paid for the assets may differ from the sum of their fair values and hence may need to be allocated to the assets and liabilities acquired.

PAS 16, *Plant, Property and Equipment* and PAS 38, *Intangible Assets*, state:

"Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other PFRSs, e.g., PFRS 2, *Share-based Payment*."

Therefore, when an asset is acquired subject to a non-controlling interest, its cost is the amount of consideration paid, plus the amount of NCI recorded related to that asset – as this represents a 'claim' relating to that asset.

Paragraph 19 of PFRS 3 states:

"For each business combination, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) fair value; or

(b) the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by PFRSs."

If there is more than one asset, the amount referenced above for the assets would be allocated between the assets based on their relative fair value.

Consensus

Assets are recognized at cost, which is the sum of all consideration given and any NCI recognized. If the NCI has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the acquirer has a choice to recognize the NCI at its proportionate share of net assets or its fair value (measured in accordance with PFRS 13, *Fair Value Measurement*); in all other cases, NCI is recognized at fair value (measured in accordance with PFRS 13), unless another measurement basis is required in accordance with PFRSs.

With respect to the scenarios above, the following entries would be recorded:

Scenario	Asset acquired (Debit)	NCI (Credit)	Cash (Credit)
1	200	40	160
2	210	40	170
3	210	40	170
4	210	40	170

Transition and effective date

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Philippine Interpretations Committee

PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-09

PAS 21 - Classification of deposits and progress payments as monetary or non-monetary items

Issue

Are deposits or progress payments made when acquiring fixed assets or inventories from foreign suppliers retranslated as monetary items or as non-monetary items?

Fact pattern

Entities may be required to pay deposits or progress payments when acquiring fixed assets or inventories from foreign suppliers. A local entity contracts to purchase an item of plant and machinery for Thailand Baht (THB)10,000 on the following terms:

- Payable on signing contract (August 1, 20X1) – 10%
- Payable on delivery (December 19, 20X1) – 40%
- Payable on installation (January 7, 20X2) – 50%

The entity paid the first two amounts on the due dates, when the respective exchange rates were THB1 = Philippine Peso (PHP)1.25 and THB1 = PHP1.20. The closing rate at the end of the reporting period, December 31, 20X1, is THB1 = PHP1.15.

Relevant guidance

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, generally requires that monetary items denominated in foreign currencies be retranslated using closing rates at the end of each reporting period and non-monetary items are not retranslated.

According to paragraph 8 of PAS 21, monetary items are defined as:

"units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency".

The standard elaborates further on this guidance by stating in paragraph 16 of PAS 21:

"the essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency".

Examples given by PAS 21 are pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognized as a liability. Examples that are more obvious are cash and bank balances; trade receivables and payables; and loan receivables and payables. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples given by the standard are amounts prepaid for goods and services (e.g. prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

Consensus

The conclusion depends on the nature of the payments.

If the payments made are prepayments or progress payments, then the amounts are treated as non-monetary items and included in the statement of financial position at PHP4,133 (= (1,000 * 1/1.25) + (4,000 * 1/1.20)).

However, if the payments made are deposits, and are refundable, then the amounts could possibly be treated as monetary items and included in the statement of financial position at PHP4,348 (= (1,000 * 1/1.15) + (4,000 * 1/1.15)) and an exchange gain of PHP215 is recognized. A variant of this would be to only treat the first payment as a deposit until the second payment is made, since once delivery is made it is less likely that the asset will be returned and a refund sought from the supplier.

In practice, it is often necessary to consider the terms of the contract to ascertain the nature of the payments made to determine the appropriate accounting treatment.

Transition and effective date

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Philippine Interpretations Committee

PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)

Q&A No. 2018-10

PAS 2 - Scope of disclosure of inventory write-downs

Issue

Is an entity required to disclose a write-down of any inventory at the end of an annual reporting period or any write-down during the annual reporting period?

Relevant guidance and analysis

Paragraph 36(e) of PAS 2, *Inventories*, requires the disclosure of the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 34 of PAS 2.

Paragraph 34 of PAS 2 requires

"...the amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs..."

Taken literally this guidance means that any write-down, including any sales below cost during the reporting period, would be scoped into this disclosure paragraph. However, the notion of 'write-down' is used in the context of the lower of cost and net realizable value test. An entity only performs this test at a reporting date.

Consensus

An entity is required to disclose only write-downs of inventory held at the end of the reporting period.

Transition and effective date

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PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&A)

Q&A No. 2018-11

Issue

What is the correct classification of the land owned by real estate developer?

<u>Classification of land by real estate developer</u>

Background

A real estate developer develops residential and commercial units which are sold or leased out to customers. These projects can be horizontal or vertical projects which are either: (a) units in a high-rise building which can be for office or residential use; (b) serviced lot; or (c) serviced lot and house. Projects can be in a single phase or in multiple phases and usually take more than one year to complete (e.g. 3-5 years).

In the normal course of its business, the real estate developer purchases the following raw land:

- Land A - The entity has plans to construct and develop the parcel of land as a residential subdivision for sale as approved by the entity's Board of Directors. The preparation of the master plan, detailing the plans as residential property, has commenced but the entity intends to start the physical construction activities (e.g. excavation) two years from the government approval of the master plan.
- Land B –The entity has plans to construct and develop the parcel of land as a residential subdivision for sale as approved by the entity's Board of Directors. The preparation of the master plan, detailing the plans, has not commenced.
- Land C - The entity intends to develop the land into a commercial center for lease but preparation of master plan has not commenced and the entity does not intend to commence the physical construction activities within the year.
- Land D -The entity purchased the parcel of land to establish presence in the location but does not have any concrete plans on how to develop the property.

Conclusion

a. Land A – Classified as inventory presented as current assets

b. Land B – Classified as inventory presented as current assets

c. Land C – Classified as investment property presented as non-current asset

d. Land D – Classified as investment property presented as non-current asset

Discussion

In accordance with paragraph 6 of PAS 2:

Inventories are assets:

a. held for sale in the ordinary course of business;
b. in the process of production for such sale; or
c. in the form of materials or supplies to be consumed in the production process or in the rendering of services.

In accordance with paragraph 5 of PAS 40:

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or
(b) sale in the ordinary course of business.

Paragraph 8 of PAS 40 further provides the following examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)
(c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.
(d) a building that is vacant but is held to be leased out under one or more operating leases.
(e) property that is being constructed or developed for future use as investment property.

In accordance with paragraph 66 of PAS 1, an entity shall classify an asset as current when:

a. it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

b. it holds the asset primarily for the purpose of trading;

c. it expects to realize the asset within twelve months after the reporting period; or

d. the asset is cash or a cash equivalent (as defined in PAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

In addition, paragraph 68 of PAS 1 defines the operating cycle of an entity as the time between the acquisition of assets for processing and their realization in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realized as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in PFRS 9) and the current portion of non-current financial assets.

Analysis of the classification of the parcel of lots purchased by the entity are as follows:

a. Land A meets the requirements for an asset to be classified as inventory and current asset. See analysis below:

Current or Non-current		Inventory or Investment Property
(a) it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;	Met. Land A was purchased by the entity for the purpose of converting it into a residential subdivision for sale. As defined above, operating cycle of an entity is the time between the acquisition of assets for processing and their realization to cash or cash equivalents. Given the nature of business of real estate development, wherein projects usually take more than one year to construct/develop and requires certain period for selling and conversion to cash, the normal operating cycle is more than one year form the time of purchase. Given this, the raw land will be classified as current asset.	Inventory, since it meets the criteria of PAS 2, paragraph 6 (a), which is land held for sale in the ordinary course of business as evidenced by the BOD approval and preparation of master plan.
(b) it holds the asset primarily for the purpose of trading;	Met. Real estate inventories are held by the entity for sale to customers.	
(c) it expects to realize the asset within twelve months after the reporting period; or	Not applicable. See discussion in (a)	

(d) the asset is cash or a cash equivalent (as defined in PAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.	Not applicable. The asset is not cash or cash equivalent.	

b. Land B meets the requirements for an asset to be classified as inventory and current asset. Even though the preparation of the masterplan has not commenced, the intention of the entity to hold the land for development for sale in the ordinary course of business is evident, given that the plan was approved by its Board of Directors. It is classified as current because it meets the criteria of PAS 1, Paragraph 66 (a) and (b) given the same rationale for Lot A.

c. Land C meets the requirements for an asset to be classified as investment property and non-current asset. See analysis below:

Current or Non-current		Inventory or Investment Property
i. it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;	Not Met. The parcel of lot is not expected to be realized, sold or consumed within the entity's normal operating cycle.	Investment property, since it meets the criteria of PAS 40 where the lot is held to earn rentals and is not used in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.
ii. it holds the asset primarily for the purpose of trading;	Not Met. Investment properties are not held for sale to third party.	
iii. it expects to realize the asset within twelve months after the reporting period; or	Not Met. See discussion in (i)	
iv. the asset is cash or a cash equivalent (as defined in PAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.	Not applicable. The asset is not cash or cash equivalent.	

d. Land D meets the requirements for an asset to be classified as investment property and classified as non-current asset. The same analysis as Land C above for the classification as current or non-current. Land D is an investment property, since it meets the criteria of PAS 40 where it is held for capital appreciation and is not used in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. In addition, PAS 40.8(b) cites that land held for a currently undetermined future use is an example of an investment property.

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