Financial Reporting Standards Council

# Amendments to PFRS 17, *Insurance Contracts*

# Amendments to PFRS 17, *Insurance Contracts*

## Contents

## FRSC PREFACE TO AMENDMENTS TO PFRS 17, *INSURANCE CONTRACTS*

1. The Financial Reporting Standards Council (FRSC) has approved on August 19, 2020 the adoption of amendments to IFRS 17 *Insurance Contracts* issued by the International Accounting Standards Board (IASB) in June 2020 as amendments to PFRS 17 *Insurance Contracts.*

2. The main changes resulting from the amendments to IFRS 17 are:

    - Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023 and change the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments*, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.
    - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.
    - Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.
    - Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at the reporting entity level.
    - Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
    - Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
    - Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.
    - Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.
    - Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.
    - Several small amendments regarding minor application issues.

* * * * * * *

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***AMENDMENTS TO IFRS 17 INSURANCE CONTRACTS***

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June 2020

IFRS® Standards

# Amendments to IFRS 17

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# Amendments to IFRS 17

*Amendments to IFRS 17* is issued by the International Accounting Standards Board (Board).



ISBN: 978-1-911629-77-1



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## Amendments to IFRS 17 *Insurance Contracts*

Paragraphs 4 and 7 are amended, and paragraph 8A is added. New text is underlined and deleted text is struck through.

## Scope

...

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

(a) reinsurance contracts held, except:

(i) ...

(ii) as described in paragraphs 60–70A~~70~~.

(b) ...

...

7 An entity shall not apply IFRS 17 to:

...

(h) credit card contracts, or similar contracts that provide credit or payment arrangements, that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer (see IFRS 9 and other applicable IFRS Standards). However, if, and only if, IFRS 9 requires an entity to separate an insurance coverage component (see paragraph 2.1(e)(iv) of IFRS 9) that is embedded in such a contract, the entity shall apply IFRS 17 to that component.

...

8A Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). An entity shall choose to apply either IFRS 17 or IFRS 9 to such contracts that it issues unless such contracts are excluded from the scope of IFRS 17 by paragraph 7. The entity shall make that choice for each *portfolio of insurance contracts*, and the choice for each portfolio is irrevocable.

Paragraphs 10–12 are amended. New text is underlined and deleted text is struck through.

### 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 for services other than *insurance contract services* (or both).

An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11 An entity shall:

(a) ...

(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 unless it is an investment contract with discretionary participation features within the scope of IFRS 17 (see paragraph 3(c)).

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 to a policyholder distinct goods or ~~non-insurance~~ services other than insurance contract 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 other than insurance contract services; and

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

...

...

Paragraphs 19 and 24 are amended. New text is underlined and deleted text is struck through.

## Level of aggregation of insurance contracts

...

19 For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–54~~59~~), an entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

...

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 add contracts to the groups applying paragraph 28.~~, and~~ The entity 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.

Paragraph 27 is deleted and paragraph 28 is amended. Paragraphs 28A–28F and the heading above paragraph 28A are added. Paragraph 25 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

## 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.**

...

27 [Deleted]~~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 that individually meet one of the criteria set out in paragraph 25~~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 include~~issue~~ more contracts in the group after the end of a reporting period, subject to paragraphs 14–22~~paragraph 22~~. An entity shall add a contract~~the contracts~~ to the group in the reporting period in which that contract meets one of the criteria set out in paragraph 25~~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.

### Insurance acquisition cash flows (paragraphs B35A–B35D)

28A An entity shall allocate *insurance acquisition cash flows* to groups of insurance contracts using a systematic and rational method applying paragraphs B35A–B35B, unless it chooses to recognise them as expenses applying paragraph 59(a).

 

28B An entity not applying paragraph 59(a) shall recognise as an asset insurance acquisition cash flows paid (or insurance acquisition cash flows for which a liability has been recognised applying another IFRS Standard) before the related group of insurance contracts is recognised. An entity shall recognise such an asset for each related group of insurance contracts.

28C An entity shall derecognise an asset for insurance acquisition cash flows when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts applying paragraph 38(c)(i) or paragraph 55(a)(iii).

28D If paragraph 28 applies, an entity shall apply paragraphs 28B–28C in accordance with paragraph B35C.

28E At the end of each reporting period, an entity shall assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired (see paragraph B35D). If entity identifies an impairment loss, the entity shall adjust the carrying amount of the asset and recognise the impairment loss in profit or loss.

28F An entity shall recognise in profit or loss a reversal of some or all of an impairment loss previously recognised applying paragraph 28E and increase the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

| |
|---|
| Paragraph 29 and the heading above it are amended. New text is underlined and deleted text is struck through. |

## Measurement (paragraphs B36–B119F~~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) ...

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

...

The heading for paragraph 32 is amended. Paragraphs 34 and 38–39 are amended. New text is underlined and deleted text is struck through.

## Measurement on initial recognition (paragraphs B36–B95F~~B95~~)

...

### Estimates of future cash flows (paragraphs B36–B71)

...

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 insurance contract services (see paragraphs B61–B71). A substantive obligation to provide insurance contract services ends when:

(a) ...

(b) both of the following criteria are satisfied:

(i) ...

(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.

...

### 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 insurance contract 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) or paragraph B123A (on insurance revenue relating to paragraph 38(c)(ii)) applies, results in no income or expenses arising from:**

**(a) ...**

**(b) any cash flows arising from the contracts in the group at that date;**

**(c)~~(b)~~ the derecognition at the date of initial recognition of:**

**(i) any asset ~~or liability recognised~~ for insurance acquisition cash flows applying paragraph 28C~~27~~; and**

**(ii) any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.**

**~~(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 in a business combination within the scope of IFRS 3, an entity shall apply paragraph 38 in accordance with paragraphs B93–B95F~~B95~~.

Paragraphs 44–45 and the heading above them are amended. New text is underlined and deleted text is struck through.

### Contractual service margin (paragraphs B96–B119B~~B119~~)

...

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:

...

(e) the amount recognised as insurance revenue because of the transfer of insurance contract 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) ...

(b) the change in the amount of 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) ...

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

...

(e) the amount recognised as insurance revenue because of the transfer of insurance contract 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.

...

Paragraphs 47–48 and 50 are amended. New text is underlined and deleted text is struck through.

## 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 insurance 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 relating to future service in the fulfilment cash flows allocated to the group, arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk~~relating to future service~~; and

(b) for a group of insurance contracts with direct participation features, the decrease in the amount of 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.

...

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

(a) ...

(b) solely to the loss component until that component is reduced to zero:

(i) any subsequent decrease relating to future service in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk;~~relating to future service~~ and

(ii) any subsequent increases in the amount of the entity's share of~~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.

...

Paragraphs 53 and 55–56 are amended. New text is underlined and deleted text is struck through.

## 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) ...

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

...

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:

...

(iii) plus or minus any amount arising from the derecognition at that date of:

1. any asset for insurance acquisition cash flows applying paragraph 28C; and ~~the asset or liability recognised for insurance acquisition cash flows applying paragraph 27.~~

2. any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.

(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:

...

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

(vi) ...

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 services~~coverage~~ and the related premium due date is no more than a year.

...

Paragraphs 60, 62, 65–66 and 69 are amended, paragraph 62 is bifurcated creating new paragraph 62A, paragraph 65 is bifurcated creating new paragraph 65A, paragraphs 66A–66B and 70A are added. New text is underlined and deleted text is struck through.

## Reinsurance contracts held

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

...

### Recognition

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

(a) the beginning of the coverage period of the group of reinsurance contracts held; and

(b) the date the entity recognises an onerous group of underlying insurance contracts applying paragraph 25(c), if the entity entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

62A Notwithstanding paragraph 62(a), an entity shall delay the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

 

~~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

...

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, unless paragraph 65A applies, 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:

(a) the fulfilment cash flows;~~,~~

(b) 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~~

(c) any cash flows arising at that date; and

(d) any income recognised in profit or loss applying paragraph 66A.~~; unless~~

65A If ~~(b)~~ the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts held,~~ 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:

...

(ba) income recognised in profit or loss in the reporting period applying paragraph 66A;

(bb) reversals of a loss-recovery component recognised applying paragraph 66B (see paragraph B119F) to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held;

(c) changes in the fulfilment cash flows, measured at the discount rates specified in paragraph B72(c), to the extent that the change relates to future service, unless:

~~(i) relates to future service; unless~~

(i)~~(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; or~~.~~

(ii) the change results from applying paragraphs 57–58 (on onerous contracts), if the entity measures a group of underlying insurance contracts applying the premium allocation approach.

...

66A An entity shall adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group (see paragraphs B119C–B119E).

66B An entity shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses recognised applying paragraphs 66(c)(i)–(ii) and 66A. The loss-recovery component determines the amounts that are presented in profit or loss as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer (see paragraph B119F).

...

### 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) ...

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

...

70A If an entity measures a group of reinsurance contracts held applying the premium allocation approach, the entity shall apply paragraph 66A by adjusting the carrying amount of the asset for remaining coverage instead of adjusting the contractual service margin.

Paragraph 71 is amended. New text is underlined and deleted text is struck through.

### 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 paragraphs 25 and 28~~paragraph 25~~) is the date the entity becomes party to the contract.

...

Paragraphs 72 and 76 are amended. New text is underlined and deleted text is struck through.

## 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 3–8A~~8~~;

(ii) ...

...

### Derecognition

...

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

...

(c) the number of coverage units for expected remaining insurance contract services~~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.

...

Paragraphs 78–79 are amended. New text is underlined and deleted text is struck through.

## Presentation in the statement of financial position

78 **An entity shall present separately in the statement of financial position the carrying amount of portfolios~~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 28B~~27~~ in the carrying amount of the related portfolios~~groups~~ of insurance contracts issued, and any assets or liabilities for cash flows related to portfolios~~groups~~ of reinsurance contracts held (see paragraph 65(b)~~65(a)~~) in the carrying amount of the portfolios~~groups~~ of reinsurance contracts held.

Paragraphs 83, 86 and 88–89 are amended and paragraph 87A is added. New text is underlined and deleted text is struck through.

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

...

### 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.**

...

86 An entity may present the income or expenses from a group of reinsurance contracts held (see paragraphs 60–70A~~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) ...

 

(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~~

(ba) treat amounts recognised relating to recovery of losses applying paragraphs 66(c)(i)–(ii) and 66A–66B as amounts recovered from 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)

...

87A **An entity shall apply:**

**(a) paragraph B117A to insurance finance income or expenses arising from the application of paragraph B115 (risk mitigation); and**

**(b) paragraphs 88 and 89 to all other insurance finance income or expenses.**

88 **In applying paragraph 87A(b), unless~~Unless~~ paragraph 89 applies, an entity shall make an accounting policy choice between:**

...

89 **In applying paragraph 87A(b), for~~For~~ insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:**

...

## Disclosure

...

| |
|---|
| Paragraphs 97, 99–101, 103–105, 106–107 and 109 are amended, paragraphs 105A–105B, and 109A are added. New text is underlined and deleted text is struck through. |

### Explanation of recognised amounts

97 Of the disclosures required by paragraphs 98–109A~~109~~, only those in paragraphs 98–100, 102–103, 105–105B and 109A~~ 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:

...

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 100–105B~~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 portfolios~~groups~~ of contracts that are assets and a total for portfolios~~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:

...

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

...

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

...

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

...

(c) investment components excluded from insurance revenue and insurance service expenses (combined with refunds of premiums unless refunds of premiums are presented as part of the cash flows in the period described in paragraph 105(a)(i)).

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) ...

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

(i) ...

(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 B97(c) and B113(a)), excluding amounts relating to the risk adjustment for non-financial risk included in (ii).

(c) ...

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:

...

105A An entity shall disclose a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised applying paragraph 28B. An entity shall aggregate information for the reconciliation at a level that is consistent with that for the reconciliation of insurance contracts, applying paragraph 98.

105B An entity shall separately disclose in the reconciliation required by paragraph 105A any impairment losses and reversals of impairment losses recognised applying paragraph 28E–28F.

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) ...

(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 insurance contract services in the period, as specified in paragraph B124(c); and~~.~~

(iv) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service as specified in paragraph B124(d).

(b) the allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows (see paragraph B125).

107 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A~~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:

...

109 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A~~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.

109A An entity shall disclose quantitatively, in appropriate time bands, when it expects to derecognise an asset for insurance acquisition cash flows applying paragraph 28C.

...

| Paragraph 114 is amended. New text is underlined and deleted text is struck through. |
|---|

### 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–C19A~~C19~~) or the fair value approach (see paragraphs C20–C24B~~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:

...

| Paragraph 117 is amended. New text is underlined and deleted text is struck through. |
|---|

## 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:

...

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

...

(iii) to determine discount rates;~~ and~~

(iv) to determine investment components; and~~.~~

(v) to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service (see paragraphs B119–B119B).

...

| Paragraphs 128–129 and 132 are amended. New text is underlined and deleted text is struck through. |
|---|

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

...

 

### Insurance and market risks—sensitivity analysis

128 An entity shall disclose information about sensitivities to changes in risk variables~~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 variables~~exposures~~ that were reasonably possible at the end of the reporting period:

(i) ...

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

...

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 variables~~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:

...

### Liquidity risk—other information

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

(a) ...

(b) separate maturity analyses for portfolios~~groups~~ of insurance contracts issued that are liabilities and portfolios~~groups~~ of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the portfolios~~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 and paragraphs 69–70A. The analyses may take the form of:

...

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

## Amendments to Appendix A—Defined terms

The definitions of 'contractual service margin', 'coverage period', 'group of insurance contracts' and 'insurance acquisition cash flows' are amended. New text is underlined and deleted text is struck through.

**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 <u>**insurance contract services**</u>~~services~~ under the **insurance contracts** in the group.

**coverage period** — The period during which the entity provides <u>**insurance contract services**</u>~~coverage for **insured events**~~. This period includes the <u>**insurance contract services** that relate</u>~~coverage that relates~~ to all premiums within the boundary of the **insurance contract**.

...

**group of insurance contracts** — A set of **insurance contracts** resulting from the division of a **portfolio of insurance contracts** into, at a minimum, contracts <u>issued</u>~~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**<u> (issued or expected to be issued)</u> 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.

...

A new definition is added after the definition of 'insurance contract'. New text is underlined.

<u>**insurance contract services**</u> — <u>The following services that an entity provides to a **policyholder** of an **insurance contract**:</u>

<u>(a) coverage for an **insured event** (insurance coverage);</u>

(b) for **insurance contracts without direct participation features**, the generation of an investment return for the policyholder, if applicable (investment-return service); and

(c) for **insurance contracts with direct participation features**, the management of underlying items on behalf of the **policyholder** (investment-related service).

...

The definitions of 'investment component', 'liability for incurred claims' and 'liability for remaining coverage' are amended. New text is underlined and deleted text is struck through.

**investment component**

The amounts that an **insurance contract** requires the entity to repay to a **policyholder** in all circumstances, regardless of whether an **insured event** occurs~~even if an **insured event** does not occur~~.

...

**liability for incurred claims**

An entity's obligation to:

(a) 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; and~~.~~

(b) pay amounts that are not included in (a) and that relate to:

 (i) **insurance contract services** that have already been provided; or

 (ii) any **investment components** or other amounts that are not related to the provision of **insurance contract services** and that are not in the **liability for remaining coverage**.

**liability for remaining coverage**

An entity's obligation to:

(a) 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 insurance coverage~~**coverage period**~~); and~~.~~

(b) pay amounts under existing **insurance contracts** that are not included in (a) and that relate to:

(i) **insurance contract services** not yet provided (ie the obligations that relate to future provision of **insurance contract services**); or

(ii) any **investment components** or other amounts that are not related to the provision of **insurance contract services** and that have not been transferred to the **liability for incurred claims**.

...

 

## Amendments to Appendix B—Application guidance

| Paragraph B1 is amended. New text is underlined and deleted text is struck through. |
|---|

B1 This appendix provides guidance on the following:

...

(ba) asset for insurance acquisition cash flows (see paragraphs B35A–B35D);

(c) measurement (see paragraphs B36–B119F~~B119~~);

...

| Paragraphs B5 and B12 are amended. New text is underlined. |
|---|

## Definition of an insurance contract (Appendix A)

...

### Uncertain future event

...

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 insurance 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.

...

### The distinction between insurance risk and other risks

...

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' insurance 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.

...

Paragraphs B33–B35 are amended. New text is underlined and deleted text is struck through.

### Promises to transfer distinct goods or ~~non-insurance~~ services other than insurance contract 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 other than insurance contract 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 other than insurance contract services 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 other than an insurance contract 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 other than an insurance contract service that is promised to the policyholder is not distinct if:

(a) ...

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

Paragraphs B35A–B35D and the heading above paragraph B35A are added. New text is underlined.

## Insurance acquisition cash flows (paragraphs 28A–28F)

B35A To apply paragraph 28A, an entity shall use a systematic and rational method to allocate:

(a) insurance acquisition cash flows directly attributable to a group of insurance contracts:

(i) to that group; and

(ii) to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.

(b) insurance acquisition cash flows directly attributable to a portfolio of insurance contracts, other than those in (a), to groups of contracts in the portfolio.

B35B At the end of each reporting period, an entity shall revise amounts allocated as specified in paragraph B35A to reflect any changes in assumptions that determine the inputs to the method of allocation used. An entity shall not change amounts allocated to a group of insurance contracts after all contracts have been added to the group (see paragraph B35C).

B35C An entity might add insurance contracts to a group of insurance contracts across more than one reporting period (see paragraph 28). In those circumstances, an entity shall derecognise the portion of an asset for insurance acquisition cash flows that relates to insurance contracts added to the group in that period and continue to recognise an asset for insurance acquisition cash flows to the extent that the asset relates to insurance contracts expected to be added to the group in a future reporting period.

B35D To apply paragraph 28E:

(a) an entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group of insurance contracts, determined applying paragraph 32(a).

(b) when an entity allocates insurance acquisition cash flows to groups of insurance contracts applying paragraph B35A(a)(ii), the entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of the related assets for insurance acquisition cash flows to the extent that:

(i) the entity expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, determined applying paragraph 32(a); and

(ii) the excess determined applying (b)(i) has not already been recognised as an impairment loss applying (a).

Paragraphs B64–B66 and B71–B72 are amended and paragraph B66A is added. New text is underlined and deleted text is struck through.

## Measurement (paragraphs 29–71)

### Estimates of future cash flows (paragraphs 33–35)

...

#### Cash flows within the contract boundary (paragraph 34)

...

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 service~~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:

...

(ka) costs the entity will incur:

(i) performing investment activity, to the extent the entity performs that activity to enhance benefits from insurance coverage for policyholders. Investment activities enhance benefits from insurance coverage if the entity performs those activities expecting to generate an investment return from which policyholders will benefit if an insured event occurs.

(ii) providing investment-return service to policyholders of insurance contracts without direct participation features (see paragraph B119B).

(iii) providing investment-related service to policyholders of insurance contracts with direct participation features.

...

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:

...

(f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity or that are not specifically chargeable to the policyholder under the terms of the contract.~~ Such payments and receipts are recognised, measured and presented separately applying IAS 12 *Income Taxes*.~~

...

B66A Before the recognition of a group of insurance contracts, an entity might be required to recognise an asset or liability for cash flows related to the group of insurance contracts other than insurance acquisition cash flows either because of the occurrence of the cash flows or because of the requirements of another IFRS Standard. Cash flows are related to the group of insurance contracts if those cash flows would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date. To apply paragraph 38(c)(ii) an entity shall derecognise such an asset or liability to the extent that the asset or liability would not be recognised separately from the group of insurance contracts if the cash flow or the application of the IFRS Standard occurred at the date of initial recognition of the group of insurance contracts.

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

...

B71 After all insurance contract services have~~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:

...

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

...

Paragraphs B93–B95 are amended, paragraph B95 is bifurcated creating new paragraph B95A. Paragraphs B95B–B95F and the heading above paragraph B95E are added. New text is underlined.

## 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 within the scope of IFRS 3, 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 within the scope of IFRS 3, 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 and 69–70A 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.

B95A 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 within the scope of IFRS 3, 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.

B95B For a group of reinsurance contracts held to which paragraphs 66A–66B apply, an entity shall determine the loss-recovery component of the asset for remaining coverage at the date of the transaction by multiplying:

(a) the loss component of the liability for remaining coverage of the underlying insurance contracts at the date of the transaction; and

(b) the percentage of claims on the underlying insurance contracts the entity expects at the date of the transaction to recover from the group of reinsurance contracts held.

B95C The entity shall recognise the amount of the loss-recovery component determined applying paragraph B95B as part of goodwill or gain on a bargain purchase for reinsurance contracts held acquired in a business combination within the scope of IFRS 3, or as income in profit or loss for contracts acquired in a transfer.

B95D Applying paragraphs 14–22, at the date of the transaction an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous contracts not covered by the group of reinsurance contracts held. To apply paragraph B95B in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

### Asset for insurance acquisition cash flows

B95E When an entity acquires insurance contracts issued in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3, the entity shall recognise an asset for insurance acquisition cash flows at fair value at the date of the transaction for the rights to obtain:

(a) future insurance contracts that are renewals of insurance contracts recognised at the date of the transaction; and

(b) future insurance contracts, other than those in (a), after the date of the transaction without paying again insurance acquisition cash flows the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.

B95F At the date of the transaction, the amount of any asset for insurance acquisition cash flows shall not be included in the measurement of the acquired group of insurance contracts applying paragraphs B93–B95A.

Paragraphs B96–B97 are amended. New text is underlined and deleted text is struck through.

### 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. Those differences are determined by comparing (i) the actual investment component that becomes payable in the period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable. ~~measured at the discount rates specified in paragraph B72(c); and~~

(ca) differences between any loan to a policyholder expected to become repayable in the period and the actual loan to a policyholder that becomes repayable in the period. Those differences are determined by comparing (i) the actual loan to a policyholder that becomes repayable in the period with (ii) the repayment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected repayment before it becomes repayable.

(d) changes in the risk adjustment for non-financial risk that relate to future service. An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between (i) a change related to non-financial risk and (ii) the effect of the time value of money and changes in the time value of money. If an entity makes such a disaggregation, it shall adjust the contractual service margin for the change related to non-financial risk, measured at the discount rates specified in paragraph B72(c).

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. These effects comprise: ~~(being~~

(i) the effect, if any, on estimated future cash flows;

(ii) the effect, if disaggregated, on the risk adjustment for non-financial risk; and

(iii) the effect of a change in discount rate.~~);~~

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

(c) ...

...

| |
|---|
| Paragraphs B104, B107, B112, B115–B116 and B118 are amended. Paragraph B117A is added. Paragraph B101 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through. |

## 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).

...

 

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) ...

(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<u> amount of the</u> entity's share of the fair value of the underlying items; less

(ii) ...

...

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) ...

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

(i) over the duration of the <u>insurance contract</u>~~group of insurance contracts~~; and

(ii) ...

...

B112 Changes in the<u> amount of the</u> 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).

...

*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<u> the time value of money and</u> financial risk on<u>:</u>~~ the entity's share of the underlying items (see paragraph B112) or the fulfilment cash flows set out in paragraph B113(b).~~

<u>(a)</u> <u>the amount of the entity's share of the underlying items (see paragraph B112) if the entity mitigates the effect of financial risk on that amount using derivatives or reinsurance contracts held; and</u>

<u>(b)</u> <u>the fulfilment cash flows set out in paragraph B113(b) if the entity mitigates the effect of financial risk on those fulfilment cash flows using derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held.</u>

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

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

(a)~~(b)~~ an economic offset exists between the insurance contracts and the derivative, non-derivative financial instrument measured at fair value through profit or loss, or reinsurance contract held (ie the values of the insurance contracts and those risk mitigating items~~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.

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

...

B117A If the entity mitigates the effect of financial risk using derivatives or non-derivative financial instruments measured at fair value through profit or loss, it shall include insurance finance income or expenses for the period arising from the application of paragraph B115 in profit or loss. If the entity mitigates the effect of financial risk using reinsurance contracts held, it shall apply the same accounting policy for the presentation of insurance finance income or expenses arising from the application of paragraph B115 as the entity applies to the reinsurance contracts held applying paragraphs 88 and 90.

B118 If, and only if, any of the conditions in paragraph B116 cease~~ceases~~ to be met~~,~~ an entity shall~~:~~

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

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

Paragraph B119 is amended and paragraphs B119A–B119B are added. New text is underlined and deleted text is struck through.

## 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 insurance contract 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 insurance contract services~~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 period~~duration~~.

 

(b) allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the insurance contract 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.

B119A To apply paragraph B119, the period of investment-return service or investment-related service ends at or before the date that all amounts due to current policyholders relating to those services have been paid, without considering payments to future policyholders included in the fulfilment cash flows applying paragraph B68.

B119B Insurance contracts without direct participation features may provide an investment-return service if, and only if:

(a) an investment component exists, or the policyholder has a right to withdraw an amount;

(b) the entity expects the investment component or amount the policyholder has a right to withdraw to include an investment return (an investment return could be below zero, for example, in a negative interest rate environment); and

(c) the entity expects to perform investment activity to generate that investment return.

Paragraphs B119C–B119F and the heading above paragraph BC119C are added. New text is underlined and deleted text is struck through.

## Reinsurance contracts held—recognition of recovery of losses on underlying insurance contracts (paragraphs 66A–66B)

B119C Paragraph 66A applies if, and only if, the reinsurance contract held is entered into before or at the same time as the onerous underlying insurance contracts are recognised.

B119D To apply paragraph 66A, an entity shall determine the adjustment to the contractual service margin of a group of reinsurance contracts held and the resulting income by multiplying:

(a) the loss recognised on the underlying insurance contracts; and

(b) the percentage of claims on the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

B119E Applying paragraphs 14–22, an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraphs 66(c)(i)–(ii) and paragraph 66A in such cases, the entity shall apply a systematic and rational method of allocation to determine the portion of losses recognised on the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

B119F After an entity has established a loss-recovery component applying paragraph 66B, the entity shall adjust the loss-recovery component to reflect changes in the loss component of an onerous group of underlying insurance contracts (see paragraphs 50–52). The carrying amount of the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Paragraphs B121, B123, B124 and B126 are amended and paragraph B123A is added. New text is underlined and deleted text is struck through.

## Insurance revenue (paragraphs 83 and 85)

...

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

(ia) amounts related to income tax that are specifically chargeable to the policyholder;

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

(iii) ...

(b) ...

...

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:

...

(iia) changes resulting from cash flows from loans to policyholders;

...

B123A To the extent that an entity derecognises an asset for cash flows other than insurance acquisition cash flows at the date of initial recognition of a group of insurance contracts (see paragraphs 38(c)(ii) and B66A), it shall recognise insurance revenue and expenses for the amount derecognised at that date.

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:

...

(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); and~~.~~

(v) the amount related to the risk adjustment for non-financial risk (see (b)).

...

(d) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service (see paragraph B96(a)).

...

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 insurance contract services~~coverage~~:

...

Paragraphs B128 and B134 are amended. New text is underlined and deleted text is struck through.

## 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 the time value of money and financial risk and changes therein~~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; and~~.~~

(c) changes in the measurement of a group of insurance contracts caused by changes in the value of underlying items (excluding additions and withdrawals) are changes arising from the effect of the time value of money and financial risk and changes therein.

...

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.

...

Paragraph B137 and its heading are amended. New text is underlined and deleted text is struck through.

## The effect of accounting estimates made in interim~~Interim~~ financial statements

B137 If an entity prepares interim financial statements applying IAS 34 *Interim Financial Reporting*, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period. The entity shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds.~~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.~~

## Amendments to Appendix C—Effective date and transition

Paragraph C1 is amended. Paragraph C2 is not amended, but is included for ease of reference. New text is underlined and deleted text is struck through.

### Effective date

C1 An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023~~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.

Paragraphs C3–C5 are amended and paragraphs C5A–C5B are added. New text is underlined and deleted text is struck through.

### Transition

C3 Unless it is impracticable to do so, or paragraph C5A applies, an~~An~~ entity shall apply IFRS 17 retrospectively ~~unless impracticable~~, except that:

(a) ...

(b) an entity shall not apply the option in paragraph B115 for periods before the transition date~~date of initial application of IFRS 17~~. An entity may apply the option in paragraph B115 prospectively on or after the transition date if, and only if, the entity designates risk mitigation relationships at or before the date it applies the option.

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

(a) ...

(aa) identify, recognise and measure any assets for insurance acquisition cash flows as if IFRS 17 had always applied (except that an entity is not required to apply the recoverability assessment in paragraph 28E before the transition date);

...

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–C19A~~C19~~, subject to paragraph C6(a); or

 

(b) the fair value approach in paragraphs C20–C24B~~C24~~.

C5A Notwithstanding paragraph C5, an entity may choose to apply the fair value approach in paragraphs C20–C24B for a group of insurance contracts with direct participation features to which it could apply IFRS 17 retrospectively if, and only if:

(a) the entity chooses to apply the risk mitigation option in paragraph B115 to the group of insurance contracts prospectively from the transition date; and

(b) the entity has used derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts, as specified in paragraph B115, before the transition date.

C5B If, and only if, it is impracticable for an entity to apply paragraph C4(aa) for an asset for insurance acquisition cash flows, the entity shall apply the following approaches to measure the asset for insurance acquisition cash flows:

(a) the modified retrospective approach in paragraphs C14B–C14D, subject to paragraph C6(a); or

(b) the fair value approach in paragraphs C24A–C24B.

Paragraphs C7–C9, C11 and C15–C16 and C17 are amended. Paragraphs C9A, C14A–C14D, C16A–C16C and C17A are added. New text is underlined and deleted text is stuck through.

## Modified retrospective approach

...

C7 Paragraphs C9–C19A~~C19~~ set out permitted modifications to retrospective application in the following areas:

...

C8 To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–C19A~~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) ...

(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; and~~.~~

(d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17, applying paragraph 71.

C9A To the extent permitted by paragraph C8, an entity shall classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

...

### 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–C16C~~C16~~.

...

C14A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine the contractual service margin or loss component at the transition date as if the entity had not prepared interim financial statements before the transition date.

C14B To the extent permitted by paragraph C8, an entity shall use the same systematic and rational method the entity expects to use after the transition date when applying paragraph 28A to allocate any insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the transition date (excluding any amount relating to insurance contracts that ceased to exist before the transition date) to:

(a) groups of insurance contracts that are recognised at the transition date; and

(b) groups of insurance contracts that are expected to be recognised after the transition date.

C14C Insurance acquisition cash flows paid before the transition date that are allocated to a group of insurance contracts recognised at the transition date adjust the contractual service margin of that group, to the extent insurance contracts expected to be in the group have been recognised at that date (see paragraphs 28C and B35C). Other insurance acquisition cash flows paid before the transition date, including those allocated to a group of insurance contracts expected to be recognised after the transition date, are recognised as an asset, applying paragraph 28B.

C14D If an entity does not have reasonable and supportable information to apply paragraph C14B, the entity shall determine the following amounts to be nil at the transition date:

(a) the adjustment to the contractual service margin of a group of insurance contracts recognised at the transition date and any asset for insurance acquisition cash flows relating to that group; and

(b) the asset for insurance acquisition cash flows for groups of insurance contracts expected to be recognised after the transition date.

C15 If applying paragraphs C12–C14D~~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:

...

C16 If applying paragraphs C12–C14D~~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–C14D~~C14~~ and using a systematic basis of allocation.

C16A For a group of reinsurance contracts held that provides coverage for an onerous group of insurance contracts and was entered into before or at the same time that the insurance contracts were issued, an entity shall establish a loss-recovery component of the asset for remaining coverage at the transition date (see paragraphs 66A–66B). To the extent permitted by paragraph C8, an entity shall determine the loss-recovery component by multiplying:

(a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and

(b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C16B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C16A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

C16C If an entity does not have reasonable and supportable information to apply paragraph C16A, the entity shall not identify a loss-recovery component for the group of reinsurance contracts held.

### 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:

...

(iv) insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the transition date that are allocated to the group (see paragraph C17A).

(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.

C17A To the extent permitted by paragraph C8, an entity shall apply paragraphs C14B–C14D to recognise an asset for insurance acquisition cash flows, and any adjustment to the contractual service margin of a group of insurance contracts with direct participation features for insurance acquisition cash flows (see paragraph C17(c)(iv)).

| |
|---|
| Paragraph C19A is added. New text is underlined. |

### Insurance finance income or expenses

...

C19A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine amounts related to insurance finance income or expenses at the transition date as if it had not prepared interim financial statements before the transition date.

 

Paragraphs C20A–C20B and C22A are added and paragraph C21 is amended. New text is underlined and deleted text is struck through.

## Fair value approach

...

C20A For a group of reinsurance contracts held to which paragraphs 66A–66B apply (without the need to meet the condition set out in paragraph B119C), an entity shall determine the loss-recovery component of the asset for remaining coverage at the transition date by multiplying:

(a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and

(b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C20B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C20A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

C21 In applying the fair value approach, an entity may apply paragraph C22 to determine:

(a) ...

(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; and~~.~~

(d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17, applying paragraph 71.

...

C22A In applying the fair value approach, an entity may choose to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

...

Paragraphs C24A–C24B and the heading above paragraphs C24A–C24B are added. New text is underlined.

**Asset for insurance acquisition cash flows**

C24A In applying the fair value approach for an asset for insurance acquisition cash flows (see paragraph C5B(b)), at the transition date, an entity shall determine an asset for insurance acquisition cash flows at an amount equal to the insurance acquisition cash flows the entity would incur at the transition date for the rights to obtain:

(a) recoveries of insurance acquisition cash flows from premiums of insurance contracts issued before the transition date but not recognised at the transition date;

(b) future insurance contracts that are renewals of insurance contracts recognised at the date of the transaction and insurance contracts described in (a); and

(c) future insurance contracts, other than those in (b), after the date of the transaction without paying again insurance acquisition cash flows the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.

C24B At the transition date, the entity shall exclude from the measurement of any groups of insurance contracts the amount of any asset for insurance acquisition cash flows.

Paragraph C34 is amended. New text is underlined and deleted text is struck through.

## Withdrawal of other IFRS Standards

C34 IFRS 17 supersedes IFRS 4 *Insurance Contracts*, as amended in 2020~~2016~~.

 

## Amendments to 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 amending IFRS 17 *Insurance Contracts* in June 2020. An entity shall apply these amendments when it applies IFRS 17.

## IFRS 3 *Business Combinations*

In the amendments to IFRS 3 *Business Combinations*, paragraphs 31A and 64N are amended. New text is underlined and deleted text is struck through.

...

#### Insurance contracts

31A The acquirer shall measure a group of contracts within the scope of IFRS 17 *Insurance Contracts* acquired in a business combination, and any assets for insurance acquisition cash flows as defined in IFRS 17, as a liability or asset in accordance with paragraphs 39 and B93–B95F~~B95~~ of IFRS 17, at the acquisition date.

...

### 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. *Amendments to IFRS 17*, issued in June 2020, amended paragraph 31A. An entity shall apply the amendments to paragraph 17 to business combinations with an acquisition date after the date of initial application of IFRS 17. An entity shall apply the other~~those~~ amendments when it applies IFRS 17.

...

## IFRS 7 *Financial Instruments: Disclosures*

In the amendments to IFRS 7 *Financial Instruments: Disclosures*, paragraphs 3 and 44DD are amended. New text is underlined and deleted text is struck through.

### Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

...

(d) insurance contracts as defined in~~contracts within the scope of~~ IFRS 17 *Insurance Contracts* or investment contracts with discretionary participation features within the scope of IFRS 17. However, this IFRS applies to:

(i) derivatives that are embedded in 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, unless the separated investment component is an investment contract with discretionary participation features.

(iii) an issuer's rights and obligations arising under insurance contracts that meet the definition of~~Moreover, an issuer shall apply this IFRS to~~ *financial guarantee contracts*, if the issuer applies IFRS 9 in recognising and measuring the contracts. However, the issuer~~, but~~ shall apply IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of IFRS 17, to apply IFRS 17 in recognising and measuring the contracts~~them~~.

(iv) an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies IFRS 9 to those rights and obligations in accordance with paragraph 7(h) of IFRS 17 and paragraph 2.1(e)(iv) of IFRS 9.

(v) an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of IFRS 17, to apply IFRS 9 instead of IFRS 17 to such contracts.

(e) ...

...

## Effective date and transition

...

44DD IFRS 17, issued in May 2017, amended paragraphs 3, 8 and 29 and deleted paragraph 30. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 3. An entity shall apply those amendments when it applies IFRS 17.

## IFRS 9 *Financial Instruments*

In the amendments to IFRS 9 *Financial Instruments*, paragraphs 2.1 and 7.1.6 are amended. A new heading and paragraphs 7.2.36–7.2.42 are added. New text is underlined and deleted text is struck through.

## Chapter 2 Scope

2.1 This Standard shall be applied by all entities to all types of financial instruments except:

...

(e) rights and obligations arising under an insurance contract as defined in~~a contract 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 an investment contract with discretionary participation features within the scope of IFRS 17. However, this Standard applies to:

(i) derivatives~~a derivative~~ that are~~is~~ embedded in contracts~~a contract~~ within the scope of IFRS 17, if the derivatives are not themselves contracts~~derivative is not itself a contract~~ within the scope of IFRS 17.~~; and~~

(ii) investment components~~an investment component~~ that are~~is~~ separated from contracts~~a contract~~ within the scope of IFRS 17, if IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features within the scope of IFRS 17.

(iii) an issuer's rights and obligations under insurance contracts that meet the definition of a financial guarantee contract. However~~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 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.

(iv) an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract but which paragraph 7(h) of IFRS 17 excludes from the scope of IFRS 17. However, if, and only if, the insurance coverage is a contractual term of such a financial

**instrument, the entity shall separate that component and apply IFRS 17 to it (see paragraph 7(h) of IFRS 17).**

**(v)** **an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of IFRS 17, to apply IFRS 9 instead of IFRS 17 to such contracts.**

**(f)** ...

...

# Chapter 7 Effective date and transition

## 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. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 2.1 and added paragraphs 7.2.36–7.2.42. An entity shall apply those amendments when it applies IFRS 17.

...

## 7.2 Transition

...

### Transition for IFRS 17 as amended in June 2020

7.2.36 An entity shall apply the amendments to IFRS 9 made by IFRS 17 as amended in June 2020 retrospectively in accordance with IAS 8, except as specified in paragraphs 7.2.37–7.2.42.

7.2.37 An entity that first applies IFRS 17 as amended in June 2020 at the same time it first applies this Standard shall apply paragraphs 7.2.1–7.2.28 instead of paragraphs 7.2.38–7.2.42.

7.2.38 An entity that first applies IFRS 17 as amended in June 2020 after it first applies this Standard shall apply paragraphs 7.2.39–7.2.42. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).

7.2.39 With regard to designating a financial liability as measured at fair value through profit or loss, an entity:

 

(a) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of these amendments; and

(b) may designate a financial liability as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of these amendments.

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application of these amendments. That classification shall be applied retrospectively.

7.2.40 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods only if it is possible to do so without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements in this Standard for the affected financial instruments. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

7.2.41 In the reporting period that includes the date of initial application of these amendments, an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8.

7.2.42 In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that was affected by these amendments:

(a) the previous classification, including the previous measurement category when applicable, and carrying amount determined immediately before applying these amendments;

(b) the new measurement category and carrying amount determined after applying these amendments;

(c) the carrying amount of any financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated; and

(d) the reasons for any designation or de-designation of financial liabilities as measured at fair value through profit or loss.

## IAS 1 *Presentation of Financial Statements*

In the amendments to IAS 1 *Presentation of Financial Statements* paragraphs 54 and 139R are amended. New text is underlined and deleted text is struck through.

### 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:**

...

**(da) portfolios~~groups~~ of contracts within the scope of IFRS 17 that are assets, disaggregated as required by paragraph 78 of IFRS 17;**

...

**(ma) portfolios~~groups~~ of contracts within the scope of IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of IFRS 17;**

...

## Transition and effective date

...

139R IFRS 17, issued in May 2017, amended paragraphs 7, 54 and 82. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 54. An entity shall apply those amendments when it applies IFRS 17.

...

## IAS 32 *Financial Instruments: Presentation*

In the amendments to IAS 32 *Financial Instruments: Presentation* paragraphs 4 and 97T are amended. New text is underlined and deleted text is struck through.

## Scope

**4 This Standard shall be applied by all entities to all types of financial instruments except:**

...

**(d) insurance contracts as defined in~~contracts within the scope of~~ IFRS 17 *Insurance Contracts* or investment contracts with discretionary participation features within the scope of IFRS 17. However, this Standard applies to:**

**(i) derivatives that are embedded in 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, unless the separated investment component is an investment contract with discretionary participation features within the scope of IFRS 17.**

(iii) **an issuer's rights and obligations arising under insurance contracts that meet the definition of~~Moreover, an issuer shall apply this Standard to~~ financial guarantee contracts, if the issuer applies IFRS 9 in recognising and measuring the contracts. However, the issuer~~, but~~ shall apply IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of IFRS 17, to apply IFRS 17 in recognising and measuring the contracts~~them~~.**

(iv) **an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies IFRS 9 to those rights and obligations in accordance with paragraph 7(h) of IFRS 17 and paragraph 2.1(e)(iv) of IFRS 9.**

(v) **an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract if the entity elects, in accordance with paragraph 8A of IFRS 17, to apply IFRS 9 instead of IFRS 17 to such contracts.**

...

## Effective date and transition

...

97T IFRS 17, issued in May 2017, amended paragraphs 4, AG8 and AG36, and added paragraph 33A. *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 4. An entity shall apply those amendments when it applies IFRS 17.

## IAS 36 *Impairment of Assets*

In the amendments to IAS 36 *Impairment of Assets* paragraphs 2 and 140N are amended. New text is underlined.

### Scope

2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**

...

(h) **contracts within the scope of IFRS 17 *Insurance Contracts* that are assets<u> and any assets for insurance acquisition cash flows as defined in IFRS 17</u>; and**

...

#### Transition provisions and effective date

...

140N IFRS 17, issued in May 2017, amended paragraph 2.<u> *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 2.</u> An entity shall apply those amendments when it applies IFRS 17.

## IAS 38 *Intangible Assets*

In the amendments to IAS 38 *Intangible Assets* paragraphs 3 and 130M are amended. New text is underlined.

### 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:

...

(g) contracts within the scope of IFRS 17 *Insurance Contracts*<u> and any assets for insurance acquisition cash flows as defined in IFRS 17</u>.

(h) ...

...

### Transitional provisions and effective date

...

130M IFRS 17, issued in May 2017, amended paragraph 3.<u> *Amendments to IFRS 17*, issued in June 2020, further amended paragraph 3.</u> An entity shall apply those amendments when it applies IFRS 17.

 

## Amendments to Illustrative Examples on IFRS 17

| |
|---|
| Paragraph IE3A is added. New text is underlined. |

## Introduction

...

IE3A In June 2020, the International Accounting Standards Board (Board) amended IFRS 17 and made the following amendments to these examples:

(a) Example 12C was added;

(b) Examples 4, 6, 7, 9, 11, 12, 13, 14 and 16 were amended; and

(c) some amendments were made to improve the explanations in Examples 2B, 3B, 6, 8 and 9.

| |
|---|
| Footnote (b) to the table after paragraph IE28 is amended. New text is underlined and deleted text is struck through. |

### Example 2B—Changes in fulfilment cash flows that create an onerous group of insurance contracts

...

IE28 ...

...

(b) This example illustrates the amounts recognised in the statement of profit or loss. Example 3B~~3A~~ illustrates how these amounts could be presented.

The table after paragraph IE40 and the related footnote are amended. New text is underlined and deleted text is struck through.

## Example 3B—Changes in fulfilment cash flows that create an onerous group of insurance contracts

...

IE40 ...

| | Liability for remaining coverage, excluding loss component | | Loss component of the liability for remaining coverage | | Liability for incurred claims | | Insurance contract liability | |
|---|---|---|---|---|---|---|---|---|
| | CU | | CU | | CU | | CU | |
| Opening balance | 404 | | 113 | | – | | 517 | |
| Insurance finance expenses | 16 | | 5 | (b) | – | | 21 | (d) |
| Insurance revenue | (320) | (a) | – | | – | | (320) | |
| Insurance service expenses | – | | (118) | (b) | 350 | (c) | 232 | |
| Investment component | (100) | | – | | 100 | | – | |
| ~~Insurance finance expenses~~ | ~~16~~ | | ~~5~~ | ~~(b)~~ | ~~–~~ | | ~~21~~ | ~~(d)~~ |
| Cash flows | – | | – | | (450) | | (450) | |
| **Closing balance** | **–** | | **–** | | **–** | | **–** | |

(a) ...

(b) Applying paragraph 50(a), the entity allocates on a systematic basis the subsequent changes in the fulfilment cash flows of the liability for remaining coverage between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. In this example ~~the allocation is based on the 22 per cent proportion of the loss component of the liability for remaining coverage of CU113 to the total liability for remaining coverage of CU517 (CU404 + CU113). Consequently,~~ the entity allocates subsequent changes in fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

*continued...*

*...continued*

(i) insurance finance expenses of CU5 are determined by multiplying the total insurance finance expenses of CU21 by 22 per cent. The allocation is based on the 22 per cent proportion of the loss component of the liability for remaining coverage of CU113 to the total liability for remaining coverage of CU517 (CU404 + CU113).

(ii)~~(i)~~ the change of the loss component of CU118 is the sum of:

1 the estimates of the future cash flows released from the liability for remaining coverage for the year of CU94~~CU99~~, calculated by multiplying the expected insurance service expenses for the incurred claims for the year of CU350 by 27 per cent~~plus the investment component of CU450 (CU350 + CU100) by 22 per cent~~; and

2 the change in the risk adjustment for non-financial risk caused by the release from risk of CU24~~CU19~~, calculated by multiplying the total such change of CU88 by 27~~22~~ per cent.

The allocation of the amounts described in 1 and 2 to the loss component of CU118 is determined after the insurance finance expenses and investment component have been allocated. The insurance finance expenses are allocated as described in (i). The investment component is allocated solely to the liability for remaining coverage excluding the loss component, because it is not included in insurance revenue or insurance service expenses. After those allocations, the loss component of the liability for remaining coverage is CU118 (CU113 + CU5) and the liability for remaining coverage excluding the investment component is CU438 (CU517 + CU21 – CU100). Hence, the allocations in (ii) are determined as the ratio of CU118 to CU438, which is 27 per cent.

~~(ii)~~ ~~the insurance finance expenses of CU5 is determined by multiplying the total insurance finance expenses of CU21 by 22 per cent.~~

See Example 8 for a more detailed calculation of losses in a group of insurance contracts subsequent to initial recognition.

...

 

Paragraph IE50 is amended. New text is underlined and deleted text is struck through.

### Example 4—Separating components from a life insurance contract with an account balance

...

**Separating the asset management component**

IE50 The asset management activities, similar~~similarly~~ to claims processing activities, are part of the activities the entity must undertake to fulfil the contract, and the entity does not transfer a good or service other than insurance contract services to the policyholder because the entity performs those activities. Thus, applying paragraph B33, the entity would not separate the asset management component from the insurance contract.

The title of Example 6, paragraphs IE58 and IE62 and the tables after paragraphs IE70 and IE71 and the related footnotes are amended. New text is underlined and deleted text is struck through.

### Example 6—Additional features of the contractual service margin (paragraphs 44, 87, 101, B96–B99 and B119–B119B)

...

IE58 The contracts in this example:

(a) ...

(b) do not meet the criteria for insurance contracts with direct participation features applying paragraph B101(a) because a pool of assets is not specified in the contracts.

(c) provide an investment-return service applying paragraph B119B.

(d) provide both insurance coverage and investment-return service evenly over the coverage period of three years.

...

IE62 On initial recognition of the group of contracts, the entity:

...

(d) estimates the risk adjustment for non-financial risk to be CU30 and expects to recognise it in profit or loss evenly over the coverage period. Applying paragraph 81, the entity does not disaggregate the changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.

...

IE70 ...

| Changes in the estimates of future cash flows in Year 2 | Estimates of future cash flows | | Estimates of the present value of future cash flows~~(a)~~ | |
|---|---|---|---|---|
| | CU | | CU | |
| Beginning of Year 2 (present value discounted at 10%~~ for 2 years~~) | 3,414 | (a)~~(b)~~ | 2,824 | (b) |
| The effect of changes in financial assumptions (and interest accretion) | (186) | (c) | 195~~193~~ | (d) |
| Revised~~End of Year 2, revised~~ for changes in financial assumptions (present value discounted at 7%~~ for 1 year~~) | 3,228 | (a)~~(b)~~ | 3,019~~3,017~~ | (b) |
| The effect of the exercise of discretion (present value discounted at 7%~~ for 1 year~~) | 61 | (e) | 57 | |
| Revised~~ in Year 2~~ for changes in financial assumptions and the exercise of discretion (present value discounted at 7% ~~for 1 year~~) | 3,289 | (a)~~(b)~~ | 3,076~~3,074~~ | (b) |
| Payment of cash flows | (32) | (a)~~(b)~~ | (32) | |
| **End of Year 2** | **3,257** | | **3,044~~3,042~~** | |

(a) See the table after paragraph IE69.~~The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a).~~

(b) The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). All the cash flows—other than the death benefit payable at the end of Year 2—are payable at the end of Year 3.~~See the table after paragraph IE69.~~

(c) ...

(d) The change in estimates of the present value of the future cash flows of CU195~~CU193~~ is the difference between the estimates of the present value of the future cash flows at the end of Year 2 (revised for changes in financial assumptions) of CU3,019~~CU3,017~~ and the estimates of the present value of the future cash flows at the beginning of Year 2 (before changes in financial assumptions) of CU2,824. Hence, it reflects the effect of the interest accretion during Year 2 and the effect of the change in financial assumptions.

(e) ...

IE71 ...

| | Estimates of the present value of future cash flows | | Risk adjustment for non-financial risk | Contractual service margin | | Insurance contract liability |
|---|---|---|---|---|---|---|
| | CU | | CU | CU | | CU |
| Opening balance | 2,824 | | 20 | 258 | | 3,102 |
| Insurance finance expenses | 197~~195~~ | (a) | – | 10 | (b) | 207~~205~~ |
| Changes related to future service: exercise of discretion | 55 | (c) | – | (55) | (c) | – |
| Changes related to current service | – | | (10) | (107) | (d) | (117) |
| Cash outflows | (32) | | – | – | | (32) |
| **Closing balance** | **3,044~~3,042~~** | | **10** | **106** | | **3,160~~3,158~~** |

(a) Applying paragraph B97, the entity does not adjust the contractual service margin for a group of contracts for changes in fulfilment cash flows related to the effect of the time value of money and financial risk and changes therein, comprising ~~(being~~(i) the effect, if any, on estimated future cash flows; (ii) the effect, if disaggregated, on the risk adjustment for non-financial risk; and (iii) the effect of a change in discount rate~~)~~. This is because such changes do not relate to future service. Applying paragraph 87, the entity recognises those changes as insurance finance expenses. Consequently, the insurance finance expenses of CU197~~CU195~~ are the sum of:

(i) the effect of interest accretion and the effect of the change in financial assumptions of CU195~~CU193~~ (see the table after paragraph IE70~~IE69~~); and

(ii) ...

...

Paragraph IE76 is amended. New text is underlined and deleted text is struck through.

## Example 7—Insurance acquisition cash flows (paragraphs 106, B65(e) and B125)

...

IE76 In this example for simplicity, it is assumed that:

...

(c) there is no investment component;~~ and~~

(d) the insurance acquisition cash flows directly attributable to the portfolio to which the contracts belong of CU90 are directly attributable to the group of contracts to which the contracts belong and no renewals of those contracts are expected; and

(e)~~(d)~~ all other amounts, including the effect of discounting, are ignored for simplicity.

Paragraph IE82 and the tables after paragraphs IE94–IE98 and the related footnotes are amended. New text is underlined and deleted text is struck through.

## Example 8—Reversal of losses in an onerous group of insurance contracts (paragraphs 49–50 and B123–B124)

...

IE82 An entity issues 100 insurance contracts with a coverage period of three years. The coverage period starts when the insurance contracts are issued and the services are provided evenly over the coverage period. It is assumed, for simplicity, that no contracts will lapse before the end of the coverage period.

...

IE94 ...

| | Estimates of the present value of future cash flows | | Risk adjustment for non-financial risk | Contractual service margin | | Insurance contract liability |
|---|---|---|---|---|---|---|
| | CU | | CU | CU | | CU |
| Opening balance | 743 | | 160 | – | | 903 |
| Insurance finance expenses | 37 | (a) | – | – | | 37 |
| Changes related to future service | (286) | (b) | – | 103 | (b) | (183) |
| Changes related to current service | – | | (80) | (52)~~–~~ | (c) | (132)~~(80)~~ |
| Cash outflows | (400) | | – | – | | (400) |
| **Closing balance** | **94** | | **80** | **51~~103~~** | | **225~~277~~** |

...

(c) Applying paragraph B119(b), the entity allocates the contractual service margin at the end of the period (before recognising any amounts in profit or loss) equally to each coverage unit provided in the current period and expected to be provided in the future. Applying paragraph B119(c), the entity recognises in profit or loss the amount allocated to coverage units provided in the period of CU52, which is CU103 divided by two years.

 

IE95 ...

| | Liability for remaining coverage, excluding loss component | Loss component of the liability for remaining coverage | Liability for incurred claims | Insurance contract liability |
|---|---|---|---|---|
| | CU | CU | CU | CU |
| Opening balance | 544 | 359 | – | 903 |
| Insurance finance expenses | 22 | 15 (a) | – | 37 (b) |
| Insurance revenue | (341)~~(289)~~ (a) | – | – | (341)~~(289)~~ |
| Insurance service expenses: incurred expenses | – | (191) (a) | 400 | 209 |
| Insurance service expenses: reversal of loss on onerous contracts | – | (183) (c) | – | (183) |
| Cash flows | – | – | (400) | (400) |
| **Closing balance** | **225~~277~~** | **–** | **–** | **225~~277~~** |

...

IE96 ...

| | Liability for remaining coverage, excluding loss component | Loss component of the liability for remaining coverage | Total |
|---|---|---|---|
| | CU | CU | CU |
| Release of expected insurance service expenses for the incurred claims for the year | (241) | (159) (a) | (400) |
| Change in the risk adjustment for non-financial risk caused by the release from risk | (48) | (32) (a) | (80) |
| Contractual service margin recognised in profit or loss for the year | (52) | – | (52) |
| Insurance revenue | (341)~~(289)~~ (b) | – | |
| Insurance service expenses | – | (191) | |
| Insurance finance expenses | 22 (b) | (15) (a) | |

(a) ...

*continued...*

*...continued*

(b) Insurance revenue of CU341~~CU289~~ is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU319 (CU544 – CU225)~~CU267 (CU544 – CU277)~~, further excluding insurance finance expenses of CU22, ie CU341 = CU319 + CU22~~CU289 = CU267 + CU22~~; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses for the incurred claims for the year of CU400~~, and~~ the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the amount of the contractual service margin recognised in profit or loss in the period of CU52 minus the reversal of the loss component of the liability for remaining coverage of CU191 (CU159 + CU32), ie CU341~~CU289~~ = CU400 + CU80 + CU52 – CU191.

IE97 ...

| | Estimates of the present value of future cash flows | | Risk adjustment for non-financial risk | Contractual service margin | | Insurance contract liability |
|---|---|---|---|---|---|---|
| | CU | | CU | CU | | CU |
| Opening balance | 94 | | 80 | 51~~103~~ | | 225~~277~~ |
| Insurance finance expenses | 5 | (a) | – | 3~~5~~ | (b) | 8~~10~~ |
| Changes related to current service | – | | (80) | (54)~~(108)~~ | (c) | (134)~~(188)~~ |
| Cash outflows | (100) | | – | – | | (100) |
| Rounding difference | 1 | | – | – | | 1 |
| **Closing balance** | – | | – | – | | – |

(a) ...

(b) Applying paragraph 44(b), the entity calculates interest accreted on the carrying amount of the contractual service margin of CU3~~CU5~~ by multiplying the opening balance of CU51~~CU103~~ by the discount rate of 5 per cent determined applying paragraphs 44(b) and B72(b).

(c) ...

 

IE98 ...

| | Liability for remaining coverage, excluding loss component | | Loss component of the liability for remaining coverage | Liability for incurred claims | Insurance contract liability |
|---|---|---|---|---|---|
| | CU | | CU | CU | CU |
| Opening balance | 225~~277~~ | | – | – | 225~~277~~ |
| Insurance revenue | (233)~~(287)~~ | (a) | – | – | (233)~~(287)~~ |
| Insurance service expenses | – | | – | 100 | 100 |
| Insurance finance expenses | 8~~10~~ | (b) | – | – | 8~~10~~ |
| Cash flows | – | | – | (100) | (100) |
| **Closing balance** | **–** | | **–** | **–** | **–** |

(a) Insurance revenue of CU233~~CU287~~ is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU225 (CU225–CU0)~~CU277 (CU277– CU0)~~, further excluding insurance finance expenses of CU8~~CU10~~, ie CU233 = CU225 + CU8~~CU287 = CU277 + CU10~~; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses of CU100, the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the contractual service margin recognised in profit or loss of CU54~~CU108~~, ie CU233~~CU287~~ = CU100 + CU80 + CU54~~CU108~~ – CU1 rounding difference.

(b) ...

Paragraph IE99 is moved to after the title of Example 9. Paragraphs IE104 and IE105, and footnote (a) to the table after paragraph IE111 are amended. New text is underlined and deleted text is struck through.

## Measurement of groups of insurance contracts with direct participation features

~~IE99~~ ~~This example illustrates the measurement of groups of insurance contracts with direct participation features.~~

### Example 9—Measurement on initial recognition and subsequently of groups of insurance contracts with direct participation features (paragraphs 45 and B110–B114)

IE99 This example illustrates the measurement of groups of insurance contracts with direct participation features.

...

IE104 On initial recognition of the contracts, the entity:

...

(c) estimates the risk adjustment for non-financial risk to be CU25 and expects to recognise it in profit or loss in Years 1–3 as follows: CU12, CU8 and CU5;~~ and~~

(d) estimates the time value of the guarantee inherent in providing a minimum death benefit;[1] and

(e)~~(d)~~ expects that one insured person will die at the end of each year and claims will be settled immediately.

IE105 During the coverage period, there are changes in the time value of the guarantee and changes in the fair value returns on underlying items, as follows:

...

IE111 ...

...

(a) Applying paragraphs B110–B113, the entity adjusts the contractual service margin for the net of changes in:

(i) the amount of the entity's share of~~in~~ the fair value of the underlying items; and

...

1 There is no prescribed method for the calculation of the time value of a guarantee, and a calculation of an amount separate from the rest of the fulfilment cash flows is not required.

 

The title of Example 11 is amended. New text is underlined and deleted text is struck through.

### Example 11—Measurement on initial recognition of groups of reinsurance contracts held (paragraphs 63–65A~~65~~)

...

The title of Example 12 is amended. New text is underlined and deleted text is struck through.

### Examples 12A and 12B~~Example 12~~—Measurement subsequent to initial recognition of groups of reinsurance contracts held (paragraph 66)

...

Paragraphs IE138A–IE138O and their related headings are added. For ease of reading, this new example is not underlined.

### Example 12C—Measurement of a group of reinsurance contracts held that provides coverage for groups of underlying insurance contracts, including an onerous group (paragraphs 66A–66B and B119C–B119F)

IE138A This example illustrates the initial and subsequent measurement of reinsurance contracts held when one of the groups of underlying insurance contracts is onerous.

*Assumptions*

IE138B At the beginning of Year 1, an entity enters into a reinsurance contract that in return for a fixed premium covers 30 per cent of each claim from the groups of underlying insurance contracts. The underlying insurance contracts are issued at the same time as the entity enters into the reinsurance contract.

IE138C In this example for simplicity it is assumed:

(a) no contracts will lapse before the end of the coverage period;

(b) there are no changes in estimates other than that described in paragraph IE138J; and

(c) all other amounts, including the effect of discounting, the risk adjustments for non-financial risk, and the risk of non-performance of the reinsurer are ignored.

IE138D Some of the underlying insurance contracts are onerous on initial recognition. Thus, applying paragraph 16, the entity establishes a group comprising the onerous contracts. The remainder of the underlying insurance contracts are expected to be profitable and, applying paragraph 16, in this example the entity establishes a single group comprising the profitable contracts.

IE138E The coverage period of the underlying insurance contracts and the reinsurance contract held is three years starting from the beginning of Year 1. Services are provided evenly across the coverage periods.

IE138F The entity expects to receive premiums of CU1,110 on the underlying insurance contracts immediately after initial recognition. Claims on the underlying insurance contracts are expected to be incurred evenly across the coverage period and are paid immediately after the claims are incurred.

IE138G The entity measures the groups of underlying insurance contracts on initial recognition as follows:

| | **Profitable group of insurance contracts** | **Onerous group of insurance contracts** | **Total** |
|---|---|---|---|
| | **CU** | **CU** | **CU** |
| Estimates of present value of future cash inflows | (900) | (210) | (1,110) |
| Estimates of present value of future cash outflows | 600 | 300 | 900 |
| Fulfilment cash flows | (300) | 90 | (210) |
| Contractual service margin | 300 | – | 300 |
| **Insurance contract liability on initial recognition** | **–** | **90** | **90** |
| **Loss on initial recognition** | **–** | **(90)** | **(90)** |

IE138H Applying paragraph 61, the entity establishes a group comprising a single reinsurance contract held. The entity pays a premium of CU315 to the reinsurer immediately after initial recognition. The entity expects to receive recoveries of claims from the reinsurer on the same day that the entity pays claims on the underlying insurance contracts.

IE138I Applying paragraph 63, the entity measures the estimates of the present value of the future cash flows for the group of reinsurance contracts held using assumptions consistent with those used to measure the estimates of the present value of the future cash flows for the groups of underlying insurance contracts. Consequently, the estimate of the present value of the future cash inflows is CU270 (recovery of 30 per cent of the estimates of the present value of the future cash outflows for the groups of underlying insurance contracts of CU900).

IE138J At the end of Year 2, the entity revises its estimates of the remaining fulfilment cash outflows of the groups of underlying insurance contracts. The entity estimates that the fulfilment cash flows of the groups of underlying insurance contracts increase by 10 per cent, from future cash outflows of CU300 to future cash outflows of CU330. Consequently, the entity estimates the fulfilment cash flows of the reinsurance contract held also increase, from future cash inflows of CU90 to future cash inflows of CU99.

 

*Analysis*

IE138K The entity measures the group of reinsurance contracts held on initial recognition as follows:

| | Initial recognition | |
|---|---|---|
| | **CU** | |
| Estimates of present value of future cash inflows (recoveries) | (270) | |
| Estimates of present value of future cash outflows (premiums) | 315 | |
| **Fulfilment cash flows** | **45** | |
| Contractual service margin of the reinsurance contract held (before the loss-recovery adjustment) | (45) | |
| Loss-recovery component | (27) | (a) |
| **Contractual service margin of the reinsurance contract held (after the loss-recovery adjustment)** | **(72)** | (b) |
| **Reinsurance contract asset on initial recognition** | **(27)** | (c) |
| **Income on initial recognition** | **27** | (a) |

(a) Applying paragraph 66A, the entity adjusts the contractual service margin of the reinsurance contract held and recognises income to reflect the loss recovery. Applying paragraph B119D, the entity determines the adjustment to the contractual service margin and the income recognised as CU27 (the loss of CU90 recognised for the onerous group of underlying insurance contracts multiplied by 30 per cent, the percentage of claims the entity expects to recover).

(b) The contractual service margin of CU45 is adjusted by CU27, resulting in a contractual service margin of CU72, reflecting a net cost on the reinsurance contract held.

(c) The reinsurance contract asset of CU27 comprises the fulfilment cash flows of CU45 (net outflows) and a contractual service margin reflecting a net cost of CU72. Applying paragraph 66B, the entity establishes a loss-recovery component of the asset for remaining coverage of CU27 depicting the recovery of losses recognised applying paragraph 66A.

IE138L At the end of Year 1, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

| | Insurance contract liability | | Reinsurance contract asset | |
|---|---|---|---|---|
| | Profitable group of insurance contracts | Onerous group of insurance contracts | | |
| | CU | CU | CU | |
| Estimates of present value of future cash inflows (recoveries) | – | – | (180) | |
| Estimates of present value of future cash outflows (claims) | 400 | 200 | – | |
| Fulfilment cash flows | 400 | 200 | (180) | |
| Contractual service margin | 200 | – | (48) | (a) |
| **Insurance contract liability** | **600** | **200** | | |
| **Reinsurance contract asset** | | | **(228)** | |

(a) Applying paragraphs 66(e) and B119, the entity determines the amount of the contractual service margin recognised in profit or loss for the service received in Year 1 as CU24, which is calculated by dividing the contractual service margin on initial recognition of CU72 by the coverage period of three years. Consequently, the contractual service margin of the reinsurance contract held at the end of Year 1 of CU48 equals the contractual service margin on initial recognition of CU72 minus CU24.

IE138M At the end of Year 2, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

| | Insurance contract liability | | | | Reinsurance contract asset | |
|---|---|---|---|---|---|---|
| | Profitable group of insurance contracts | | Onerous group of insurance contracts | | | |
| | CU | | CU | | CU | |
| Estimates of present value of future cash inflows (recoveries) | – | | – | | (99) | (a) |
| Estimates of present value of future cash outflows (claims) | 220 | (a) | 110 | (a) | – | |
| Fulfilment cash flows | 220 | | 110 | | (99) | |
| Contractual service margin | 90 | (b) | – | | (21) | (e) |
| **Insurance contract liability** | **310** | | **110** | | | |
| **Reinsurance contract asset** | | | | | **(120)** | |
| **Recognition of loss and recovery of loss** | | | **(10)** | (c) | **3** | (d) |

*continued...*

*...continued*

(a) The entity increases the expected remaining cash outflows of the groups of underlying insurance contracts by 10 per cent for each group (CU30 in total) and increases the expected remaining cash inflows of the reinsurance contract held by 10 per cent of the expected recoveries of CU90 (CU9).

(b) Applying paragraph 44(c), the entity adjusts the carrying amount of the contractual service margin of CU200 by CU20 for the changes in fulfilment cash flows relating to future service. Applying paragraph 44(e), the entity also adjusts the carrying amount of the contractual service margin by CU90 for the amount recognised as insurance revenue ((CU200 – CU20) ÷ 2). The resulting contractual service margin at the end of Year 2 is CU90 (CU200 – CU20 – CU90).

(c) Applying paragraph 48, the entity recognises in profit or loss an amount of CU10 for the changes in the fulfilment cash flows relating to future service of the onerous group of underlying insurance contracts.

(d) Applying paragraph 66(c)(i), the entity adjusts the contractual service margin of the reinsurance contract held for the change in fulfilment cash flows that relate to future service unless 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 that group. Consequently, the entity recognises the change in the fulfilment cash flows of the reinsurance contract held of CU9 by:

   (i) recognising immediately in profit or loss CU3 of the change in the fulfilment cash flows of the reinsurance contract held (30 per cent of the CU10 change in the fulfilment cash flows of the onerous group of underlying insurance contracts that does not adjust the contractual service margin of that group); and

   (ii) adjusting the contractual service margin of the reinsurance contract held by CU6 of the change in the fulfilment cash flows (CU9 – CU3).

(e) Consequently, the contractual service margin of the reinsurance contract held of CU21 equals the contractual service margin at the end of Year 1 of CU48 adjusted by CU6 and by CU21 of the contractual service margin recognised in profit or loss for the service received in Year 2 (CU21 = (CU48 – CU6) ÷ 2).

IE138N A possible format of the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 2 is as follows:

| | Asset for remaining coverage, excluding loss-recovery component | Loss-recovery component of the asset for remaining coverage | Asset for incurred claims | Reinsurance contract asset |
|---|---|---|---|---|
| | CU | CU | CU | CU |
| Opening balance | (210) | (18) (b) | – | (228) |
| Allocation of reinsurance premiums paid(a) | 102 (c) | – | – | 102 |
| Amount recovered from the reinsurer(a) | – | 6 (d) | (90) | (84) |
| Cash flows | – | – | 90 | 90 |
| **Closing balance** | **(108)** | **(12)** | **–** | **(120)** |

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(b) The loss-recovery component of CU18 at the beginning of Year 2 is calculated as the loss-recovery component of CU27 on initial recognition less the reversal of the loss-recovery component of CU9 in Year 1.

(c) The allocation of reinsurance premiums paid of CU102 is:

(i) determined applying paragraph B123 as the difference between the opening and closing carrying amount of the asset for remaining coverage of CU102, ie CU210 – CU108.

(ii) analysed applying paragraph B124 as the sum of the recoveries for the incurred claims of the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contract held recognised in profit or loss in the period of CU21 (see the table after paragraph IE138M), ie CU102 = CU90 – CU9 + CU21.

(d) The amount recovered from the reinsurer relating to the loss-recovery component of CU6 is the net of the reversal of the loss-recovery component of CU9 and the additional loss-recovery component of CU3. Applying paragraph 86(ba), amounts recognised relating to the recovery of losses are treated as amounts recovered from the reinsurer.

 

IE138O The amounts presented in the statement of profit or loss corresponding to the amounts analysed in the tables above are:

| Statement of profit or loss | Year 1 | | Year 2 | | Year 3 | | Total |
|---|---|---|---|---|---|---|---|
| | CU | | CU | | CU | | CU |
| Insurance revenue | 370 | | 360 | | 380 | | 1,110 |
| Insurance service expenses | (360) | | (280) | | (290) | | (930) |
| **Insurance contracts issued total** | **10** | (b) | **80** | (d) | **90** | (f) | **180** |
| Allocation of reinsurance premiums paid[(a)] | (105) | | (102) | | (108) | | (315) |
| Amount recovered from reinsurer[(a)] | 108 | | 84 | | 87 | | 279 |
| **Reinsurance contracts held total** | **3** | (c) | **(18)** | (e) | **(21)** | (g) | **(36)** |
| **Insurance service result** | **13** | | **62** | | **69** | | **144** |

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(b) For Year 1, the profit of CU10 from the groups of underlying insurance contracts is calculated as follows:

(i) insurance revenue of CU370, which is analysed as the sum of the insurance service expenses from the claims incurred of CU270 (CU300 minus the reversal of the loss component of CU30) and the contractual service margin of CU100 recognised in profit or loss in the period (CU370 = CU270 + CU100); minus

(ii) insurance service expenses of CU360, which are the sum of the loss component of the onerous group of CU90 and the claims incurred in the period of CU300 minus the reversal of the loss component of CU30 (CU360 = CU90 + CU300 – CU30).

(c) For Year 1, the income of CU3 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU105, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contracts held of CU24 recognised in profit or loss in the period (CU105 = CU90 – CU9 + CU24); and

(ii) the amounts recovered from the reinsurer of CU108, which are the income of CU27 on initial recognition and the recoveries for the incurred claims from the underlying insurance contracts of CU90 minus the reversal of the loss-recovery component of CU9 (CU108 = CU27 + CU90 – CU9).

*continued...*

*...continued*

(d) For Year 2, the profit of CU80 from the groups of underlying insurance contracts is calculated as follows:

  (i) insurance revenue of CU360, which is analysed as the sum of the insurance service expenses from the claims incurred of CU270 (CU300 minus the reversal of the loss component of CU30) and the contractual service margin of CU90 recognised in profit or loss in the period (CU360 = CU270 + CU90); minus

  (ii) insurance service expenses of CU280, which are the sum of the increase in the loss component resulting from the changes in the fulfilment cash flows of the onerous group of CU10 and the claims incurred of CU300 minus the reversal of the loss component of CU30 (CU280 = CU10 + CU300 – CU30).

(e) For Year 2, the expense of CU18 from the reinsurance contract held is the net of:

  (i) the allocation of reinsurance premiums paid of CU102, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contract held of CU21 recognised in profit or loss in the period (CU102 = CU90 – CU9 + CU21); and

  (ii) the amounts recovered from the reinsurer of CU84, which are the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 minus the reversal of the loss-recovery component of CU9 and the additional loss-recovery component of CU3 (CU84 = CU90 – CU9 + CU3).

(f) For Year 3, the profit of CU90 from the groups of underlying insurance contracts is calculated as follows:

  (i) insurance revenue of CU380, which is analysed as the sum of the insurance service expenses from the claims incurred of CU290 (CU330 minus the reversal of the loss component of CU40) and the contractual service margin of CU90 recognised in profit or loss in the period (CU380 = CU290 + CU90); minus

  (ii) insurance service expenses of CU290, which are the claims incurred of CU330 minus the reversal of the loss component of CU40 (CU290 = CU330 – CU40).

*continued...*

*...continued*

(g) For Year 3, the expense of CU21 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU108, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU99 less the reversal of the loss-recovery component of CU12 and the contractual service margin of the reinsurance contracts held of CU21 recognised in profit or loss in the period (CU108 = CU99 – CU12 + CU21); and

(ii) the amounts recovered from the reinsurer of CU87, which are the recoveries for the incurred claims from the underlying insurance contracts of CU99 minus the reversal of the loss-recovery component of CU12 (CU87 = CU99 – CU12).

The heading above Example 13 and footnote (b) to the table after paragraph IE145 are amended. New text is underlined and deleted text is struck through.

## Measurement of insurance contracts acquired (paragraphs 38 and B94–B95A~~B95~~)

### Example 13—Measurement on initial recognition of insurance contracts acquired in a transfer from another entity

...

IE145 ...

...

(b) Applying paragraphs 47 and B95A~~B95~~, the entity concludes that the group of insurance contracts is onerous on initial recognition. This is because the total of the fulfilment cash flows of a net outflow of CU45 and cash flows arising at that date (proxy for the premiums of net inflow of CU30) is a net outflow of CU15. The entity recognises a loss in profit or loss for the net outflow of CU15, resulting in the carrying amount of the liability for the group of CU45 being the sum of the fulfilment cash flows of CU45 and the contractual service margin of zero.

(c) ...

Paragraphs IE146 and IE147 and footnotes (a) and (b) to the table after paragraph IE151 are amended. New text is underlined and deleted text is struck through.

## Example 14—Measurement on initial recognition of insurance contracts acquired in a business combination

IE146 This example illustrates the initial recognition of a group of insurance contracts acquired in a business combination within the scope of IFRS 3 *Business Combinations*.

### *Assumptions*

IE147 An entity acquires insurance contracts as part of a business combination within the scope of IFRS 3 and it:

(a) determines~~estimates~~ that the transaction results in goodwill applying IFRS 3 ~~*Business Combinations*~~.

(b) ...

...

IE151 ...

...

(a) Applying paragraph 38, the entity measures the contractual service margin on initial recognition of a group of insurance contracts at an amount that results in no income or expenses arising from the initial recognition of the fulfilment cash flows and any cash flows arising from the contracts in the group at that date. On initial recognition, the fulfilment cash flows are~~is~~ a net inflow (or asset) of CU10 (proxy for the premiums received of CU30 minus the fulfilment cash flows of CU20). Consequently, the contractual service margin equals CU10.

(b) Applying paragraphs 38 and 47, the entity recognises the contractual service margin as zero because the sum of fulfilment cash flows and cash flows at the date of initial recognition is a net outflow of CU15. Applying paragraph B95A~~B95~~, the entity recognises the excess of CU15 of the fulfilment cash flows of CU45 over the consideration received of CU30 as part of the goodwill on the business combination.

...

The table after paragraph IE184 and the related footnote are amended. New text is underlined and deleted text is struck through.

## Example 16—Amount that eliminates accounting mismatches with finance income or expenses arising on underlying items held (paragraphs 89–90 and B134)

...

IE184 ...

| Contractual service margin | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| | CU | CU | CU |
| Opening balance | – | 61 | 33 |
| Change related to future service: new contracts | 75 | – | – |
| Change in the amount of the entity’s share of~~in~~ the fair value of the underlying items[a] | 16 | 5 | 5 |
| Change related to current service: recognition in profit or loss for the service provided | (30) [b] | (33) | (38) |
| **Closing balance** | **61** | **33** | **–** |

(a) Applying paragraph B112, the entity adjusts the contractual service margin for the change in the amount of the entity’s share of the fair value of the underlying items because those changes relate to future service. For example, in Year 1 the change in the amount of the entity’s share of the fair value of the underlying items of CU16 is 5 per cent of the change in fair value of the underlying items of CU311 (CU1,811 – CU1,500). This example does not include cash flows that do not vary based on the returns on underlying items. For more details about the changes related to future service that adjust the contractual service margin see Example 10.

(b) ...

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ISBN 978-1-911629-77-1