



Institute
and Faculty
of Actuaries

Exposure Draft of IAN 100 on the Application of IFRS 17 Insurance Contract.

IFoA response to the International Actuarial
Association

26 April 2019

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International Actuarial Association
Association Actuarielle Internationale

Comments Template for Exposure Draft of IAN 100

Deadline: 26 April 2019

Please use this template to comment on the [Exposure Draft of IAN 100 on the Application of IFRS 17 Insurance Contracts](#).

The IAA invites comments on this Exposure Draft, particularly on the questions set out below. **Comments are most helpful if they:**

- (a) Comment on the questions as stated;
- (b) Indicate the specific paragraph or group of paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Include any alternative that the IAA should consider, if applicable within the scope of the [Statement of Intent for IAN 100](#).

	Identification and instructions	
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	
Name of organization		Institute and Faculty of Actuaries (IFoA)
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	No
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not write in the yellow shaded cells ⇒ Write in the white cells ⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as “Introduction 3rd paragraph 2nd bullet” or “2.6.1.b.ii” ○ Please insert/append extra rows as needed. <p>Please send the completed template, renamed with the organization’s or individual’s name, attached in <u>Word Format</u>, to IAN100.comments@actuaries.org</p>	

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	Specific Questions asked by the IAC	Response
Q1.	Is the IAN clear and unambiguous? If not, how should it be changed?	<p>Please see the general overarching comments below on the proposed IAN 100.</p> <p>In our specific comments on various sections of the IAN 100, we provide examples of where we feel that the wording could be seen as ambiguous.</p>
Q2.	Is the IAN sufficient and appropriate in dealing with the Chapter headings? If not, how should it be changed?	We provide examples in our specific comments of where we feel the IAN may not sufficiently or appropriately deal with the chapter headings.
Q3.	Is the IAN at the right level of detail? If not, how should it be changed?	We provide some examples in our below comments where we feel that the IAN may not be at the right level of detail, with suggestions for changes
Q4.	Where guidance is still ambivalent (awaiting further interpretation of IFRS 17) is there preferred guidance?	
Q5.	Are there any other matters that should be included in this IAN?	

	General Comments on the IAN 100 Exposure Draft	
	<p>We welcome the development of the IAN 100 as important and timely education material on IFRS 17 for actuaries across the globe. Overall, we are supportive of the development of IAN 100, including the question & answer format. We recognise the significant time and effort that the IAA has put into developing such an extensive document.</p> <p>As IANs are educational documents that provide information on current or emerging practices, we would emphasise the importance of the IAA continuing to position IAN 100 as an educational note; in particular it should not provide guidance on interpreting IFRS 17, as it is only certain accounting bodies that are permitted to do this. We believe that there are some questions over interpretation of the proposed IAN 100 which we have highlighted in our specific comments below.</p> <p>We acknowledge that IAN 100 was developed based on all IASB developments, including Transition Resource Group (TRG) meetings, to May 2018. However,</p>	



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	<p>there have been noted developments since May 2018. In particular, the TRG meetings in September 2018 and April 2019; and IASB Board meetings over November 2018 - April 2019. This is most pertinent to Chapter 9 on 'Reinsurance'. It is expected that the IASB will issue an exposure draft on revisions to IFRS 17 during Q2/Q3 2019. Conclusions from this exposure and IASB re-deliberations will need to be reflected in IAN 100.</p> <p>We also propose that:</p> <ul style="list-style-type: none"> Chapter 15 on 'Measurement, Presentation & Disclosure of Revenue' requires further development to ensure it covers all IFRS 17 disclosure related matters, and provides sufficient education material on the topic for actuaries who are likely to be heavily involved here; Chapter 8 on 'Contracts with Participation Features and Other Variable Cash Flows' should include additional questions & answers dealing with the treatment of participating contracts under the General Measurement Model; this will be relevant to actuaries in certain countries (in addition to the treatment under the Variable Fee Approach). <p>In the following sections we have allocated our specific comments into the main section (significant points) or an appendix (other more minor points).</p>
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Comments on specific paragraphs of the IAN 100 Exposure Draft		
Full Chapter/paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
Introduction	<p>Page 2, first paragraph</p> <p>The last line refers to 1 January 2021; this should be 2022.</p>	IASB proposed deferral of IFRS 17 implementation date.
Introduction	<p>Page 3, first paragraph</p> <p>Proposed alternative text with edits in red:</p> <p><i>The PAA mainly applies to the part of the total measurement of the contract referred to as the liability for remaining coverage, with the liability for incurred claims mostly following the GMA; however, further simplifications for the liability for incurred claims are available under certain circumstances.</i></p>	IFRS 17 Paragraph 59(b) permits the Liability for Incurred Claims (LIC) to be undiscounted if the cashflows are expected to be paid or settled in one year or less from the date claims are incurred.



<p>Introduction</p>	<p>Page 6, Chapter 7 (PAA Overview)</p> <p>Further to the comment above, the paragraph does not refer to the simplification available under the PAA not to discount the Liability for Incurred Claims if claims are expected to be settled in 12 months or less after being incurred.</p> <p>Suggested wording with edits in red:</p> <p><i>The Chapter focuses on the 'liability for remaining coverage' as this is where the majority of the differences with the General Measurement Model apply. The measurement of the contract liability from the point of occurrence of an insured event includes the 'liability for incurred claims' which broadly follows the requirement of the General Measurement Approach discussed in other chapters, although additional simplifications may be available under certain circumstances.</i></p>	<p>IFRS 17 Paragraph 59(b) permits the LIC to be undiscounted if the cashflows are expected to be paid or settled in one year or less from the date claims are incurred.</p>
<p>1 - Classification</p>	<p>Scope of IFRS 17</p> <p>Question 1.2 What is the definition of an insurance risk under IFRS 17?</p> <p>We refer to the text:</p> <p><i>The uncertainty can relate to one or more of the probability, timing or size of the event. Hence, it includes cases where the event has already occurred, but the timing or size of the compensation remains uncertain.</i></p> <p>We suggest deletion or reference to paragraph B5 (which relates to claims development insurance and makes the point that the insured event relates to the development of claims).</p>	<p>This statement does not appear to follow on logically from the previous one, and seems to confuse contracts that cover a discovery of loss during the contract term and claims development insurance. However, in both cases, it is not correct to say that the insured event has occurred before the start of the contract.</p>
<p>1 - Classification</p>	<p>Scope of IFRS 17</p> <p>Question 1.2 What is the definition of an insurance risk under IFRS 17?</p> <p>Proposed alternative text with edits in red:</p> <p><i>A contract issued to an entity that covers risks such as lapse, persistency or contract expenses on that entity's existing portfolio is likely to meet the definition of insurance risk transfer since the entity is the policyholder. Further, if the entity's existing portfolio includes insurance contracts, not just investment contracts, then such a contract is also likely to qualify as reinsurance held, for the holder of the contract, if significant insurance risk has been transferred. If there are no insurance policies in the portfolio being covered by the policy, then the policy is not a reinsurance contract and the contract does not fall under IFRS 17 for the entity (see paragraphs B14 and B15).</i></p>	<p>The existing text refers to risks that are relevant, not about them being significant insurance risks.</p>
<p>1 - Classification</p>	<p>Scope of IFRS 17</p> <p>Question 1.5 What are examples of contracts that are not covered under IFRS 17?</p> <p>The corresponding diagram needs to be amended.</p>	<p>Investment contracts with DPF do not have significant insurance risk.</p> <p>The diagram also needs to include reference to financial guarantee contracts.</p>



1 - Classification	<p>Scope of IFRS 17 Contract Boundary Introduction</p> <p>We refer to the text:</p> <p><i>The contract boundary distinguishes future cash flows to be considered in the measurement of the insurance contract from other future cash flows, even if they are expected to be paid under the same contract (see paragraphs 34 and B61). The contract boundary determines where a contract ends for measurement purposes, for a reporting period.</i></p>	We find this definition is confusing. Instead, reference could be made to distinguishing between cash flows associated with existing and future contracts as described in paragraph BC159.
1 - Classification	<p>Contract boundary Question 1.10 What are “Substantive rights and obligations”?</p> <p>We refer to the text:</p> <p><i>If the policyholder, cannot be forced to pay the premium, e.g., if the policyholder is not obliged to renew a contract with an agreed upon duration, there is no substantive right of the entity to premiums after the agreed duration.</i></p>	This refers to what it means for policyholders to be compelled to pay premiums; there is usually no substantial right to receive premiums due to contract lapse clauses et al.
1 - Classification	<p>Contract boundary Question 1.10 What are “Substantive rights and obligations”?</p> <p>We refer to the text:</p> <p><i>A substantive obligation could be present in cases where the applicable terms and conditions can cause future cash flows, compared with alternative cash flows within the contract boundary or premium component, to be onerous without the insurer having the ability to avoid such losses due to the absence of any cancellation or premium or benefit adjustment right. In that case, the guidance of paragraph 34 is likely to require that the loss is anticipated.</i></p>	A substantive obligation exists per the contract, but ends as specified in the standard. It is not necessary to refer to the presence of a substantive obligation.
1 - Classification	<p>Contract boundary Question 1.10 What are “Substantive rights and obligations”?</p> <p>We refer to the text:</p> <p><i>For example, in the case of a contractual clause that the funds of the contract might be used to purchase an annuity where the assumptions regarding longevity could be adjusted to represent the individual longevity risk, but not beyond that, the annuity is normally not within the contract boundary. If the terms and conditions determine a contractually fixed annuitisation rate, however, then the entity is likely to be subject to a substantive obligation and the loss-making annuitisation of the funds might be anticipated, considering the likelihood that the annuity will be elected. That might also apply in cases where a premium component, with a unilateral right of the policyholder to pay the premium in future, includes minimum financial guarantees that are in the money at the reporting date and the adjustment clauses would not allow the entity to avoid that loss if the policyholder decides to pay the premium.</i></p>	We do not agree with this paragraph as per the comment above on the presence of a substantive obligation; this is referred to in Q1.15 and reference should be made to that.



<p>1 - Classification</p>	<p>Contract boundary Question 1.12 What does it mean to reassess the risk of a particular policyholder?</p> <p>We refer to the text:</p> <p><i>When considering whether or not there is a substantive obligation, the entity may consider if there is any risk of anti-selection by the policyholder on the specific financial risk transfer. For instance, because of a possibly impaired risk profile it might be advantageous for the policyholder to continue the existing contract rather than effect a new contract. This advantage affects the substantive obligation of the entity to provide services.</i></p>	<p>We do not agree with the principles described in the paragraph as per the comment above on the presence of a substantial obligation.</p>
<p>1 - Classification</p>	<p>Contract boundary Question 1.14 When does an obligation take into account the risks that relate to future periods?</p> <p>The condition in paragraph 34(b) refers to substantive obligations arising from premiums already paid in the past even in the case of a collective premium or benefit adjustment clause. If there are none, as outlined in paragraph 34 (b) (ii), there is then no substantive obligation in this case. This is typically the case if the entity charges premiums only to finance services in the premium payment period, and the premium or benefit adjustment clause refers to future premiums financing the services in future periods without support from already paid premiums. If the entity charged premiums in the past which included parts intentionally considered to finance coverage together with future premiums, those past premiums result in a substantive obligation of the entity, even if the future premiums are subject to a collective premium or benefit adjustment clause.</p>	<p>We think the question could be reframed to consider premiums determined according to risk in future coverage periods.</p> <p>The paragraph is open to differing interpretations and does not consider premiums on a forward looking basis, i.e. up to the next premium reset date.</p>
<p>1 - Classification</p>	<p>Contract boundary Question 1.16 What are the issues for contract boundaries under reinsurance?</p> <p>Proposed alternative text with edit in red:</p> <p><i>The contract boundary is then, the later of:</i></p> <ul style="list-style-type: none"> <i>when the reinsurer can reassess the services, thereby ending the substantive right of the holder of the reinsurance to receive the service; and</i> <i>the insurer is no longer compelled to pay a premium, thereby ending the substantive obligation.</i> 	<p>We disagree with the current text: the contract boundary should be the later of these two.</p> <p>Paper 4 to the May 2018 TRG considered explicitly a situation where the reinsurer had a right to reprice the coverage, but (in the absence of the reinsurer repricing) the cedant had an obligation to continue paying premiums.</p> <p>IASB Staff interpretation was that the cedant's obligations under the contract did not cease at the date the reinsurer had the right to reprice, and that the later of 'rights' and 'obligations' ceasing defined the contract boundary.</p>
<p>1 - Classification</p>	<p>Contract boundary Question 1.17 What are other boundary situations that need separate consideration?</p> <p>We refer to the text:</p> <p><i>Acquisition expenses for the contract as a whole: acquisition expenses are allocated to the initial contract created by premiums paid up to annual renewal, except to the extent they are dependent on renewal of the contract, e.g., acquisition commission subject to clawback if the contract is not renewed, can be allocated to the future contract created by the renewal (see AP04 February 2018 TRG). This could likely lead to an onerous 'first' contract comprising the first premium only and to several very profitable contracts related to future premiums afterwards.</i></p>	<p>The IASB decided tentatively in 2019 that, for short duration contracts, acquisition expenses can be spread over expected renewals.</p>



1 - Classification	<p>Future insurance contracts Question 1.18 When should a contract boundary be reassessed?</p> <p>Proposed alternative text with edit in red:</p> <p><i>Paragraph B64 states that the boundary of a contract should be reassessed at the end of each reporting period, in order to include the effect of changes in the substantive rights and obligations of the entity.</i></p>	
1 - Classification	<p>Future insurance contracts Question 1.18 When should a contract boundary be reassessed?</p> <p>We refer to the text:</p> <p><i>It might be argued, in our example of future premiums being outside the current boundary of a contract, that any new premium paid could be seen as 'crossing' the existing boundary and extending the new boundary by including the newly received premium and all related cash flows.</i></p>	<p>Paper 5 to the September 2018 TRG clarifies that the reassessment per paragraph B64 is a reassessment of the 'practical ability to reprice...' criteria in paragraph 34.... i.e. if a right to reprice previously lacked commercial substance, but now does have commercial substance, this may lead to the contract boundary being extended.</p> <p>Where policyholders have paid premiums outside the boundary of the original contract (and the insurer has accepted them), these form part of a new contract per paragraph 35.</p>
Section A – Introduction to the General Measurement Approach	Introduction, schematic diagram	<p>The various bars in the diagram do not obviously correspond to the 'building blocks' of the general measurement model as we understand them.</p> <p>The description under 'Discount to balance date' should refer to the use of either a bottom-up or top-down rate and the fact that, where cash flows depend on the return on underlying items, the discount rate should reflect that dependence.</p>
2 – Estimates of future cash flows	<p>Page 27 Question 2.2 What are the common types of cash flows to be included?</p> <p>(end of first paragraph)</p> <p>Proposed alternative text with edit in red:</p> <p><i>'...such as the provision of insurance-related goods and services.'</i></p>	<p>The edit makes the distinction with non-insurance goods and services, which are required to be separated from the insurance contract.</p>
2 – Estimates of future cash flows	<p>Question 2.2 What are the common types of cash flows to be included?</p> <p>(2nd paragraph)</p> <p><i>Some non-cash transactions may be subject to other IFRSs that determine the amount of transfer of resource caused by fulfilling the contracts in the respective period. Measurement of future cash flows accordingly includes the allocation or transfer of resources to those future periods under the applicable IFRS.</i></p>	<p>It is not completely clear to us what this paragraph is referring to. If it is the separation of components required by paragraphs 10-13, then this is covered in Chapter 1. In that case, this paragraph should be deleted and replaced by a cross-reference.</p>



<p>2 – Estimates of future cash flows</p>	<p>Question 2.2 What are the common types of cash flows to be included?</p> <p>We refer to the text:</p> <p><i>Sometimes, it might be permissible (e.g., due to immateriality) to also consider cash flows exchanged between the parties under the contract not based on the actual payment date but based on a due date or the date when the triggering event incurs.</i></p>	<p>We suggest removing this and combining it with Question 2.21 in a specific question about the timing of cash flows. This is about timing of cash flows rather than their type, which is what the question is about, and is a topic that merits a question of its own.</p> <p>The issue of due date needs further context/explanation. The treatment of premiums due is a significant issue that should either be explained here or there should be a cross-reference to where this is addressed later in the IAN.</p>
<p>2 – Estimates of future cash flows</p>	<p>Question 2.9 How are cash flows that do not directly belong to the contract, but are contractual, distinguished from cash flows belonging to the entity in general?</p> <p>(final paragraph)</p> <p>We refer to the text:</p> <p><i>Any cash flows or costs of the entity related to other standards are not discussed in this chapter. When investment administration expenses are estimated, only expenses that are required by the contract are included, not the expenses of the actual investments of the entity. Under normal circumstances, investment expenses are not included in the estimate of future cash flows. An exception to this may apply when those investment expenses are required by the insurance contract.</i></p>	<p>The discussion of investment administration expenses is inconsistent with that in Question 3.7 and we would suggest, does not fully reflect the current market view. We suggest cross-referencing between the two questions.</p> <p>The IASB papers from January 2019 make it clear that investment expenses can be allowed for direct participating contracts and contracts where there are investment return services.</p>
<p>2 – Estimates of future cash flows</p>	<p>Question 2.10 To what extent do the estimates of future cash flows have to differentiate contracts with different characteristics (e.g., age, gender), and other known differences of contracts?</p> <p>The existing response creates links between pricing and current estimates which are not set out in the standard.</p> <p>The answer to Q2.10 is very long and does not seem to be well connected to the question itself. In addition to covering grouping (which is addressed in chapter 5), it veers into pricing and creates links to current estimates which are not set out in the standard. Is the point simply that one needs to establish current estimates at the portfolio level and then be able to disaggregate them as required for grouping, et al?</p>	
<p>2 – Estimates of future cash flows</p>	<p>Question 2.28 Are any taxes included in cash flows?</p> <p>(2nd paragraph)</p> <p>We refer to the text:</p> <p><i>Income taxes and other similar taxes (e.g. a tax based on Investment Income and Expenses) levied on the entire entity are not included as a cash flow in contract measurement even if they are reflected in benefits paid to policyholders unless paid in a fiduciary capacity on behalf of the policyholder.</i></p>	<p>We believe that this is interpreting IFRS 17 in relation to how it could apply for I-E tax regimes and is incorrectly expanding the scope of IFRS 17 para B66(f).</p> <p>We would suggest that this is deleted and factual text included.</p>



2 – Estimates of future cash flows	<p>Question 2.34 How can cash flows on blocks of business with no prior experience or no relevant experience (e.g., new line of business for entity, mortality past age 90 or coverage durations longer than the product has been issued) be estimated?</p> <p>We suggest deleting this question and response, as it is effectively covered within Question 2.16.</p>	
2 – Estimates of future cash flows	<p>Question 2.35 How might cash flows on contracts covering multiple perils be developed?</p> <p>We suggest deleting this question and response, and incorporating any material that is considered essential into Question 2.3, where multiple perils have already been discussed.</p>	
2 – Estimates of future cash flows	<p>Question 2.37 How often are estimates re-evaluated?</p> <p>We suggest incorporating the key point here into Question 2.4, which covers what ‘current estimate’ means.</p> <p>If this response is retained, we suggest making the edit in red:</p> <p><i>If there is no positive indication that anything relevant has changed, however, it would be justifiable not to make a change to an assumption.</i></p>	The existing wording suggests that the entity would not be permitted to make a change, rather than it being justifiable not to make a change.
3 – Discount rates	<p>Question 3.1. What are the general principles related to discounting within IFRS 17? Principle 2</p> <p>(1st bullet)</p> <p>Proposed alternative text with edit in red:</p> <p>Reference at the end should be to questions 3.11 to 3.24.</p> <p><i>Also extra comma after ‘e.g.’ in the first line.</i></p>	
3 – Discount rates	<p>Question 3.3 How are liquid risk-free rates determined in the context of IFRS 17?</p> <p>(2nd bullet point)</p> <p>Proposed alternative text with edit in red:</p> <p><i>Containing minimal credit risk, and where credit risk element is determinable and material/measurable, the quoted rate is adjusted appropriately to remove this credit risk</i></p>	All quoted rates contain some element of credit risk.



<p>3 – Discount rates</p>	<p>Question 3.3 How are liquid risk-free rates determined in the context of IFRS 17?</p> <p>(point a, 2nd paragraph)</p> <p>We refer to the text:</p> <p><i>In the situation of a currency union, a basket of government bonds with a high rating might be used. In the situation of a currency union, an individual government does not have the ability to expand the money supply which may cause credit risk. Also national governments can issue debt. If credit risk is present, an approach that estimates the credit risk component so that it might be removed is described in question 3.19 below.</i></p>	<p>It is unclear to us how this paragraph relates to the overall response. It begins by referring to risk-free yields, then suggests such an example is not risk-free, then subsequently refers to individual governments.</p>
<p>3 – Discount rates</p>	<p>Question 3.3 How are liquid risk-free rates determined in the context of IFRS 17?</p> <p>(point b)</p> <p>Proposed alternative text with edits in red:</p> <p><i>Swaps are often used as instruments for replicating and hedging interest rate risk arising from derivative assets which makes them a natural reference to derive risk-free interest rates.</i></p>	<p>Swaps are commonly used to hedge physical assets as well as derivatives.</p> <p>It would be useful if the IAN discussed the relative merits of using bid, ask or mid rates.</p>
<p>3 – Discount rates</p>	<p>Question 3.5 How is inflation reflected in discount rates?</p> <p>There are wider implications arising from the selection of real or nominal discount rates, in particular, whether inflation is 'locked-in' under the general model, which then impacts the measurement of the CSM over time.</p>	<p>Potential area to note.</p>
<p>3 – Discount rates</p>	<p>Question 3.5 How is inflation reflected in discount rates?</p> <p>(Market Based Approaches)</p> <p>We refer to the text:</p> <p><i>Estimating inflation by taking the difference between nominal bond yields and inflation-linked bonds</i></p>	<p>We suggest this should state that such a difference may need to be adjusted to exclude the effect of any perceived inflation risk premium.</p> <p>An economy may have more than one inflation index (e.g. CPI and RPI). It will therefore be necessary to consider which is more appropriate for estimating the inflation rate to assume for measuring fulfilment cash flows.</p>



3 – Discount rates	<p>Question 3.7 Are investment administration expenses reflected in discount rates (or cash flows) under IFRS 17?</p> <p>(final paragraph)</p> <p>The treatment of investment expenses under IFRS 17 was discussed at the January IASB Board, see paper 2E, in particular, paras 45 & 46. This would apply as follows:</p> <ul style="list-style-type: none"> • General model (no investment return service) – excluded; • General model (investment return service) – included; • Variable fee approach – included; • Discretionary participating feature contracts – included. <p>Depending on what the IASB concludes in its upcoming exposure draft, this section may need to be revised.</p>	
3 – Discount rates	<p>Question 3.9 Do contracts with cash flows that vary based on the returns on financial underlying items meet the definition of insurance contracts with direct participation features and vice versa?</p> <p>(2nd paragraph)</p> <p>Underlying items on direct participating contracts could include future profits on non-participating contracts.</p>	
3 – Discount rates	<p>Question 3.12 What is a reference portfolio?</p> <p>The current draft lacks key information. The September TRG considered the selection of the reference portfolio and associated disclosure in detail, and we believe that this should be included.</p>	
3 – Discount rates	<p>Question 3.14 What are the liquidity characteristics of insurance contracts?</p> <p>(4th paragraph)</p> <p>We refer to the text:</p> <p><i>Some practitioners ask if the liquidity characteristics of insurance contracts should be assessed from the insurer's perspective. The motivation of this view is BC194 which suggests that the motivation of including a liquidity premium is the entity's ability, or lack thereof, to sell / put the contract.</i></p>	<p>We think this suggests an approach consistent with an exit valuation. However, IFRS 17 liabilities are measured on a fulfilment basis and consequently the liquidity characteristics should be assessed assuming that the entity fulfils the cash flows.</p>
3 – Discount rates	<p>Question 3.14 What are the liquidity characteristics of insurance contracts?</p> <p>(bullet points (liquidity))</p>	<p>The current wording refers to 'liquid' and 'illiquid' contracts in black-and-white (binary) terms. We suggest referring to 'more / less liquid' contracts to reflect that the degree of liquidity is continuous.</p>



3 – Discount rates	<p>Other contract features that could influence the liquidity of an insurance contract include:</p> <ul style="list-style-type: none"> the existence of guarantees within the contract; tax advantages to the policyholder to maintain the contract; and the benefits of a policyholder having been subject to underwriting and the consequent disadvantages of having to be re-underwritten if a new contract was taken out. <p>The reference to exit value should be net of any exit charges.</p>	
3 – Discount rates	<p>Question 3.15 How can the liquidity characteristics of insurance contracts be quantified?</p> <p>(paragraph 3rd from end)</p> <p>We refer to the text:</p> <p><i>The above approach is based on a top-down approach. For those using bottom-up there may be a discernible relationship between the level of the illiquidity premium and other market data such as the level of risk-free rates and / or the level of credit spreads. For example, there may be a different illiquidity premium in a 10% rate environment than in a 5% environment. However, if analysis showed the same level of credit spreads in these disparate environments then the level of illiquidity premiums in these environments might be the same.</i></p>	<p>We think this example is unclear; we are unsure why the level of illiquidity premium should be the same because the credit spread is.</p> <p>Does ‘credit spread’ here mean only the part of total spread related to credit, or does it refer to the full spread?</p>
3 – Discount rates	<p>Question 3.15 How can the liquidity characteristics of insurance contracts be quantified?</p> <p>(page 56):</p> <p>The following sentence should be deleted:</p> <p><i>It would be difficult to justify insurance contracts having a higher illiquidity premium than the return on assets available for investment earning the illiquidity premium.</i></p>	<p>We believe that the liquidity premium should reflect the characteristics of the liability cash flows. The asset return is not directly relevant.</p>
3 – Discount Rates	<p>Question 3.19 How could the reference portfolio be adjusted for credit risk?</p> <p>(point i)</p> <p>We would note that it is necessary to ensure that the CDS and the bond are consistent so that the spreads are comparable.</p>	
3 – Discount rates	<p>Question 3.22 When does the observable market end?</p> <p>Under Solvency II, the last liquid point is taken when the market is no longer active, deep, liquid and transparent. This may be a consideration.</p>	



3 – Discount rates	<p>Question 3.27 What approaches can be used if the dependence of the cash flows on the financial underlying items is non-linear?</p> <p>The current drafting emphasises the importance of IFRS 17 paragraph B48: the requirement for the measurement to be consistent with observable market prices; and highlights certain approaches (risk neutral, risk world/deflator, closed form, replicating portfolio etc.).</p>	We support this drafting, as the inclusion of risk premia (equity, property etc.) without adjusting the discount rates (deflators) would not be in line with IFRS 17 requirements.
3 – Discount rates	<p>Question 3.30 How is the discount rate adjusted for illiquidity if cash flows do vary based on the return of financial underlying items?</p> <p>(final paragraph)</p> <p>Proposed alternative text with edits in red:</p> <p><i>As discussed in question 3.15, the risk adjustment reflects the uncertainty of non-financial risk is addressed through the risk adjustment and is distinct from any assessment of the other fulfilment cash flows which can be discounted using a discount rate that is appropriately adjusted to reflect</i> liquidity characteristics.</p>	We find that the current wording is confusing.
3 – Discount rates	<p>Question 3.30 How is the discount rate adjusted for illiquidity if cash flows do vary based on the return of financial underlying items?</p> <p>We refer to the text:</p> <p><i>The requirement for consistency with observable market prices (paragraph B48) implies that any liquidity premium adjustments made in the valuation of options and guarantees would need to be followed by a consideration of the calibration of stochastic models to ensure that market consistency is maintained.</i></p>	Such consideration of model leakage is important as our experience of market consistent methods in Solvency II has shown. However, where there are no observable prices, e.g. for long-duration illiquid guarantees, then this would need to be reflected (i.e. the illiquidity in the measurement).
3 – Discount rates	<p>Question 3.31 How is the present value of future cash flows adjusted for financial risk?</p> <p>The answer refers only to the option of using the discount rate to make the adjustment. Paragraph 36 and Principle 1 in Question 3.1 allow for financial risks to be included in the estimates of the future cash flows. We suggest the answer needs to make some reference to this.</p> <p>In addition, ‘matter’ should be replaced by ‘manner’ in line 4 of the answer.</p>	



<p>3 – Discount rates</p>	<p>Question 3.34 When required, which discount rates are used for onerous contracts where the PAA is applied?</p> <p>We would note that the first sentence is a direct quote from the standard but is not marked as such. It also contains incorrect references – ‘86e to 92’ should be ‘B36 to B92’.</p> <p>We further note that ‘GMA’ is struck through in the first sentence; should it be deleted or reinstated? If deleted, should the second sentence be amended accordingly?</p> <p>We believe that the second sentence is unclear over when the rate should be current, and when a locked-in rate should be used instead.</p>	
<p>3 – Discount rates</p>	<p>Question 3.35 When required, which discount rates are used for the liability for incurred claims?</p> <p>The first sentence does not make sense to us; we suggest it could be split in two.</p> <p>References to GMA seem out of place when this question sits under the PAA sub-heading. We suggest the final sentence should be deleted.</p> <p>The wording ‘<i>If the PAA is used</i>’ should be deleted for the same reason.</p>	
<p>3 – Discount rates</p>	<p>Question 3.41 How is the average locked-in curve determined for a group of contracts?</p> <p>(final bullet)</p> <p>We are unclear why there would be a need to create a weighted average in this case.</p> <p>Option (b) appears to use a single curve (from the date at which the group was first recognised) for all contracts in that group; our view is that this would be used as the locked-in curve for that group. If this were to deal with the situation where a reporting period might be shorter than a year, it is not obvious how that works given the explanation in (b).</p>	
<p>3 – Discount rates</p>	<p>Question 3.41 How is the average locked-in curve determined for a group of contracts?</p> <p>An alternative approach might be to use the end quarter discount rate curve as a proxy for the curves at the date of initial recognition for the contracts recognised in the quarter. This would be a judgement for an insurer to make.</p> <p>Using a weighted rate does not work if stochastic models are used, as it is necessary to have an internally consistent set of assumptions (e.g. yield curve and volatility assumptions). This is an area of uncertainty in application of IFRS 17 for those participating contracts under the general model.</p>	



<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.4 What is the role of actuarial input on risk adjustment?</p> <p>(final bullet)</p> <p>We refer to the text:</p> <p><i>provide explanations and insights to help in communicating the understandings and judgements involved, such that the entity's board and management can have the appropriate level of direction and oversight regarding how the risk adjustment is determined.</i></p>	<p>It would be helpful to clarify whether the text extends to supporting the level and determination of the confidence interval (useful to reference 4.18, 4.19).</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.5 What is the role of judgement in estimating the risk adjustment?</p> <p>We think it would be useful to include a further statement for groups around what level (entity, or group) the determination of the risk adjustment is made (discussed in question 4.10).</p>	
<p>4 – Risk adjustment for non-financial Risk</p>	<p>Question 4.6 What does “risk” mean in this Chapter?</p> <p>(5th bullet point)</p> <p>Proposed alternative text with edits in red:</p> <p><i>Uncertainty in the estimates of expected value, variance and higher moments of a probability distribution. This uncertainty may potentially be quantified as part of the statistical analysis, albeit bearing in mind the need to recognise that lack of data or fundamental uncertainty will make the exercise of judgement particularly important.</i></p>	<p>The original text read .. ‘<i>uncertainty can be quantified..</i>’ which we believe is too strong.</p> <p>The last paragraph of this section does cover fundamental uncertainty, so we recommend reference to this.</p> <p>The need for judgement being more prominent, at an earlier part of the IAN, should be considered.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.7 What risks should be considered?</p> <p>(6th bullet point)</p> <p>Proposed alternative text with edits in red:</p> <p><i>Operational risk to the extent that it is not driven by insurance cash flows (as noted above). Examples, depending on circumstances, could include legislative risk, reputational risk, business interruption / the risk of cyber attack etc.;</i></p>	<p>Suggested edit clarifies the treatment of operational risks.</p>



<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.7 What risks should be considered?</p> <p>We refer to the text:</p> <p><i>The risk of policyholder behaviour being different than what is reflected in estimates of the expected cash flows would be considered non-financial risk.</i></p> <p>We suggest revising this sentence: the non-financial risk would usually be seen as stemming from changes in the predicted relationship between the particular variable concerned and financial risk variables, e.g. change in the dynamic lapse formula. It is not just different to expected values.</p> <p>Proposed alternative text with edit in red:</p> <p><i>A further example is spread compression risk due to earned/ credited rate differences where crediting rates are discretionary. The risk of this discretionary spread compression being different than what is reflected in the estimates of expected future cash flows may be considered a non-financial risk.</i></p> <p>Reference to paragraph B53 should also be included.</p>	<p>There are differing views on this and this paragraph of the IAN could therefore be seen to be narrowing down the interpretation of the standard. Therefore suggest use the word ‘may’ or ‘could’.</p> <p>In other cases, market variables and non-market variables may be correlated. For example, there may be evidence that lapse rates (a non-market variable) are correlated with interest rates (a market variable).</p> <p>Similarly, there may be evidence that claim levels for house or car insurance are correlated with economic cycles and therefore with interest rates and expense amounts. The entity shall ensure that the probabilities for the scenarios and the risk adjustments for the non-financial risk that relates to the market variables are consistent with the observed market prices that depend on those market variables.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.10 What allowance should be made for risk diversification and what level of aggregation should be used?</p> <p>(5th paragraph)</p> <p>Proposed alternative text with edits in red:</p> <p><i>For example, the value to the entity from the risk mitigation provided by its reinsurance held may be significantly greater than a simple scaling factor proportional to a selected risk measure. In such cases, it may be appropriate to consider other benchmarks or risk measures that are consistent with the entity’s risk aversion (reflecting that its risk is mitigated via reinsurance) and also to consider the entity’s estimate of its costs to retain, or replace, the reinsurance held. For example, the value to the entity from the risk mitigation provided by its reinsurance held may be significantly greater than a simple scaling factor proportional to a selected risk measure.</i></p> <p><i>In such some cases, it may be appropriate to consider other benchmarks or risk measures that are consistent with the entity’s risk aversion (reflecting that its risk is mitigated via reinsurance) and also to consider the entity’s estimate of its costs to retain, or replace, the reinsurance held.</i></p>	<p>This is considered elsewhere in the reinsurance fulfilment cash flows; we are not convinced it should be reflected in the risk adjustment per se.</p> <p>We view that splitting the paragraph into two made sense, as the last sentence was more generally applicable than the context of the rest of the paragraph it was part of.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.13 What is the compensation that the entity requires for bearing risk?</p> <p>We think that it should be clarified that this is not a regulatory assessment, and this could be referred to here, or in a separate Q&A.</p>	



<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.13 What is the compensation that the entity requires for bearing risk?</p> <p>This paragraph focuses on the profit margin as a tool for informing the assessment of the compensation the entity requires for bearing risk.</p>	<p>It should be recognised that the profit margin will, as its name suggests, include other items in addition to compensation for risk, such as the required margin to ensure that the entity meets its target rate of return.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.14 How should qualitative (i.e. difficult to quantify) risk characteristics be reflected?</p> <p>Inserting this description of ‘qualitative’ is helpful as this part of the process is part of the usual risk adjustment calculation, rather than a separate process required for qualitative risks on their own.</p>	
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.15 What disclosures and explanations are required?</p> <p>This response should be moved to the disclosure chapter, and references to that chapter can then be included.</p>	<p>Disclosures need to be covered in full as a topic rather than in small components of larger disclosures being pulled out in individual chapters.</p> <p>If this is done, however, it would be important to insert a cross-reference in the first part of the risk adjustment chapter.</p> <p>We would not include specific references to PAA disclosures; this should instead be considered elsewhere.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.17 What are appropriate methods to allocate risk adjustments calculated at a more aggregated level to a more granular level?</p> <p>IFRS 17 does not require the risk adjustment to be directly determined at any specific level of granularity. However, to obtain appropriate fulfillment cashflows for each group of contracts, the risk adjustment needs to be allocated at least to the group of contracts level for various purposes (e.g. CSM, liability for onerous contracts).</p>	<p>The new requirement that the risk adjustment must be explicit, not implicit should be stated.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.20 Should confidence level disclosure be done gross or net of reinsurance?</p> <p>We refer to the text highlighted:</p> <p><i>IFRS 17 does not specify whether the disclosure of a confidence level is intended to be on a gross or net-of-reinsurance basis. The entity's reported risk adjustment is required on a gross level as a liability. If the entity has reinsurance held, the entity also separately reports the risk adjustment associated with reinsurance held. The entity's net risk adjustment is not reported as a separate item. However, the estimation of separate confidence levels for disclosure that correspond to the gross risk adjustment (liability) and the reinsurance held risk adjustment (asset) may present significant technical issues and may not provide the relevant information intended.</i></p>	<p>It is not clear to us what this means – it is only an issue if a ‘net of reinsurance’ approach is used to estimate the reinsurance risk adjustment.</p> <p>Our view is that this response should focus on the point that reinsurance is presented separately from gross contracts.</p>



<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.22 To what extent is it appropriate to use analyses and measurements made for other purposes, such as pricing, embedded value, regulatory reporting or capital modelling?</p> <p>We refer to the text:</p> <p><i>Regulatory solvency capital adequacy models that align well with how an entity views and assesses risk may, similarly, be potentially leveraged in the development of appropriate IFRS 17 techniques to measure and assess risk. However, IFRS principles for the valuation of insurance contract liabilities are not based on the solvency requirements of an insurer, so they can only be leveraged to the extent they generally reflect how the entity views and assesses risk. Having said this, regulatory capital adequacy requirements do place constraints on the entity, and are likely to influence its views.</i></p> <p>Point BC 209(b) should be covered; i.e.:</p> <p><i>(b) an amount that would provide a high degree of certainty that the entity would be able to fulfil the contract. Although such an amount might be appropriate for some regulatory purposes, it is not compatible with the Board’s objective of providing information that will help users of financial statements make decisions about providing resources to the entity.</i></p>	<p>Our view is that point BC 209(b) could be covered.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.22 To what extent is it appropriate to use analyses and measurements made for other purposes, such as pricing, embedded value, regulatory reporting or capital modelling?</p> <p>We refer to the text:</p> <p><i>A further complication is that both internal and regulatory capital requirements are there to cover all of the risks faced by the entity, while the risk adjustment in the Fulfilment Cash Flows excludes risks outside the insurance contract (such as operational, asset and asset-liability mismatch risks) and risks reflected through the use of market consistent inputs (see question 6.7). Even where regulatory minimum capital is built up in an additive structure, it does not necessarily follow that the insurance components of such a structure fully represent the insurance risks, since the underlying relationships are unlikely to be fully additive.?</i></p>	<p>We suggest that it is unclear what this means; is it saying that a regulatory basis might assume a 100% correlation between risks and the IFRS 17 risk adjustment should consider diversification benefits?</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.24 What time horizon is used in measuring the risk adjustment?</p> <p>Proposed alternative text with edits in red:</p> <p><i>The “compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk” is generally understood to mean the compensation required for bearing the non-financial risks associated with all cash flows within the contract boundary for the duration of the contract boundary period to final fulfilment of the contract, the point at which there is no residual risk from the contract.</i></p>	<p>We believe this could be misleading. The contract boundary defines the risk, which could span a short or long coverage period. However the length of the tail of the risk – the number of years for which uncertainty will be present – is an important distinguishing characteristic. The term ‘duration’ is difficult to interpret without careful description.</p>



5 - Unit of Account	<p>Figure 5.1: Level of aggregation</p> <p>We suggest that the PAA should be made clearer as it is contradictory. In particular, it states:</p> <ul style="list-style-type: none"> - can assume not onerous then - facts and circumstances indicate onerous. <p>This appears confusing and it would be helpful if it were clarified.</p>	
5 - Unit of Account	<p>Question 5.4 Why is the level of aggregation important?</p> <p>We refer to the text:</p> <p><i>The level of aggregation determines the level at which the recognition and measurement requirements of IFRS 17 are applied (paragraph 24).</i></p>	We think that the level of aggregation does not determine the recognition and measurement requirements; rather it determines the level at which these requirements are applied.
5 - Unit of Account	<p>Question 5.5 What is a portfolio of insurance contracts?</p> <p>We refer to the text:</p> <p><i>Accordingly, each contract is at inception allocated to one portfolio, or may, under certain circumstances (see paragraph 5.9), be apportioned across multiple portfolios if the contract covers different types of risks and these risks are permitted to be unbundled.</i></p>	The wording implied that risks were automatically unbundled from a contract if they were different risks. This is not necessarily the case.
5 - Unit of Account	<p>Question 5.10. When is a contract allocated to a portfolio of insurance contracts?</p> <p>We refer to the text:</p> <p><i>Practically, at the same time as contracts are recognised (see question 5.13)</i></p>	In relation to ‘ <i>as contracts are recognised</i> ’ rather than ‘ <i>as groups are defined</i> ’, we note that contracts are added to groups when they are recognised, not when the group is defined. In some cases contracts will be added to a group at the same time as the group is defined, but this is only when an appropriate group does not already exist.
5 - Unit of Account	<p>Question 5.13 What is a group of insurance contracts?</p> <p>We refer to the text:</p> <p><i>Hence a „group“ is a set of new business or renewal contracts, which are issued no more than 12 months apart and which have similar expected profitability, to be measured together.</i></p>	Profitability criteria of a group was omitted.



5 - Unit of Account	<p>Question 5.17 How might grouping be different for contracts with direct participation features?</p> <p>We think the following sentence is incorrect and inconsistent with B68: <i>‘These allow that, in calculating the value of expected cash flows, an allowance can be made for cash flows originating from contracts in other groups, not just cash flows arising solely from contracts in that group.’</i></p> <p>We suggest this should be rewritten as follows:</p> <p><i>‘The fulfilment cash flows for a group:</i></p> <p><i>(a) include payments arising from the terms of existing contracts to policyholders of contracts in other groups, regardless of whether those payments are expected to be made to current or future policyholders; and</i></p> <p><i>(b) exclude payments to policyholders in the group that, applying (a), have been included in the fulfilment cash flows of another group.’</i></p>	The drafting in 5.17 is the opposite of what is required and uses the word ‘can’ when this treatment is not optional.
5 - Unit of Account	<p>Question 5.17 How might grouping be different for contracts with direct participation features?</p> <p>This section should also note that BC138 states that <i>‘The Board acknowledged that, for contracts that fully share risks, it may not be necessary for an entity to restrict groups to include only contracts issued within one year if grouping at a higher level achieves the same accounting outcome.’</i></p>	There was also a paper at the September 2018 TRG on this subject that should also be referenced.
5 - Unit of Account	<p>Question 5.23 What happens if the interim or financial year end cut short the grouping year? Is the reported weighted discount rate restated allowing for the remaining months?</p> <p>We refer to the text:</p> <p><i>As indicated in paragraph 28, these revised discount rates are applied from the start of the reporting period in which the new contracts are added to the group.</i></p>	We are unsure it is clear from this section whether the revised discount rate should be applied to all contracts in the group, or just to the newly added contracts.
5 - Unit of Account	<p>Question 5.29 What mismatches might arise?</p> <p>We refer to the text:</p> <p><i>(i.e., asymmetric accounting, with the practical consequence of a day one loss from the gross liability impairment offset by income from the reinsurance ceded asset over the lifetime of the reinsurance contract).</i></p>	Given IASB Board January 2019 Paper 2, this asymmetry has been corrected for proportional reinsurance contracts.



<p>5 - Unit of Account</p>	<p>Question 5.29 What mismatches might arise?</p> <p>We refer to the text:</p> <p><i>The VFA cannot be applied to reinsurance held business, even if it is applied to the underlying insurance contracts. See chapter 9.</i></p>	<p>It should be noted that this may create mismatches in treatment between inwards and ceded business.</p>
<p>5 - Unit of Account</p>	<p>Question 5.30 What are the implications of aggregation for presentation and disclosure?</p> <p>We refer to the text:</p> <p><i>separate disclosure of the groups of contracts</i></p>	<p>This should now be portfolios of contracts as per IASB December 2018 Paper 1.</p>
<p>5 - Unit of Account</p>	<p>Question 5.32 What exceptions are allowed at transition?</p> <p>We refer to the text:</p> <p><i>If a full retrospective approach is adopted, as per paragraph C3, there are no exceptions and business written up to transition is grouped applying IFRS 17 retrospectively as if it had always applied.</i></p>	<p>We suggest it could be highlighted here that groups are established as if you were at initial recognition, with no hindsight as to the actual profitability of the contracts.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Section 6.B Which sections of IFRS 17 address this topic?</p> <p>Proposed alternative text with edits in red:</p> <p><i>Paragraphs 38-39, 43-46-47-52 and B96-B10019 provide guidance on this topic.</i></p> <p><i>BC18, BC21, BC218-BC226, BC228-BC23756, BC270-BC275 and BC277-BC287 also provide background on the subject.</i></p>	<p>Corrections required to references.</p>



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.1 What is the purpose of the CSM?</p> <p>Proposed alternative text with edits in red:</p> <p>...</p> <p><i>If there is no excess of inflows over outflows at inception are greater than inflows, the contract is onerous, no CSM is established and a loss component is calculated at the time of initial recognition. The loss component is recognised immediately while the CSM is recognised gradually over time in line with the services provided.</i></p> <p><i>Thereafter the CSM is rolled forward with interest accrual, adjustments for some experience items, changes in estimates of future cash flows and allowance for risk, dependent on the measurement model adopted. The loss component is allocated on a systematic basis in accordance with paragraph 50. The CSM is then released based on coverage units representing the service provided in the period and services expected to be provided in the future.</i></p> <p><i>This means that while the initial determination of the CSM for the group is a prospective calculation, thereafter it is primarily a retrospective calculation or roll forward, i.e. the retrospectively calculated CSM value is adjusted based on the relevant new information and released in line with the services provided.</i></p> <p>...</p>	
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.3 What are pre- coverage cash flows?</p> <p>We refer to the text:</p> <p><i>Paragraph 25 states that the recognition date of the contract is the earliest of the following:</i></p> <p><i>the beginning of the coverage period of the group of contracts;</i></p> <p><i>the date when the first payment from a policyholder in the group becomes due; and</i></p> <p><i>the date when the group becomes onerous for, a group of onerous contracts.</i></p>	<p>It would be useful to place this reference at the start of this section and then refer to cash flows occurring prior to initial recognition. Placing this reference at the end appears out of context without further explanation.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.5 What changes are recognised in the CSM for contracts without direct participating features?</p> <p>The responses states ‘<i>calculated as follows</i>’ when it should say ‘<i>presented as follows</i>’.</p> <p>In addition, after the list of components, it should say that alternative presentations are possible and there is no prescription as to the calculation order other than the amortisation of the CSM for services over the period is the last step.</p>	



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.6 What is the effect of any new contracts added to the group?</p> <p>We refer to the text:</p> <p><i>For any new contracts added to a group of insurance contracts during the reporting period, the entity includes only contracts recognised during the reporting period. New contracts can be added to the group after the end of the reporting period (subject to all contracts in the group being issued no more than one year apart), in accordance with paragraph 28.</i></p>	<p>We suggest that the response does not explain the effect of new contracts added to the group, and instead explains annual cohorting. It would be useful to refer to the impact of new contracts added on initial recognition.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.8 Which changes in fulfilment cash flows qualify for adjusting the CSM?</p> <p>Proposed alternative text with edits in red:</p> <p><i>Differences between the actual and expected investment component paid in the period, measured at the locked-in discount rate (paragraph B96(c))</i></p>	
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.9 What is the experience investment component?</p> <p>The response should be changed to clarify the meaning of the standard.</p>	<p>It is describing the difference between the expected and actual investment component payable in the period that adjusts the CSM. Therefore it is not necessary to consider timings etc., of investment components, as that is automatically covered by other components.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.13 What is a coverage unit?</p> <p>Proposed alternative./additional text with edits in red:</p> <p><i>The coverage units establish the amount of the CSM to be recognised in profit or loss for services provided in the period. The amount of coverage units in a group reflects “the quantity of the benefits provided under a contract and its expected coverage duration” (paragraph B119 (a)).</i></p> <p>...</p> <p><i>In the January 2019 IASB meeting amendments to the recognition of the CSM in general models have been proposed within Paper AP2E. This paper looks at an example of a contract that includes insurance and investment services and points out significantly different CSM recognition patterns for such a contract under the general model or variable fee approach. The outcome is a proposal of changes to IFRS 17, so provision of investment services could be reflected in coverage units in contracts without direct participation as well as with direct participation features. Whether to include investment and insurance services into the calculation of coverage units or only insurance services should be left to an insurance (reinsurance) company’s own judgement.</i></p>	<p>We have added a note on the amendment from the January 2019 IASB meeting, whereby investment components could also be accounted in provision of services in contracts without direct participation features.</p>



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.14 What service should be reflected in coverage units?</p> <p>Proposed additional text in red:</p> <p><i>Members of the TRG generally did not agree with the view that investment service was only present for direct participation contracts, and argued that insurance contracts without direct participating features can have investment components but cannot provide investment services, only insurance services. Profits are derived from investment components, but they can only be recognized in proportion to providing insurance services. This thinking was developed further within AP2E of the January 2019 IASB meeting and an amendment to IFRS 17 was agreed in order to include investment services in determination of coverage units in contracts without direct participating features. Inclusion of investment and insurance services should be done as per the company's own judgement.</i></p>	<p>Suggested wording added on the inclusion of investment component to the amount of services provided for contracts without direct participation features as per January 2019 IASB meeting.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.15 Are there examples available of coverage units?</p> <p>Proposed additional text in red:</p> <p><i>The appendices of the IASB's May 2018 TRG paper AP05 contain a large number of examples and the paper contains the IASB staff's analysis of potential views of what coverage unit means in the context of specific facts and circumstances. IASB's January 2019 TRG paper AP2E contains examples of coverage units if contracts are considered under a general model of variable fee approaches, leading to a proposed amendment of inclusion of investment services into the coverage unit calculation for contracts without direct participation features. These might be helpful in aiding understanding but only in the context of the specific set of facts and circumstances outlined in the paper.</i></p>	<p>Suggested additional sentence on coverage unit examples from AP2E of the January 2019 IASB meeting.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.16 Which proxies (e.g. premium and passage of time) can be used as coverage units?</p> <p>We refer to the text:</p> <p><i>Straight line allocation over time but reflecting the expected number of contracts in the group.</i></p>	<p>We believe that the straight line allocation is unlikely to reference the expected number of contracts in the group, but instead the expected coverage duration for each contract.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.16 Which proxies (e.g. premium and passage of time) can be used as coverage units?</p> <p>An IASB staff paper to the September TRG meeting stated that premium could be used to determine coverage units if this was a reasonable proxy for the services provided under the contracts.</p>	



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.19 When does the contract period start and end?</p> <p>Proposed additional text in red:</p> <p><i>Further, subsequent events may change the amount of the claim ultimately payable but they represent development of the claim amount and not the provision of further cover, e.g., an accident may cause a disability which gives rise to the payment of an annuity for the remaining life of the person disabled. In this case, the cover could be defined as occurrence of an event which causes such disablement, although there are other potential ways in which the insurance event could be defined (Refer to Sep-08 TRG AP01).</i></p>	<p>Reference to different views provided in TRG discussion.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.25 What is required to use and the implications of using the financial risk mitigation option?</p> <p>We would suggest that the risk mitigation option can only be used prospectively from the date of initial application of IFRS 17 although the IASB has tentatively agreed to extend this to the date of transition.</p>	<p>The IASB has tentatively agreed to allow the risk mitigation option to apply for reinsurance of financial risk. This is all subject to the exposure draft in H2 2019.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.26 What is an onerous group of contracts and how are they treated in profit or loss?</p> <p>Proposed additional text with edits in red:</p> <p><i>The amount by which the contract is onerous is recognised immediately as a loss when it is known that it is loss making (paragraph 25).</i></p>	
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.28 What is a loss component?</p> <p>Proposed additional text with edits in red:</p> <p><i>The loss component represents the amount of losses arising from onerous contracts which is reversed over the remaining coverage period in the income statements. They are excluded from the determination of insurance revenue (paragraph 49); i.e., they are not reflected directly in the financial statements.</i></p>	<p>We would suggest that the loss component is directly reflected, as it is just released over time.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.29 How is the loss component tracked over time?</p> <p>We refer to the text:</p> <p><i>The systematic basis used needs to ensure the loss component is extinguished by the end of the coverage period of the group (paragraph 52). This can be done for example by using:</i></p> <ul style="list-style-type: none"> <i>the same release method that would have been applied to the group if there had been CSM (e.g., coverage); or</i> <i>the opening balance of the loss component as a percentage of the future cash flows and risk adjustment relating to future service (see Illustrative Example 8).</i> 	<p>It is unclear to us how these examples would be able to work in practice, meeting the requirements; the second example only works under very specific circumstances, and therefore needs to be caveated.</p>



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.29 How is the loss component tracked over time?</p> <p>We refer to the text:</p> <p><i>Note that while the loss component is not specifically recognised on the financial statements a reconciliation of opening to closing balance of the loss component needs to be disclosed (see paragraph 100(b)).</i></p>	<p>We would suggest that the loss component is recognised in financial statements.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.32 At initial recognition, does the existence of reinsurance held impact the determination of the CSM and onerous contract testing of the gross policy liabilities?</p> <p>Proposed amended text with edits in red:</p> <p><i>As an example, a contract which is onerous at inception on a gross basis would still be considered onerous and accounted for as such even where 100% of this risk is ceded to another party on an original terms coinsurance basis. However, in this example, the reinsurance held asset would offset the impairment on the gross liability (as per the amendments proposed in AP2B of the January 2019 IASB Board meeting) (i.e. asymmetric accounting, with the practical consequence of a day one loss from the gross liability impairment offset by income from the reinsurance ceded asset over the lifetime of the reinsurance contract).</i></p>	<p>This reflects changes as per AP2B of the January 2019 IASB meeting.</p>
<p>7 – Premium Allocation Approach</p>	<p>Question 7.13 How should the liability for incurred claims be measured for contracts valued using the PAA?–</p> <p>We refer to the text:</p> <p><i>For practical purposes of implementation, one way to do this is to lock-in a discount rate for each group of contracts based on the average accident date of a period (quarterly or annual). This could be justified if the average claim size is assumed to be uniformly distributed over the period.</i></p>	<p>There are many alternative ways to do this which have not been discussed or listed. Should the full list of options be included?</p>
<p>8 – Contracts with Participation Features</p>	<p>Sections 8A and 8B:</p> <p>The introduction should also cover indirect participating business (i.e. participating business under the general model) and the specific sections of IFRS 17 that address this area. For example, this would include the challenges that actuaries will face in splitting changes in the time value of options & guarantees (TVOG) in the general model between P&L, CSM and potentially OCI.</p>	



<p>8 – Contracts with Participation Features</p>	<p>Question 8.11 What discount rate is used for measurement?</p> <p>We refer to the text:</p> <p><i>Where minimum guarantees exist, the return is not solely dependent on the return on underlying items and the discount rate is adjusted to allow for the impact of the guarantee, even if the guarantee is lower than the expected return on the underlying items.</i></p> <p><i>The standard does not require entities to divide cash flows into those that vary based on the return on underlying items and those that do not. If a split is not carried out, the discount rate reflects the impact on the combined cashflows. The standard cites both stochastic modelling techniques and risk-neutral approaches as appropriate approaches for doing this. (B77).</i></p>	<p>Additional guidance on how to adjust the discount rate to allow for the impact of the guarantee would be useful in relation to the text highlighted.</p> <p>We would suggest linking this to the Discount Rate chapter.</p>
<p>8 – Contracts with Participation Features</p>	<p>Question 8.23. In what circumstances are cash flows in one group considered to be impacted by cash flows in another group?</p> <p>We refer to the text:</p> <p><i>As in other areas, IFRS 17 does not prescribe the approach to allow for the benefit / impact of this sharing. Different practical approaches are allowed. IFRS 17 does recognise that this practical approach may be at a higher level of aggregation than the individual groups of contracts. If this is the case, then a systematic and rational approach is used to allocate the effect of the change in underlying items to individual groups of contracts. Groups of contracts are still subject to the annual grouping requirement, just as contracts with no such sharing mechanism.</i></p>	<p>It would be useful to add in a reference to the possibility of mutualisation at the end of this paragraph. We also note that the September 2018 TRG paper on this topic could also be helpfully referenced.</p>
<p>9 – Reinsurance</p>	<p>Question 9.1 When is IFRS 17 used to account for reinsurance contracts?</p> <p>Proposed amended text with edits in red:</p> <p><i>A reinsurance contract is an insurance contract where one entity (the reinsurer) takes on all or part of the risks associated with insurance contracts issued by another entity. When an entity transfers risks associated with underlying insurance contracts to another entity it is known as reinsurance held (the IFRS 17 terminology for a reinsurance ceded contract) ceded. When an entity receives risks associated with insurance contracts issued by another entity it is known as reinsurance issued (the IFRS 17 terminology for a reinsurance assumed contract) assume. Where there is significant insurance risk transfer, the reinsurance contract is considered as an insurance contract under IFRS, and IFRS 17 is applicable (paragraph 3). This applies to both reinsurance held (the IFRS 17 terminology for a reinsurance ceded contract) and reinsurance issued (the IFRS 17 terminology for a reinsurance assumed contract).</i></p>	<p>Suggested addition to the wording on passing / receiving risks as this would only qualify for reinsurance where this is associated with underlying insurance contract risks.</p>



<p>9 – Reinsurance</p>	<p>Question 9.2 What constitutes significant insurance risk transfer for reinsurance?</p> <p>We refer to the text in red:</p> <p><i>To determine if IFRS 17 is applicable, for each reinsurance transaction that a company has in place, an assessment needs to be made as to whether there is significant insurance risk transfer under the contract. The criteria are covered in detail in paragraphs B7-B23. See Chapter 1 – classification of contracts.</i></p>	<p>We note that Chapter 1 is not specific for reinsurance.</p>
<p>9 – Reinsurance</p>	<p>Question 9.2 What constitutes significant insurance risk transfer for reinsurance?</p> <p>Proposed amended text with edits in red:</p> <ul style="list-style-type: none"> Lapse, persistency or expense risk would not normally meet the criteria for insurance risk outlined above as, under paragraph B14, <i>because the resulting variability in the payment to the policyholder is not contingent on an uncertain future event that adversely affects the policyholder.</i> However, where risk that does not adversely affect the policyholder is mitigated by an entity by using a second contract to transfer some of all of these risks to another party, that party is exposed to insurance risk. <i>However, if the entity mitigates its risk by using a second contract to transfer part of the non-insurance risk to another party, the second contract exposes the other party to insurance risk.</i> (paragraph B15). Therefore, a reinsurance contract that satisfies this criterion meets the definition of an insurance contract and hence it is included in the scope of a reinsurance contract under IFRS 17. It should be recognised and measured as reinsurance issued and reinsurance held for the respective party. 	<p>Included quote from B15 as well as this brings out the specific additional consideration made for reinsurance.</p>
<p>9 – Reinsurance</p>	<p>Question 9.3 How is reinsurance held presented in the IFRS statement of financial position and statement of financial performance?</p> <p>、</p> <p>We refer to the text in red:</p> <p><i>Where an entity has entered into reinsurance contracts to cede insurance risk associated with underlying insurance contracts (either direct insurance contracts or reinsurance contracts issued), the reinsurance held contracts are recognised and presented on the balance sheet as groupings of reinsurance contracts held that are assets and groupings of reinsurance contracts held that are liabilities. This means that for the statement of financial position, the reinsurance held is shown separately from the underlying insurance contracts (paragraph 78). Similarly, for the statement of financial performance, the income and expense from reinsurance held are shown separately from the expenses and income of the underlying insurance contracts (paragraph 82).</i></p>	<p>We note that the highlighted text needs to be updated for the tentative decision at the IASB Board (December 2018) to assess this at the portfolio level.</p>



Deadline: 26 April 2019

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<p>9 – Reinsurance</p>	<p>Question 9.10 How is counter party risk of non-performance by the issuer of reinsurance contracts reflected in reinsurance contracts held?</p> <p>Proposed amended text with edits in red:</p> <p><i>In determining the fulfillment cash flows, the present value estimates of future cash flows to be received for the reinsurance contracts held are reduced by an allowance for reinsurance counter party failure to fulfill the contractual obligations (paragraph 63 and further clarified in BC308). There are two possible approaches, the first to adjust the cashflows directly and the second to adjust the discount rates to reflect this additional risk. ...</i></p> <p><i>With respect to the risk adjustment, the requirement in paragraph 64 that the risk adjustment for non-financial risk represents the amount of risk being transferred by the entity to the reinsurer has been interpreted two ways with respect to non-performance risk. One interpretation is that counter party risk is not considered in the risk adjustment as this is not a risk formally transferred by the contract. An alternative interpretation that has been put forward is that counter party risk is appropriate to consider in the risk adjustment since this is a risk that, at an entity level, exists for the party with the reinsurance held as a result of entering the contract to transfer risk. However, the IASB Reinsurance Pocket Guide describes the allowance for non-performance risk being allowed for in the estimates of future cash flows rather than in the risk adjustment.</i></p> <p><i>Whichever approach is taken, it is important not to double count any impact for example by allowing for it in your discount rate and also directly in any risk adjustment. The possibility of double counting is discussed in paragraph B90.</i></p>	
<p>9 – Reinsurance</p>	<p><i>Question 9.11 Would grouping of business for reinsurance held be the same as contract grouping used for the same business in the gross insurance liabilities?</i></p> <p><i>Proposed amended text with edits in red:</i></p> <p><i>The grouping requirements for insurance contracts outlined in paragraphs 14 – 24 also apply for reinsurance, with the exception that for reinsurance contract held there is an additional paragraph, 61, to account for the fact that reinsurance contracts cannot be onerous. Paragraph 61 states that “An entity shall divide portfolios of reinsurance contracts held applying paragraphs 14 – 24, except that the reference to onerous contracts in those paragraphs shall be replaced with a reference to contracts on which there is a net gain on initial recognition. For some reinsurance contracts held, applying paragraphs 14 – 24 will result in a group that comprises a single contract”.</i></p> <p><i>The presumption in IFRS 17 is that the legal form of a contract would generally represent a single contract and that this would be the lowest level of aggregation. Because certain reinsurance contracts already aggregate risk and consolidate underlying contract exposures, it may in some circumstances make sense to make use of the permission to have one (reinsurance) contract in a group.</i></p> <p><i>There may be circumstances where the legal form of a reinsurance contract does not reflect the substance of its contractual rights and obligations. For example, in the case of large overarching retrocession treaties, where each retroceded treaty has virtually a separate retrocession contract under an umbrella of the large retrocession treaty. In this case such a treaty might be split (or unbundled) into components. February 2018 AP01 TRG paper provides additional discussion on unit of accounting. Splitting a treaty is not an accounting policy choice and will be based on relevant facts and circumstances necessary to override the unit of account presumption (such as possibility to sell, reprice or lapse one component without affecting another one). Relevant consideration in the assessment of unbundling will include whether:</i></p>	<p>In our view the suggested wording aligns with the TRG meeting notes of 6 Feb 2018.</p>



	<p><i>the risks covered by the treaty are independent;</i></p> <p><i>components of the treaty can lapse together or separately;</i></p> <p><i>components of the treaty can be priced separately.</i></p> <p><i>TRG clarified that the assessment of the above criteria will require judgement and that all the relevant facts and circumstances should be assessed together and no single factor should be considered determinative. The fact that a reinsurance contract held covers underlying contracts that are included in different groups is not in itself, sufficient to conclude that the reinsurance contract held does not reflect the substance of its contractual rights and contractual obligations i.e. can be split into several levels of aggregation</i></p>	
9 – Reinsurance	<p>Question 9.12 What are the considerations when a reinsurance held contract may cover multiple years of underlying insurance contracts or risk attachments?</p> <p>Proposed amended text with edits in red:</p> <p><i>The above wording in paragraph 34 is written from the perspective of a directly written insurance contract and must be applied to reinsurance held contracts. An interpretation that has been put forward for reinsurance contracts held is that cash flows are within the contract boundary for a reinsurance held contract if they arise from substantive rights and obligations that exist during the reporting period in which the ceding entity is compelled to pay amounts to the reinsurer or in which the entity has a substantive right to receive services from the reinsurer.</i></p> <p>Proposed amended text with edit in red:</p> <p><i>Contract A is a reinsurance contract held where existing risks are covered until they expire at guaranteed rates. The treaty is open to new risk attachments but the reinsurer and cedeant can terminate the treaty accepting new risks at any time.</i></p>	<p>We suggest that this is not an interpretation as the TRG clarified it.</p> <p>The examples in this response could be considered as an interpretation. We would therefore propose that they are removed and, alternatively, the examples given in May 2018 Appendix (which cover re-pricing) used.</p>
9 – Reinsurance	<p>Question 9.12 What are the considerations when a reinsurance held contract may cover multiple years of underlying insurance contracts or risk attachments?</p> <p>We refer to the text:</p> <p><i>The IFRS 17 application guidance states that, when determining the discount rates for initial recognition, “an entity may use weighted-average discount rates over the period that contracts in the group are issued, which applying paragraph 22 cannot exceed one year” [paragraph B73]. When a reinsurance contract covers multiple cession years and all cession years are considered as part of the same contract for purposes, the interpretation that discount rates may only take into account interest rates during the initial year that a contract is in-force may produce an economic mismatch when a reinsurance contract is open for multiple years and new cessions are added in subsequent years after the initial contract year.</i></p>	<p>We note that the IASB has clarified that this should refer to initial recognition rather than to when contracts are issued. Therefore the wording could be revisited.</p>



9 – Reinsurance	<p>Question 9.13. Are there special considerations for the initial recognition of proportionate Reinsurance Held?</p> <p>The second interpretation assumes that this additional consideration is broader and means that only cash flows associated with underlying contracts that have been recognised are modelled (i.e., future cash flows associated with underlying cessions that have not yet been recognised are not modelled).</p>	We note that the TRG discussed cash flows for new cessions potentially being included, therefore the wording may need to be clarified.
9 – Reinsurance	<p>Question 9.16 Are there potential economic mismatches between the measurement of a reinsurance contract held and the measurement of associated underlying insurance?</p> <p>We refer to the text:</p> <p><i>For reinsurance contracts held, the contract boundary definition means that the measurement of reinsurance contracts held will typically extend to include cash flows associated with future projected cessions up to the point at which the reinsurance contract can be exited for new business...</i></p> <p>Proposed deleted text in red:</p> <p>For underlying contracts, losses are recognised at inception when contracts are onerous at inception, whereas any offsetting net gain on related reinsurance contracts held will be reflected in the CSM and recognised over the lifetime of the reinsurance contract held. This can create a mismatch in terms of timing of profit and loss on contracts that may be economically linked (e.g., pricing of underlying contracts frequently reflects impact of associated reinsurance, particularly for proportionate coverages).</p> <p>Underlying contracts may use the Variable Fee approach, while associated reinsurance held contracts are not eligible to use the Variable Fee approach. This can create measurement mismatches due to significant differences in treatment of the impact of changes in financial risk variables.</p>	<p>We think this paragraph is unclear and could be re-worded clarifying that both include cashflows up to the contract boundary but reinsurance may include future new business, whereas for the underlying contract no future new business is included.</p> <p>We suggest that this paragraph be removed or updated for the tentative January 2019 IASB decision in respect of proportionate reinsurance.</p>
9 – Reinsurance	<p>Question 9.19. Can Reinsurance contracts qualify as insurance contracts with direct participation features?</p> <p>We refer to the text:</p> <p><i>Reinsurance contracts, including both reinsurance held and reinsurance issued cannot qualify as insurance contracts with direct participation features (paragraph B109). Therefore, they cannot use the CSM approach outlined for contracts with direct participation features.</i></p>	We suggest that this refers to the IASB amendment that allows for financial risk mitigation through reinsurance and therefore mitigates this issue.
9 – Reinsurance	<p>Question 9.21. How is reinsurance issued presented on the IFRS balance sheet?</p> <p>We refer to the text:</p> <p><i>Where an entity has entered into reinsurance contracts to assume risk and obligations, the value of these contracts is shown on the balance sheet as part of the insurance liabilities or assets, with contracts grouped into those that are assets, and those that are liabilities.</i></p>	In our view reinsurance is presented separately, as reinsurance groups in an asset position and those in a liability position. However, it is also necessary to note the IASB proposed amendment to disclose this information at portfolio level rather than group level.



<p>9 - Reinsurance</p>	<p>Question 9.23 What are the considerations when a reinsurance issued contract may cover multiple years of underlying insurance contracts or risk attachments?</p> <p>We suggest that it be recognised that the issue of the reinsurance contract boundary including future direct sessions is more difficult for reinsurance issued than reinsurance held; it will be more difficult for the reinsurer to estimate the cash flows of future direct contracts than for the ceding entity.</p>	
<p>9 – Reinsurance</p>	<p>Question 9.24 What additional explanations and disclosures may be included in the actuary’s report related to reinsurance?</p> <p>Key disclosures must be done separately for reinsurance.</p> <p>105 – changes in non-performance risk (b) the effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;</p> <p>128 – risk mitigation (i) for insurance risk—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; and</p> <p>131 – Credit quality (b) information about the credit quality of reinsurance contracts held that are assets.</p> <p>132 – Liquidity risk</p> <p>(b) separate maturity analyses for groups of insurance contracts issued that are liabilities and groups of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the groups for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59.</p>	<p>We suggest that this be more closely tied to the actual disclosure requirements and we suggest there should then be a cross-reference to a re-drafted Chapter 15 (see later).</p>



<p>10 – Fair Value</p>	<p>Question 10.5 When using a present value approach, what adjustments would be made to fulfilment cash flows to satisfy the objectives of fair value measurement?</p> <p>Proposed amended text with edits in red:</p> <ul style="list-style-type: none"> • ... • <i>Where different from the entity's view, the risk adjustment for non-financial risk is adjusted to reflect a degree of risk aversion (paragraph B838b of IFRS 17) consistent with the market view.</i> • <i>Where different from the entity's view, the degree of diversification benefit (paragraph B838a of IFRS 17) included in the risk adjustment for non-financial risk is adjusted to be consistent with the market view. As noted in Question 10.2, the unit of account for fair value measurement under IFRS 17 is group of insurance contracts.</i> • ... • <i>Where not included in the other points above, the return that a market participant would require for undertaking the activity (see paragraph IFRS 13.41 and B31), which couldmay be interpreted to include profit margins that a third party would require for providing services attached to the contract.</i> 	<p>Error in reference in the fifth and sixth bullet points in the column on the left; paragraph B88 needs to be referred in these two bullet points instead of paragraph B83.</p> <p>We suggest that the last bullet point would be improved if 'could' were substituted by 'may'.</p>
<p>11 – Business combinations and portfolio transfers</p>	<p>Chapter 11 Business Combinations and Portfolio Transfers</p> <p>We suggest deleting section 11.3, and moving section 11.2 back to 11.5.</p> <p><i>Order would now be:</i></p> <p>11.1. What are the general requirements of IFRS 3 for accounting for a business combination?</p> <p>11.2. What are the general requirements of IFRS 3 for determining if a transaction is a business combination?</p> <p>11.3. What if the transaction is not a business combination?</p> <p>11.4. How can the guidance in IFRS 3 for determining if a transaction is a business combination be applied to a transaction that involves contracts in the scope of IFRS 17?</p> <p>11.5. What are the requirements of IFRS 17 for insurance contracts acquired in a business combination or in a transfer of contracts that do not form a business?</p> <p>11.6. What are the transition rules applying to business combinations or portfolio transfers that occur(ed) before the effective date of IFRS 17?</p>	<p>The suggested reordering, we feel, provides a logical order (IFRS 3 requirements first, followed by specific IFRS 17 requirements).</p> <p>With this reordering 11.3 is redundant.</p> <p>If 11.3 is not deleted, the following underlined words referring to the distinction between a business combination and portfolio transfer could be removed</p> <p><u>Although not stated as such, the distinction likely makes no difference to the measurement of the assets or liabilities</u></p> <p>Under a business combination insurance assets and liabilities are measured at fair value on acquisition.</p> <p>In a portfolio transfer, the fair value of insurance assets or liabilities is used to determine the amount of the overall consideration allocated to them.</p> <p>Therefore there is likely to be a difference in measurement of acquired insurance assets and liabilities depending on whether the transaction is identified as a business combination or portfolio transfer.</p>



<p>11 – Business combinations and portfolio transfers</p>	<p>Section 11.A What does this chapter address?</p> <p>Proposed amended text with edits in red:</p> <p><i>This Chapter considers the requirements under IFRS 17 when accounting for insurance contracts or liabilities for incurred claims acquired in a business combination within the scope of IFRS 3 or a portfolio transfer, and in particular the need to use the fair value of the contracts as to determine the initial consideration. This Chapter considers the interaction between IFRS 17 and the more general guidance found in IFRS 3 Business Combinations and discusses aspects of business combinations, such as the determination of goodwill and the recognition of intangible assets.</i></p> <p><i>Note that business combinations under common control are outside of the scope of IFRS 3, and excluded from the scope of the requirements for business combinations in IFRS 17. Business combinations under common control are currently outside the scope of IFRS Standards and accounted for in different ways. The IASB has a current project on business combinations under common control.</i></p>	<p>Business combinations under common control are excluded from the scope of IFRS 3, IFRS 17 (and currently IFRS standards in general).</p> <p>Note June 2018 IASB Board Paper 2A, which covered this. This was also referred to again in March 2019 IASB Board Paper 2 paragraph A12.</p> <p>For a portfolio transfer the consideration received for insurance liabilities is determined using the fair value (as the fair value of all identifiable assets and liabilities received in the transfer is used to allocate the total consideration).</p> <p>The consideration for the insurance liabilities is not necessarily equal to the fair value of the insurance liabilities in a portfolio transfer.</p>
<p>11 – Business combinations and portfolio transfers</p>	<p>Question 11.2 (as is) What are the requirements of IFRS 17 for insurance contracts acquired in a business combination or in a transfer of contracts that do not form a business?</p> <p>Proposed amended text with edits in red:</p> <p><i>For example, contracts that had been determined to be insurance contracts at the time they originated, but, at the an acquisition date after the initial application of IFRS 17, no longer transfer significant insurance risk, would not be in the scope of IFRS 17 for the purposes of the acquirer.</i></p>	<p>There was ambiguity on whether changes to the classification of acquired insurance contracts under IFRS 17 applied retrospectively on transition.</p> <p>June 2018 IASB Board Paper 2A clarifies changes to the classification requirements under IFRS 17 applies prospectively for acquisitions occurring after the initial application date of IFRS 17. We note this is an area where interpretation is being confirmed.</p>
<p>11 – Business combinations and portfolio transfers</p>	<p>Question 11.7 (as is) What are the transition rules applying to business combinations or portfolio transfers that occur(ed) before the effective date of IFRS 17?</p> <p>Proposed amended text with edits in red:</p> <p><i>“The general guidance in IFRS 17 for transition applies to contracts in the scope of IFRS 17 acquired in a business combination or other transfer. As discussed above, the recognition date of the acquired contracts is the date of the business combination or of the transfer. Hence the transition does not require the entity to go back to the origination of the contracts, but rather to the date the entity acquired them. For acquisitions occurring before the initial application date of IFRS 17 the classification of contracts as insurance or otherwise is per the existing provisions of IFRS 3.17 (so contracts classified as insurance at origination would remain classified as insurance on acquisition). There is no need to restate any existing goodwill balances.</i></p>	<p>There was some ambiguity over whether changes to the classification of acquired insurance contracts under IFRS 17 applied retrospectively on transition.</p> <p>June 2018 IASB Board Paper 2A clarifies that changes to the classification requirements under IFRS 17 apply prospectively for acquisitions occurring after the initial application date of IFRS 17. We note this is an area where interpretation is being confirmed.</p>



12 - Transition	<p>Question 12.3. What IFRS 17 comparative information is required?</p> <p>Proposed amended text with edits in red:</p> <p><i>On 31 March 2022 the entity will report the following on the new IFRS 17 basis:</i></p> <p><i>the 31 December 2020 statement of financial position</i></p> <p><i>the statement(s) of financial performance for the 3-month period ending 31 March 2021</i></p> <p><i>the 31 March 2021 statement of financial position will not be presented, but will be necessary to the extent needed to prepare the 31 March 2021 statement(s) of financial performance</i></p> <p><i>the 31 December 2021 statement of financial position</i></p> <p><i>the statement(s) of financial performance for the 3-month period ending 31 March 2022</i></p> <p><i>the 31 March 2022 statement of financial position</i></p> <p><i>Further, on 31 March 2022, the entity will disclose the impact of the change in accounting standards. This disclosure will be as of 31 December 2020.</i></p>	
12 - Transition	<p>Question 12.4. Can more than one year of IFRS 17 comparative information be presented?</p> <p>Proposed amended text with edits in red:</p> <p><i>the transition date would be December 31, 2019 (January 1, 2020).....</i></p>	
12 – Transition	<p>Question 12.6. If the implementation of IFRS 9 is deferred until 1 January 2021, what is the interaction with the IFRS 17 comparative financial statements?</p> <p>We refer to the text:</p> <p><i>Assuming the above timeline with one year of comparatives, the re-designation of assets under IFRS 9 would be as of 31 December 2020 for the purposes of IFRS17 comparatives only.</i></p>	We suggest the date for IFRS 9 should be updated from 31 December 2020 to 31 December 2021 in the last line of the paragraph given the change in IFRS 17 implementation date?
12 – Transition	<p>Question 12.23 What is different for groups of reinsurance contracts?</p> <p>We suggest this paragraph should be updated to reflect the latest reinsurance QS as per the January 2019 IASB Board.</p>	



<p>13 – Embedded Derivatives</p>	<p>Question 13.2 What are the IFRS 17 requirements on the accounting for derivatives embedded in the contract and embedded derivatives?</p> <p>Proposed amended text with edits in red:</p> <p>3rd paragraph:</p> <p><i>Paragraph 4.3.3 of IFRS 9 sets out the conditions for separating an embedded derivative where the host contract is not within the scope of IFRS 9 (as in the case of host insurance contracts within the scope of IFRS 17):</i></p> <ul style="list-style-type: none"> <i>Paragraph 4.3.3 (b) requires that the separated component should meet the definition of a derivative on a standalone basis. This requirement might be seen as not met if the embedded derivative would be considered stand alone under IFRS 17. This would be the case where the separate derivative still includes significant insurance risk transfer (see paragraph B10 of IFRS 17) and where the embedded derivative is a financial guarantee contract that is considered to fall within the scope of IFRS 17 (see paragraph 2.1 (e) of IFRS 9).</i> <i>Paragraph 4.3.3 (c) requires that the entire contract (i.e. host and embedded derivative) is not measured at fair value through profit and loss. This requirement might be seen to be met generally by contracts in the scope of IFRS 17 since the condition might be seen to refer explicitly to the measurement of the entire contract on a IFRS 17 basis which differs from a fair value approach.</i> 	<p>Proposed additional wording to assist the reader in understanding the references to IFRS 9 para 4.3.3.</p>
<p>14 - Contract Modifications and Derecognition</p>	<p>Question 14.5 - What about the exercise of a contractual option to add features that is outside the contract boundary?</p> <p>As this question strays into a matter open to interpretation, we would recommend deleting it.</p>	<p>We would question the interpretation of paper 3 to the May 2018 TRG.</p> <p>Our interpretation was that IASB Staff had (usefully) interpreted the standard such that the option was within the boundary of the original contract [if the entire contract could not be repriced or re-underwritten]; Or the entire contract lay beyond the original contract boundary post the exercise of the option, [where the entire contract could be repriced or re-underwritten]</p>
<p>14 - Contract Modifications and Derecognition</p>	<p>Question 14.20 - What if a modified contract was part of an Onerous Group?</p> <p>It is somewhat unclear to us why this question is here as it does not relate to reinsurance or PAA and onerous contracts for GMM seem to be covered in 14.9. We would therefore recommend deleting the question.</p>	



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Overall observations on Chapter 15</p> <p>We would note that chapter 15 is the longest in IAN 100. However, we feel that it is missing content, mostly in relation to disclosures (which is likely to be a key areas that actuaries will work in). It may include some inappropriate interpretation (for example, an EY interpretation of the IFRS balance sheet and income statement). We therefore recommend that the Chapter is split and that consideration is given to having disclosures in a separate chapter.</p> <p>Considering each of the three sections in Chapter 15 in turn:</p> <p>Measurement</p> <p>This section is the most complete section although we feel that it contain errors. For example, Question 15.10 discusses premiums in terms of revenue, which is not in line with IFRS 17 and 15.13 is an example where the question tries to cover presentation and disclosures as well.</p> <p>Presentation</p> <p>The information on presentation is split into an overview before measurement and then a section on presentation. We propose that they be combined and the section focus on presentation only. It attempts to cover disclosures at a high level on multiple occasions and there is duplication from other chapters.</p> <p>Disclosures</p> <p>We note that providing the numbers and analysis for the disclosures will be one of the key roles actuaries will provide in relation to IFRS 17. We recommend that this section (or new chapter) have three clear sections in line with the standard (paragraph 93), working through the detail of each in turn:</p> <ul style="list-style-type: none"> • explanation of recognised amounts; • significant judgements in applying IFRS17; • nature and extent of risks that arise from contracts within the scope of IFRS 17. <p>We note that the existing content is a useful and important introduction.</p> <p>Across IAN 100, the approach appears to be that each of the other chapters provides the disclosure requirements. However, this misses the overall intention and approach to disclosures and the content in each chapter does not cover all the requirements. As an example, in the chapter on reinsurance, disclosure in terms of an actuary's report is in one Q&A. The references are not specific and an actuary's report is not a requirement. Furthermore, a more complete description for reinsurance would be:</p> <p><i>Qn: X.Y What are the disclosure requirements for reinsurance contracts held?</i></p> <ul style="list-style-type: none"> • <i>Key disclosures must be done separately for reinsurance. Specific disclosures required for reinsurance are:</i> <p><i>Changes in non-performance risk (paragraph 105)</i></p> <ul style="list-style-type: none"> • <i>(b) the effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;</i> <p><i>Risk mitigation (paragraph 128)</i></p> <ul style="list-style-type: none"> • <i>(i) for insurance risk—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; and</i> <p><i>Credit quality (paragraph 131)</i></p> <ul style="list-style-type: none"> • <i>(b) information about the credit quality of reinsurance contracts held that are assets.</i> <p><i>Liquidity risk (paragraph 132)</i></p> <ul style="list-style-type: none"> • <i>(b) separate maturity analyses for groups of insurance contracts issued that are liabilities and groups of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the groups for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59.</i>
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<p>15 - Measurement, Presentation and Disclosure</p>	<p>Section 15.B</p> <p>Proposed amended text with edits in red:</p> <p><i>Paragraphs 78 to 132 and B120 to B137 and C25 to C28 set out the requirements on this topic.</i></p> <p><i>Paragraphs BC27 to BC49 also provide background on presentation of revenue and insurance finance income or expenses, BC328 to BC366 on presentation in the statement of financial position and statement(s) of financial performance, BC387 – BC389 on comparatives and BC399 to BC401 on transition disclosures.</i></p>	<p>Section 15.A specifically mentions transition therefore we need to refer to C25 to 28 and comparative information. This is mentioned in 15.40</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Overview of IFRS Presentation</p>	<p>We suggest moving this as it is confusing to have it here and that this section be in the covered under presentation.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.1 What is meant by “presentation” in IFRS 17?</p> <p>Proposed deleted text in red:</p> <p><i>Below is an illustrative example statement of financial position and statement of comprehensive income under IFRS 17 taken from selected illustrative disclosures published by EY. This illustrative example reflects certain options an entity might use but others may well choose other options.</i></p>	<p>Suggestion to delete a paragraph and following screenshots and replace with IE examples.</p> <p>We feel that this is a question of interpretation and it may not be appropriate to mention and single out one consultancy. As this is an accounting standard, it may be more appropriate that references are made to published documents only.</p> <p>We therefore suggest that a screenshot of IE23 could be all that is included for the statement of financial position.</p> <p>In 15.14 IE185 is referenced, it is a screen shot of IE185 which could be included here.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.5 What does it mean to exclude the investment component from the presentation of the insurance revenue and insurance services expenses?</p> <p>Proposed amended text with edits in red:</p> <p><i>The IASB has separate financial reporting standards for financial instruments (IFRS 9) and contracts with customers (IFRS 15). Insurance contracts typically combine elements of the characteristics of both financial components and service components. In paragraph IN4 the IASB explains, in its rationale for implementing IFRS 17, long-term and complex insurance risks are difficult to reflect in the measurement of insurance contracts, are not typically traded in markets and may include a significant investment component which, poses further measurement challenges. Paragraph IN6 explains that specified embedded derivatives, distinct investment components and distinct performance obligations should be separated from the insurance contracts Paragraph IN7 explains that IFRS 17 results in the liability for a group of insurance contracts relating to remaining future service under those contracts being measured broadly consistent with IFRS 15 except that the liability often includes an investment component typically not in contracts within the scope of IFRS 15. In IFRS 17 reporting entities are required to distinguish between the financial and non-financial performance from insurance contracts.</i></p>	<p>IN6 is most relevant to the question asked.</p>



15 - Measurement, Presentation and Disclosure	<p>Question 15.5 What does it mean to exclude the investment component from the presentation of the insurance revenue and insurance services expenses?</p> <p>The IASB January 2019 papers on CSM amortisation under the general model provide additional guidance on the definition of an investment component. In addition, there is a significant paper on investment components at the April 2019 TRG.</p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.6 How is the investment component of an insurance contract in scope of IFRS 17 measured?</p> <p>Based on recent IASB tentative decisions, the investment component also impacts on CSM amortisation for contracts with investment return services.</p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.13 How is the impact of unexpected policy terminations determined and reflected in the insurance expense?</p> <p>We refer to the text:</p> <p>Disclosure of changes in termination rates</p> <p><i>There is no explicit requirement to present or disclose the impact of changes in the number of policy terminations separately and these changes in assumptions may be combined with other assumptions changes. However, where policy terminations are a key assumption to the overall valuation, a reporting entity may consider that it would be appropriate to refer to changes in experience in the narrative disclosures describing the risk characteristics of the business (paragraphs 121-126) and consider whether it is appropriate to include the termination assumptions in the sensitivity analysis disclosures (paragraph 128-129). It may also be necessary to consider the significance of changes in termination rates when developing and explaining the reconciliations required in paragraphs 104-107.</i></p>	<p>We suggest this is moved to the section on disclosures. However, we also believe that it may be incorrect. Paragraph 130 is asking for exactly this:</p> <p><i>130. An entity shall disclose actual claims compared with previous estimates of the undiscounted amount of the claims (i.e. claims development). The disclosure about claims development shall start with the period when the earliest material claim(s) arose and for which there is still uncertainty about the amount and timing of the claims payments at the end of the reporting period; but the disclosure is not required to start more than 10 years before the end of the reporting period. The entity is not required to disclose information about the development of claims for which uncertainty about the amount and timing of the claims payments is typically resolved within one year. An entity shall reconcile the disclosure about claims development with the aggregate carrying amount of the groups of insurance contracts, which the entity discloses applying paragraph 100(c).</i></p>
15 - Measurement, Presentation and Disclosure	<p>Question 15.16 What is the level of disaggregation for insurance contracts presentation?</p> <p>We suggest this is moved to the section on disclosures.</p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.16 What is the level of disaggregation for insurance contracts presentation?</p> <p>We refer to the text:</p> <p><i>Paragraph 78 requires that reinsurance contracts held are presented separately from insurance contracts issued and further that these two groups should be further subdivided between groups of contracts that are onerous and those that are not. As the valuation of insurance contracts takes into account all future cash flows including future premiums it is possible that insurance contracts may be valued as assets rather than liabilities when the future premium income expected exceeds the future benefit payments, claims payments and expenses — for example, during the early stages of the coverage for contracts with regular or instalment premiums.</i></p>	<p>It would be helpful for this to be updated for the tentative decision in paper 2A December 2018.</p>



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.18 What amounts are presented in the statement for financial position for insurance contracts?</p> <p>We refer to the text:</p> <p><i>As explained in the answer to question Error! Reference source not found. above, IFRS 17 requires that groups of insurance contracts that are assets be presented separately from groups of insurance contracts that are liabilities. This is a change from IFRS 4 where, in some jurisdictions, insurance contracts are currently presented as one item. This may be operationally difficult as entities may not be set up to segregate the measurement of insurance contracts in this way when applying IFRS 17 for the first time.</i></p>	<p>It would be helpful for this to be updated for the tentative decision in paper 2A December 2018.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.19 What amounts are presented in the statement for financial position for reinsurance contracts held?</p> <p>We refer to the text:</p> <p><i>As explained in the answer to question Error! Reference source not found. above, reinsurance contracts held are to be presented separately from insurance contracts issued and reinsurance contracts that are liabilities are to be presented separately from those that are liabilities.</i></p>	<p>It would be helpful for this to be updated for the tentative decision in paper 2A December 2018.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.25 When and where is the additional value for onerous contracts presented in the statement for financial position?</p> <p>We refer to the text:</p> <p><i>For all insurance contracts meeting the IFRS 17 recognition requirements at the reporting date, the additional value of onerous contracts is included in the value of insurance contracts. Paragraph 103(b)(iv) requires the disclosure of a reconciliation for the changes in losses for onerous groups of contracts and the reversal of such losses over the accounting period.</i></p>	<p>We suggest moving to the section on disclosures, with a cross reference.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.26 How is the value for onerous contracts at initial recognition and changes in that value at subsequent measurement included in the statements for financial performance?</p> <p>We refer to the text:</p> <p><i>The illustrative examples include several examples considering the measurement of onerous contracts. Example 1 (IE4-IE17), specifically example 1B, shows initial measurement of an onerous contract. Example 2B (IE24-IE28) considers an example where changes in fulfilment cash flows create an onerous group of insurance contracts and shows a possible format for reconciliation of the changes in value of the insurance contract (IE26-IE27) and shows the presentation in the statement of financial position and financial performance (IE28). Example 8 (IE81-IE98) shows possible formats for the reconciliation of the reversal of losses in an onerous group of insurance contracts.</i></p>	<p>We are unsure whether the response answers the question asked.</p>



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.27 How does presentation of financial position and financial performance differ for contracts measured using the PAA?</p> <p>Proposed amended text with edits in red:</p> <p><i>There are no changes to the presentation requirements for entities using the PAA. However, the amounts presented are based on the measurement amounts under the PAA (see Chapter 7) and there are changes to the disclosure requirements explaining the presentation. See section/chapter on disclosures.</i></p>	<p>Suggestion to include a cross-reference to the chapter on disclosures.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.27 How does presentation of financial position and financial performance differ for contracts measured using the PAA?</p> <p>Proposed amended text with edits in red:</p> <p><i>Under the PAA the contribution towards the value of insurance contracts from the liability for remaining coverage (paragraph 55 - 57) is the sum of the value of premiums allocated to the unexpired portion of insurance contracts recognised at the reporting date less insurance acquisition cash flows; unless these are recognised as an expense (paragraph 59(a)); plus amounts relating to the amortisation of acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a); plus any additional liability for onerous contracts (paragraph 58).</i></p>	<p>Missing aspects of IFRS 17.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.27 How does presentation of financial position and financial performance differ for contracts measured using the PAA?</p> <p>We refer to the text:</p> <p><i>Entities using the PAA are required to make additional disclosures as set out in paragraph 97.</i></p> <p><i>Some of the requirements to disclose reconciliations (paragraphs 97-109) are amended or not applied when using the PAA.</i></p>	<p>We suggest this is moved to the section/chapter on disclosures.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Heading: Presentation for different types of entity</p> <p>We suggest a Q&A on business combinations with a cross reference to Chapter 11 is required.</p>	
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.29 How does the presentation differ for mutual entities?</p> <p>We note that this is covered in Chapter 8 on participation. We would therefore suggest using a cross reference.</p>	



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.31 How does IFRS 17 presentation results differ for consolidated financial statements?</p> <p>Proposed amended text with edits in red:</p> <p><i>Where the consolidating group includes more than one insurer or reinsurer the valuation of groups of insurance contracts issued and reinsurance contracts held may be different in the results of the solo company compared to in the Group results. One example of this is in relation to the calculation of the risk adjustment and the CSM. Different CSMs may arise at different levels of consolidation, for example, where a subsidiary is acquired. Paragraph B88 permits the allowance of diversification in the calculation of the risk adjustment at the reporting entity level. This is discussed further in Chapter 4 on risk adjustment.</i></p>	<p>The reference to Risk Adjustment should be removed. This appears inconsistent with the TRG paper from May 2018 – ap02 on a single Risk Adjustment throughout the group and followed up in Dec 2018 Board paper 2b.</p> <p>We have suggested adding an example relating to CSM.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Heading: Interim reporting, disclosures and transition to IFRS 17</p> <p>We suggest deleting disclosures and including in disclosure section.</p>	
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.33 Why can an entity change its IFRS 9 classification of financial instruments the first time it implements IFRS 17?</p> <p>Proposed amended text with edits in red:</p> <ul style="list-style-type: none"> - <i>Include certain disclosures pertaining to any redesignation of financial assets (paragraphs C32-C33). See disclosure chapter/section.</i> 	<p>We note that a cross-reference may be needed to the chapter on disclosures.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.34 When and where are acquisition costs included in the statements of financial position and financial performance?</p> <p>We refer to the text:</p> <p><i>There are a number of specific disclosure requirements for insurance acquisition costs. In relation to the reconciliations required in paragraph 100, these are covered in paragraph 103-107. If an entity uses the PAA, it also discloses the method it has chosen to recognise insurance acquisition cash flows applying paragraph 59(a).</i></p>	<p>We suggest moving this to the section on disclosure.</p>



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.35 When and where are claims handling expenses included in the statements of financial position and financial performance?</p> <p>Proposed amended text with edits in red:</p> <p><i>Indirect expenses and overheads need to be attributable to a portfolio. They do not need to be attributable to any given group of insurance contracts. They are included in the valuation of insurance contracts in the statement of financial position if attributable, expensed as incurred if not attributable (paragraphs B65(f), B66(d)).</i> <i>(i.e., expenses that are not directly attributable to a portfolio of insurance contracts) and overheads are included in the valuation of insurance contracts in the statement of financial position if they are related to the fulfilment of insurance contracts that are recognised in the financial statements and if the expense cash flows are within the contract boundary. See Chapter 4 for insurance contract recognition and contract boundary.</i></p>	
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Section C – Disclosures</p> <p>As noted in our overall comments on the chapter 15, we recommend that a full section or even separate chapter is included on disclosures.</p> <p>This section needs to go through disclosures part by part as set out in para 93:</p> <ul style="list-style-type: none"> • explanation of recognised amounts; • significant judgements in applying IFRS17; and • nature and extent of risks that arise from contracts within the scope of IFRS 17 <p>We note that the questions here are a useful and important introduction. It would also be helpful to reflect the outcome of the March 2019 Board as papers have been submitted which discuss disclosures.</p>	



Appendix – Other less significant comments

Comments on specific paragraphs of the IAN 100 Exposure Draft		
Full Chapter/paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
Introduction	<p>How do insurers present profit or loss statements when applying IFRS17?</p> <p>Our view is that it is unclear what ‘expanded by a section’ refers to; is it non-insurance accounts, or current IFRS 4/GAAP?</p>	
Introduction	<p>Chapter 4 on Risk Adjustment for Non-Financial Risks</p> <p>We propose removing or modifying ‘required as part of the General Measurement Approach’ as it reads as if the risk adjustment is not required for the alternatives such as the Premium Allocation Approach.</p>	
Introduction	<p>What is IFRS 17?</p> <p>(2nd paragraph)</p> <p>We would add the sentence:</p> <p><i>IFRS 17 also applies to the rights and obligations associated with reinsurance contracts held by the entity.</i></p>	We note that the introduction does not currently include reference to reinsurance held being in scope.
Introduction	<p>What is IFRS 17?</p> <p>(4th paragraph)</p> <p>Proposed amended text with edits in red:</p> <p><i>Recognition follows typical accounting practice but permits the recognition of future premiums in some cases, where the cash flows associated with these premiums represent a substantive obligation of the entity.</i></p>	We suggest including the reason why future cash flows are included, i.e. because they represent obligations that the entity will need to fulfil.



Introduction	<p>How liability is determined?</p> <p>(2nd paragraph)</p> <p>Proposed amended text with edits in red:</p> <p><i>At outset a Contractual Service Margin (CSM) is established to offset any gain, if any, at initial measurement - that is the value of premiums in excess of the value of obligations, including policy acquisition expenses.</i></p>	<p>We feel that it is not only the value of obligations to policyholders, but also obligations in respect of acquisition expenses.</p>
Introduction	<p>How liability is determined?</p> <p>(2nd paragraph)</p> <p>We refer to the text in red:</p> <p><i>While there is no unit of account defined for the Fulfilment Cash Flows, the unit of account for the CSM are partitions of annual cohorts, based on at least three different profitability categories, which are part of annual new business and form the unit of account of the CSM.</i></p>	<p>It is not clear to us why this is mentioned as there is an implicit unit of account for fulfilment cash flows too based on the requirements for the CSM.</p> <p>We would suggest it may be better to refer to contracts being divided into portfolios of similar risks managed together, which are then further divided into groups?</p>
Introduction	<p>How do insurers present profit or loss statements when applying IFRS17?</p> <p>We refer to the text in red:</p> <p><i>This contains as insurance revenue any release of expected cash flows, except those from investment components, risk adjustments for non-financial risk and CSM from the liability for remaining coverage in respect of the proportion of services provided during the reporting period.</i></p>	<p>Expected rather than actual cash flows are released in insurance revenue.</p> <p>In our view the reference to the CSM being released in respect of premiums received is not entirely clear, therefore we have suggested alternative wording.</p>
Introduction	<p>Which specific disclosure requirements are included in IFRS 17?</p> <p>We refer to the text:</p> <p><i>There is not a separate chapter on Disclosure in this IAN. Rather, disclosure is discussed in various chapters as relevant.</i></p>	<p>There is a chapter that includes presentation and disclosure; we suggest this should be referenced instead?</p>



1 - Classification	<p>Classification 1.B</p> <p>Proposed amended text with edits in red:</p> <p>Paragraphs 2-28 (as recognition is 25-28 inclusive)</p> <p>Paragraphs 72-77 (as derecognition is 74-77 inclusive)</p> <p>Paragraphs B2-B30 inclusive (definition of an insurance contract)</p> <p>And B31-B35 (separating components, B31-B32 covering investment components, B32-B35 covering service components)</p>	
1 - Classification	<p>Scope of IFRS 17 Question 1.1</p> <p>Proposed amended text with edits in red:</p> <p><i>Although the definition of an insurance contract is the same as under IFRS4 (found in appendix A of IFRS 17), there are differences to the way in which contracts are classified as insurance contracts under IFRS 17.</i></p>	In our view there may be a need to caveat this statement as the overall definition is not the same.
1 - Classification	<p>Scope of IFRS 17 Question 1.2</p> <p>Proposed amended text with edits in red:</p> <p><i>The compensation paid by the insurer in the event of a claim can be a payment in kind by providing goods or services (see question 1.4).</i></p>	Wording clarification as compensation could be interpreted in different ways
1 - Classification	<p>Scope of IFRS 17 Question 1.3</p> <p>Proposed amended text with edits in red:</p> <p><i>IFRS 17 requires that the compensation paid by the insurer in the event of a claim and its commercial substance be considered on a present value basis, unlike IFRS 4, which did not require the use of present values in making this assessment.</i></p>	Wording clarification as compensation could be interpreted in different ways.
1 - Classification	<p>Scope of IFRS 17 Question 1.5</p> <p>Proposed amended text with edits in red:</p> <p><i>In addition, under paragraph 7(e), although financial guarantee contracts remain excluded from the scope of IFRS 17, it allows an entity that has previously regarded such contracts as insurance contracts and applied insurance accounting on them, the option to use IFRS 17 for such contracts.</i></p>	We also suggest removing the 'now' which is confusing. The scope exclusion for financial guarantee contracts (with option to scope in where insurance accounting has previously been applied to financial guarantee contracts) is essentially unchanged from that in IFRS 4, para 4.d.



1 - Classification	<p>Scope of IFRS 17 Question 1.7</p> <p>Proposed amended text with edits in red:</p> <p><i>Embedded derivatives are to be separated following the rules of IFRS 9. Derivatives that can be contractually transferred independently, or have another counterparty, are not embedded, but separate contracts.</i></p>	We suggest reference to the embedded derivatives chapter which covers this assessment.
1 - Classification	<p>Scope of IFRS 17 Question 1.7</p> <p>Proposed amended text with edits in red:</p> <p><i>To separate service components, fulfilment cash in-flows and outflows need to be attributed to either the insurance or service component, with a systematic and rational allocation for those cash flows that are not uniquely related to either of these two (see paragraph.12).</i></p>	This is consistent with wording in paragraph 12.
1 - Classification	<p>Contract boundary Question 1.17</p> <p>We refer to the text:</p> <p><i>As the units are repriced daily to market, they do not create a substantive obligation.</i></p>	We do not understand how this is relevant.
1 - Classification	<p>Contract boundary Question 1.17</p> <p>Proposed amended text with edits in red:</p> <p><i>A typical situation is an insurance contract with a unit linked account and an insurance rider with the annual stepped rider premiums deducted from the unit linked account. As the units are repriced daily to market, they do not create a substantive obligation. If the rider premiums can be repriced at the portfolio level at annual renewal, then substantive obligation for insurance ends at annual renewal and boundary for the contract, as a whole, is the annual renewal date (see AP02 February 2018 TRG). In general, the cash flows arising from these future premiums are then considered as being outside the contract boundary. However, in the circumstance where the base contract includes an insurance benefit with a long contract boundary, then this contract boundary applies to the total contract regardless of the ability to reprice the rider.</i></p>	Suggestion to add an additional sentence for clarification of rider treatment.
1 - Classification	<p>Future insurance contracts introduction</p> <p>We refer to the text:</p> <p><i>In some instances, a rider cost may be funded from an investment component built by paid premiums. The risk premiums extracted from each “premium layer” contract will need to be reconsidered every time a new premium is paid.</i></p>	We feel that this appears confusing and some clarification could be helpful.



1 - Classification	Aggregated levels Question 1.21 Proposed amended text with edits in red: <i>'Similar' does not mean 'identical'. Some variation in risk is reasonable, as long as the contract risks are sufficiently similar.</i>	
1 - Classification	Aggregated levels Question 1.21 Suggestion of product lines as portfolios leads to very complex operational processes and additional disclosure requirements; therefore we are unsure that this should be provided as a default example.	
Section A – Introduction to the General Measurement Approach	Introduction (1 st paragraph of p24) Include references to relevant paragraphs in Appendix B (B36 to B119).	
Section A – Introduction to the General Measurement Approach	Introduction, part (d) Amend 'risk margin' to 'risk adjustment'.	
Section A – Introduction to the General Measurement Approach	Introduction, part (b) We refer to the text: <i>Hence, there is potential for the adjustment for the time value of money to exclude financial risk adjustment</i>	In our view the meaning of the following sentence is somewhat unclear. Does it mean that, where financial and non-financial risk are closely interrelated and where some element of the financial risk is therefore included in the risk adjustment, that this element does not need to be allowed for in the discount rate?
2 – Estimates of future cash flows	Question 2.1 (bullet iii) We suggest the text in brackets be deleted: <i>“(i.e., they do not include the risk adjustment for non-financial risk)”</i>	In our view this is not the meaning of unbiased used in the standard. We suggest that the requirement is to ‘include all information in an unbiased way’, which is not the same as saying that the estimate of future cash flows does not include the risk adjustment.
2 – Estimates of future cash flows	Question 2.2 Bullet point list: we suggest deleting entire list.	We would question if this necessarily adds anything beyond what is clearly set out in paragraph B65; the first paragraph of this response gave the summarised version.



2 – Estimates of future cash flows	Question 2.3 (1 st paragraph) The cross-reference to Chapter 5 should refer to it as ‘Level of Aggregation’, not ‘Unit of Account’.	
2 – Estimates of future cash flows	Question 2.3 (final paragraph) We suggest deleting the quote from BC117.	First paragraph of response says the same thing in very similar words – so we would suggest there may be some unnecessary repetition.
2 – Estimates of future cash flows	Question 2.4 Amend a word in paragraph 1: ‘A current estimate at the reporting date...’	Paragraph 2 is not strictly required, as it is covered in the introduction to section A.
2 – Estimates of future cash flows	Question 2.6 Proposed amended text with edits in red: <i>Any statistical or non-statistical approach applied in determining figures for financial statements prepared under IFRS needs to comply with general accounting requirements as outlined elsewhere in this chapter.</i>	It is unclear to us what ‘an IFRS report’ means.
2 – Estimates of future cash flows	Question 2.7 point c) Proposed amended text with edits in red: <i>Should not have an intention of influencing a particular behaviour.</i>	Note also the spelling of ‘behaviour’ which varies throughout this chapter, in particular through Q2.19 and its response.
2 – Estimates of future cash flows	Question 2.8 In the question, amend ‘object’ to ‘objective’.	



2 – Estimates of future cash flows	<p>Question 2.17</p> <p>Proposed amended text with edits in red:</p> <p><i>Available inputs from financial markets and from other external sources may not, however, represent characteristics of the cash flows of a certain portfolio. However, where cash flows depend on the returns on underlying items, inputs from financial markets may be relevant.</i></p>	
2 – Estimates of future cash flows	<p>Question 2.18</p> <p>(final paragraph)</p> <p>We refer to the text:</p> <p><i>In most cases, interest assumptions for stochastic models will be “risk-neutral” rather than “real world”.</i></p> <p>We suggest this needs further discussion and should potentially be deleted as it is an interpretation going beyond what the standard says. We would recommend referring to the detailed discussions on this topic in the Discount Rate chapter and ensuring consistency between these two chapters.</p>	Suggestion to ensure consistency and cross reference to Discount Rate chapter. We note that this is important as for contracts where policyholder benefits are linked to investment returns then this is a key link between investment return and discount rate assumptions and approaches.
2 – Estimates of future cash flows	<p>Questions 2.29, 2.30, 2.32</p> <p>Ensure cross-reference to chapter 8 uses the correct chapter name.</p>	
3- Discount rates	<p>Section 3.A</p> <p>Proposed amended text with edits in red:</p> <p><i>This chapter discusses practices related to interest rates, yield curves, discounting and replicating portfolios for insurance contracts under IFRS 17.</i></p>	We note that IFRS 17 explicitly does not require use of a replicating portfolio, which the current wording implies.
3 – Discount rates	<p>Question 3.1</p> <p>(Principle 2, bullet 3)</p> <p>Proposed amended text with edits in red:</p> <p><i>Based on the definitions in the standard, the distinction between cash flows that do vary based on the returns on financial underlying items and cash flows that do not vary based on the returns on financial underlying items is not equal to the distinction between insurance contracts with direct participation features and insurance contracts without direct participation features</i></p>	



<p>3 – Discount rates</p>	<p>Question 3.3</p> <p>(1st paragraph)</p> <p>Proposed amended text with edits in red:</p> <p><i>A liquid risk-free yield curve is mentioned in paragraph* B80 and discussed in BC193.</i></p>	<p>We note that there is no discussion of this topic in paragraph B80.</p>
<p>3 – Discount rates</p>	<p>Question 3.4</p> <p>(last paragraph before graph)</p> <p>Proposed amended text with edit in red:</p> <p><i>Estimation of the inflation in the long run could be an even-a bigger challenge. It comes largely down to expert judgement.</i></p>	
<p>3 – Discount rates</p>	<p>Question 3.4</p> <p>(final paragraph)</p> <p>Proposed amended text with edit in red:</p> <p><i>If quotes for forward exchange rate contracts are available, this information can be used to convert other risk-free rates in other currencies to the rate for the local currency.</i></p>	
<p>3 – Discount rates</p>	<p>Question 3.5</p> <p>(1st paragraph under ‘market based approaches’)</p> <p>Proposed amended text with edit in red:</p> <p><i>Estimating inflation by taking the difference between nominal bond yields and the yields on inflation-linked bonds.</i></p>	
<p>3 – Discount rates</p>	<p>Question 3.5</p> <p>(final paragraph)</p> <p>When referring to CPI, suggest it is made clear that this is a UK index and may not exist elsewhere.</p>	<p>We note that the IAN is intended for international audience.</p>



3 – Discount rates	<p>Question 3.5</p> <p>(Publicly available estimates)</p> <p>IMF forecasts are another possible source of information on future inflation.</p>	
3 – Discount rates	<p>Question 3.9</p> <p>(3rd paragraph)</p> <p>We suggest deleting the opening sentence:</p> <p><i>For contracts that do not meet the definition in Appendix A, the GMA is used or the PAA, while for 'direct participating' contracts, the VFA is used.</i></p> <p>We also suggest a minor addition in red: '... in order to describe the techniques <i>for</i> deriving appropriate discount rates'</p>	We are unsure whether this is relevant to the question asked.
3 – Discount rates	<p>Question 3.10</p> <p>(2nd paragraph)</p> <p>Proposed amended text with edit in red:</p> <p><i>If the equivalent discount rate achieves the above, then it may comply with the standard at a point in time. However, the appropriateness of this single equivalent discount rate for other purposes, including future use, may need to be reflected on.</i></p>	We suggest that the current wording is confusing and clarification may be helpful.
3 – Discount rates	<p>Question 3.12</p> <p>(1st paragraph)</p> <p>Proposed amended text with edit in red:</p> <p><i>IFRS 17 has no specific requirements for the reference portfolio. It could be based on actual assets held by the company or on a theoretical portfolio of assets. However, the better the reference portfolio reflects the characteristics (e.g., liquidity) of the cash flows for which the discount rate is being developed, the smaller the adjustments are likely to be needed in the discount rate. When starting with the actual assets held by the company, an assessment of whether the portfolio still reflects the characteristics of the cash flows whenever the investment strategy changes materially may be required.</i></p>	



3 – Discount rates	<p>Question 3.12</p> <p>(final paragraph)</p> <p>We suggest adding a cross-reference to Q3.19 for discussion of replicating portfolio.</p>	
3 – Discount rates	<p>Questions 3.12 / 3.13</p> <p>We suggest moving Q3.12 to be part of top-down approach.</p>	The ordering of questions seems odd as Q3.12 discusses a reference portfolio, which is required for top-down approach; Q3.13-Q3.17 address bottom-up approach, then it is only at Q3.18 that we return to top-down approach.
3 – Discount rates	<p>Question 3.14</p> <p>(paragraph after last bullets (3rd from end))</p> <p>We refer to the text:</p> <p><i>For operational reasons it is conceivable that an overall assessment / categorisation be made consistent with the response in question Error! Reference source not found.</i></p>	We would note that it may not be obvious what this sentence is attempting to say and clarification may be appropriate.
3 – Discount rates	<p>Question 3.15</p> <p>(final paragraph)</p> <p>We refer to the text:</p> <p><i>The illiquidity premium corresponds to the estimate reflected in the future cash flows.</i></p>	It is unclear to us what estimate is to be reflected in the future cash flows.



3 – Discount rates	<p>Question 3.17</p> <p>(final paragraph)</p> <p>Proposed amended text with edit in red:</p> <p><i>For example, consider a coinsurance contract where a predetermined proportion of all the direct contract characteristics are transferred to the reinsurer. In that particular case, one could expect the direct and ceded insurance contracts to have exactly have the same illiquidity premium. On the other hand, consider a level premium term life insurance contract for which only mortality risk would be reinsured on a yearly renewable term basis. In this case, the direct and the reinsurance contracts have different characteristics and a different illiquidity premium is likely to apply. Overall, in this example, the yearly renewable reinsurance contract would be expected to be more liquid than the level premium direct contract.</i></p>	Suggestion to remove definitive wording as it is open to interpretation.
3 – Discount rates	<p>Question 3.19</p> <p>(point ii)</p> <p>Proposed amended text with edit in red:</p> <p><i>These models compare the capital structure of a company to an option on the equity of the same company and the value of its debt</i></p>	
3 – Discount rates	<p>Question 3.22</p> <p>(bullet 1)</p> <p>Proposed amended text with edit in red:</p> <p><i>For example, if the top-down approach is adopted and the reference portfolio comprises of debt instruments then the end of the observable market in the context of those debt instruments might need to be considered.</i></p>	
3 – Discount rates	<p>Question 3.22</p> <p>(penultimate paragraph)</p> <p>Some of the text appears in strikethrough mode. Should it be deleted or reinstated?</p>	



3 – Discount rates	<p>Question 3.27,</p> <p>(paragraph 2)</p> <p>Proposed amended text with edit in red:</p> <p>(opening words): <i>The following are some approaches...</i></p> <p>Add the following wording at the end of the 2nd paragraph:</p> <p><i>Other approaches also exist within established GAAP frameworks.</i></p>	
3 – Discount rates	<p>Question 3.27</p> <p>(bullet 2)</p> <p>The footnote appears to be to the wrong reference.</p>	
3 – Discount rates	<p>Question 3.36</p> <p>The following sentence refers to discounting, yet this question is about interest accretion:</p> <p><i>If there are direct participating features, the entity's share of the profit is discounted using current rates (paragraphs B74b).</i></p>	There is no explicit interest accretion for direct participating contracts, rather the CSM is adjusted for the change in the entity's share of the fair value of underlying items.
3 – Discount rates	<p>Question 3.37</p> <p>Proposed amended text with edit in red:</p> <p><i>It is the interest rate accreted on the CSM is based on the discount rates determined at initial policy recognition for cash flows that do not vary based on the return of financial underlying items.</i></p>	
3 – Discount rates	<p>Question 3.38</p> <p>Proposed rewording of start of question in red:</p> <p><i>'What interest rate is used when the OCI option is used...'</i></p>	



3 – Discount rates	<p>Question 3.39</p> <p>Propose rewording start of question as for 3.38.</p> <p>In addition, we suggest question should make specific reference to the situation where OCI is used (or if not, answer needs to cover both with and without OCI). For OCI, B132 (a) (ii) also allows a rate that varies in line with the credited rate.</p>	
3 – Discount rates	<p>Question 3.41</p> <p>(part b)</p> <p>Proposed amended text with edit in red:</p> <p><i>Calculating the CSM at issue for the group of contracts as at the date of initial recognition using the discount curve as at the date of initial recognition of the group.</i></p>	
3 – Discount rates	<p>Question 3.41</p> <p>(part c)</p> <p>Proposed amended text with edit in red:</p> <p><i>Calculating the CSM at issue for the group as at the date of initial recognition using a weighted average discount curve (paragraph B73), averaged over the period between issuing the first and last contracts in the group.</i></p>	
4 – Risk Adjustment for Financial Risk	<p>Section 4A</p> <p>We refer to the text:</p> <p><i>This Chapter considers the criteria and measurement of the risk adjustment for non-financial risk required as part of the General Measurement Approach under IFRS 17 including the purpose and general requirements of the risk adjustment, what risks would typically be covered and specific considerations in determining the risk adjustment.</i></p>	<p>The risk adjustment applies also to the PAA and VFA. Is any cross-reference required to note this?</p>



<p>4 – Risk adjustment for non-financial Risk</p>	<p>Section 4B</p> <p>We refer to the text:</p> <p><i>Paragraphs 37, 81, 101, 117-119 and B86-B92 provide guidance on this topic.</i></p> <p><i>BC 206 - 217 also provides background on the subject</i></p>	<p>We note that in 4.15, the IAN also refers to 100 and 104 as mentioning risk adjustment for non-financial risk, and even these are not a complete list. For example it is also mentioned in 106, 107, 117.</p> <p>We suggest it would be helpful, in 4B, identifying where risk adjustment is explained within the Standard, and then where it is identified within 92-112 of the Standard on disclosure.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.2</p> <p>Proposed amended text with edits in red:</p> <p><i>The risk adjustment is calculated from the perspective of the entity rather than a general market participant. As such, it measures the value of a liability, related to unexpected costs, that the entity places on the uncertainty and variability (see Question 6.6) inherent in insurance cash flows. As IFRS 17 provides only the principles regarding how this should be done, it will be important to those who determine and rely on such values that the quantification of such a liability value be based on methodologies and / or approaches that are robust justifiable and are a fair reflection of this value.</i></p>	<p>We consider the phrase ‘related to unexpected costs’ to be confusing; and ‘robust’ is too strong given the fundamental uncertainties and limited data that can be present in some lines of business.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.2</p> <p>We refer to the text:</p> <p><i>As most users only see what is published in the entity’s financial statements, it is important that these liability values, and changes in such values, are based on an adequate understanding of the basis on which the risk adjustment is determined and of any changes in that basis. This understanding will underlie the entity’s ability to provide appropriate disclosures as required by IFRS 17. The entity’s understanding will enhance its communications, enable consistency to be recognised and allow relevant comparisons to be made, as appropriate.</i></p>	<p>This is an important but general statement. This chapter may not be the correct place to include this if it is only shown here. Alternatively, it could either be in the introduction, or chapter 15 which includes disclosures, or possibly referred to in both places with appropriate cross-references.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.3</p> <p>Proposed amended text with edits in red:</p> <p>IFRS 17 does not provide guidance on appropriate techniques and methods to set the risk adjustment (IASB rationale discussed in BC213 and BC214). In paragraph 37, it simply requires that:</p> <p><i>“An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.”</i></p> <p>The application guidance states, in paragraph B91, that a risk adjustment should possess the following five characteristics:</p>	



	<p>(a) “risks with low frequency and high severity will result in higher risk adjustments for non-financial risk than risks with high frequency and low severity;</p> <p>(b) for similar risks, contracts with a longer duration will result in higher risk adjustments for non-financial risk than contracts with a shorter duration;</p> <p>(c) risks with a wider probability distribution will result in higher risk adjustments for non-financial risk than risks with a narrower distribution;</p> <p>(d) the less that is known about the current estimate and its trend, the higher will be the risk adjustment for non-financial risk; and</p> <p>(e) to the extent that emerging experience reduces uncertainty, about the amount and timing of cash flows, risk adjustments for non-financial risk will decrease and vice versa.”</p>	
4 – Risk Adjustment for Financial Risk	<p>Question 4.3</p> <p>Proposed amended text with edits in red:</p> <p><i>Risks reflected through the use of market consistent financial inputs are excluded. Other Non-financial risks that may not arise directly from the insurance contracts, such as asset-liability mismatch or general operational risks, should not be reflected in the risk adjustment for non-financial risks (See question 4.7 for a fuller discussion of which non-financial risks are considered.).</i></p>	
4 – Risk Adjustment for Financial Risk	<p>Question 4.3</p> <p>We refer to the text:</p> <p><i>consistency with how the insurer assesses risk from a fulfilment perspective;</i></p>	In our view it is unclear what this bullet point is referring to as ‘fulfilment perspective’ can be interpreted in many different ways.
4 – Risk Adjustment for Financial Risk	<p>Question 4.4</p> <p>This is a general topic that should cover many topics in this IAN – suggest considering for the introduction and then referring to here.</p>	
4 – Risk Adjustment for Financial Risk	<p>Question 4.4</p> <p>We refer to the text in red:</p> <p><i>In actuarial terms the risk adjustment is intended to reflect the value of the uncertainty inherent in the insurance cash flows under the contract. It is expected that actuarial input, both quantitative and qualitative, will be needed.</i></p>	We question whether this sentence is necessary as the point is made earlier in the chapter.



4 – Risk Adjustment for Financial Risk	<p>Question 4.5</p> <p>We refer to the text:</p> <p><i>In general, it will be important that the entity's board and management properly understand the process and the judgements used to determine the entity's risk adjustment and how their oversight and management roles and responsibilities are being satisfied.</i></p>	<p>We suggest that this is a general topic that should be stated in the introduction to this IAN and then referenced here.</p>
4 – Risk Adjustment for Financial Risk	<p>Question 4.6</p> <p>We refer to the text:</p> <p><i>Where data are limited, it may be necessary to rely very heavily on judgement. In assessing the extent of analysis which may be appropriate, judgement is needed as to the balance between the effort involved in undertaking deeper analysis versus whether the deeper analysis will result in a change in the estimates used to reflect risk and uncertainty that is both material and statistically meaningful.</i></p>	<p>We note that this is a general point that applies equally to many other areas of this IAN and could therefore be included in the introduction; it could then be referenced here and in other sections where applicable.</p>
4 – Risk Adjustment for Financial Risk	<p>Question 4.6</p> <p>We suggest that this topic be covered much earlier in this chapter.</p>	
4 – Risk Adjustment for Financial Risk	<p>Question 4.8</p> <p>Proposed amended text with edits in red:</p> <p><i>Risk aversion is an entity's reluctance to accept risk (variability and uncertainty), particularly in respect of unfavourable outcomes. To overcome this aversion, entities typically expect compensation for bearing risk. The greater the risk aversion, the greater the expected compensation required.</i></p>	



<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.9</p> <p>We refer to the text in red:</p> <p><i>The entity's board is usually responsible for its risk policy, including its policy on risk aversion. In some cases, the actuary may be able to draw on an explicit risk policy, such as that adopted by the entity's Board, which would typically be developed in consultation with the entity's Chief Risk Officer and / or enterprise risk committee.</i></p> <p><i>In other cases, discussions with the entity's board and management may be appropriate. Topics for discussion that the actuary may find useful include:</i></p> <ul style="list-style-type: none"> <i>comparison with similar entities in the market;</i> 	<p>We think it would be difficult to source this information in a reliable way.</p>
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.10</p> <p>Proposed amended text with edits in red:</p> <p><i>In some cases, the gross risk measurement might be approximately proportional to the net risk measurement and therefore the gross risk adjustment can be estimated by using a simple scaling factor applied to the net risk adjustment. In other cases, there may be quantitative and qualitative aspects of the risk and uncertainty such that the reinsurance held provides a more than proportionate impact on risk mitigation.</i></p>	
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.11</p> <p>We think this overlaps with Q4.3, and we wonder whether it should be combined with 4.3.</p>	
<p>4 – Risk Adjustment for Financial Risk</p>	<p>Question 4.14</p> <p>We refer to the text:</p> <p><i>Since, by their nature, qualitative risks cannot be measured directly, the quantification effect is based largely on judgement. Where the impact of qualitative risks could be material, and since the responsibility for the risk adjustment lies with the entity, it may be desirable for the actuary to discuss these risks with the entity.</i></p>	<p>The red text suggests that the entity and the actuary are separate, which may not necessarily be the case.</p>



4 – Risk Adjustment for Financial Risk	<p>Question 4.16</p> <p>We refer to the text:</p> <p><i>While there is no stated requirement in IFRS 17 that the risk adjustment will be determined by an actuary, the work products and input of actuaries are very likely to be relied upon to develop, review and maintain the risk adjustment values. An important objective of the actuary's communications is to assist the entity in developing its IFRS 17 disclosures and to enable the Board and management to better understand the way in which the actuary has undertaken his or her work.</i></p>	We think that reference should be made to Chapter 15 on disclosures.
4 – Risk Adjustment for Financial Risk	<p>Question 4.17</p> <p>Proposed amended text with edits in red:</p> <p>The final paragraph of 4.17 should be amended as follows: “Consideration could also be given to running more <i>complex models at a higher level of aggregation (and perhaps less frequently) and then simplified into factor matrices (for example, provisions for adverse deviation added to assumptions for non-financial risk)</i> to use at a more granular level in the valuation.</p>	
4 – Risk Adjustment for Financial Risk	<p>Question 4.19</p> <p>We refer to the text in red:</p> <p><i>As the degree of uncertainty (in the confidence level estimate) increases, the need for judgement increases and, with it, the need to better understand and communicate, to the entity, both the uncertainty and the way in which judgement has been exercised.</i></p>	The actuary and the entity are unlikely to be separate.
5 - Unit of Account	<p>Chapter 5 – Level of Aggregation</p> <p>This chapter is referred to in many other areas of the IAN as 'Unit of Account'; there should be internal consistency. 5.13 emphasises that Unit of Account is not used in IFRS 17.</p>	
5 - Unit of Account	<p>Question 5.1</p> <p>Proposed amended text with edits in red:</p> <p><i>IFRS 17 deals purely with insurance contracts, reinsurance contracts and investment contracts with Discretionary Participating Features (DPF) (if they are issued by companies that also issue insurance contracts).</i></p>	Clarification around full scope of IFRS 17.



5 - Unit of Account	<p>Question 5.2</p> <p>Proposed amended text with edits in red:</p> <p><i>At recognition, each portfolio is divided into groups, which distinguish expected profitability, and the entity allocates individual contracts to these groupings.</i></p>	Expected profitability rather than onerousness (as per wording in standard).
5 - Unit of Account	<p>Question 5.3</p> <p>We refer to the text:</p> <p><i>When measuring groups of insurance contracts, an entity may estimate the expected present value of future cashflows, current discount rates and the risk adjustment for non-financial risk at a higher (or lower) level of aggregation than the group or portfolio</i></p>	<p>We agree with the original sentence if this is for fulfilment cashflows based on current assumptions, i.e. current discount rates. However may not be entirely true for locked in assumptions depending on the level at which the assumptions are locked in.</p> <p>We would suggest specifying this refers to current assumptions.</p>
5 - Unit of Account	<p>Question 5.7</p> <p>There might be a discussion here of the conflict between 'similar risks' and 'managed together' - if MI is generally high level then this may conflict with the similar risks requirement. Firms will then need to decide on a balance or compromise between the two.</p>	
5 - Unit of Account	<p>Question 5.8</p> <p>We refer to the text:</p> <p><i>peril type aggregation used for actuarial modelling of reserving would not necessarily be a suitable basis for aggregation given its alignment with solvency and valuation requirements.</i></p>	It is unclear what this point is trying to say and some clarification would be helpful.
5 - Unit of Account	<p>Question 5.8</p> <p>Proposed amended text with edits in red:</p> <p><i>however if the contracts cover multiple perils or benefits then separation of these components may first be permitted</i></p>	
5 - Unit of Account	<p>Question 5.11</p> <p>Proposed amended text with edits in red:</p> <p><i>IFRS 17 requires a current assessment for any new business written, which means that the portfolios for an entity might change over time for new business or renewal written. However, for inforce business, groups are not subsequently reassessed, unless there is a contract modification – see paragraphs 72 and 76.</i></p>	We believe it is important to clarify that for inforce business groups cannot be reassessed.



5 - Unit of Account	<p>Question 5.12</p> <p>Proposed amended text with edits in red:</p> <p><i>but does not affect the allocation of already existing contracts which remain in their assigned groups, unless there is a contract modification (see paragraphs 72 and 76).</i></p>	
5 - Unit of Account	<p>Question 5.13</p> <p>Proposed amended text with edit in red:</p> <p><i>A group of insurance contracts is a further partition of a portfolio according to when the contract is issued and expected profitability (paragraph 16 and Appendix A).</i></p>	
5 - Unit of Account	<p>Question 5.14</p> <p>Proposed amended text with edit in red:</p> <p><i>New contracts are added to the group as they are issued, subject to them being issued no more than a year apart (see below).</i></p>	'Issued' rather than 'written' – we suggest use wording consistent with IFRS 17.
5 - Unit of Account	<p>Question 5.15</p> <p>We refer to the text:</p> <p><i>The issue date of an insurance contract is the earlier of the beginning of the coverage period and the date the premium becomes due.</i></p>	Issue date does not seem to be defined under IFRS 17 standard, and so we are unsure where this definition comes from. For reinsurance contracts this could be the date at which the insurer is bound to the contract.
5 - Unit of Account	<p>Question 5.15</p> <p>We refer to the text:</p> <p><i>This refers to the date of issue of the contract being recognised under IFRS 17, which is not necessarily the same as date the contract was initially written, as due to the application of contract boundary,</i></p>	We think that this is unclear.



5 - Unit of Account	<p>Question 5.15</p> <p>We refer to the text:</p> <p><i>A complication for general insurers is that cohorts based on accident year may not necessarily correspond with contracts issued less than one year apart.</i></p> <p>This implies that a mechanism to allocate from accident year to issue year will need to be developed by general insurers in order to meet the aggregation requirements under IFRS 17.</p>	
5 - Unit of Account	<p>Question 5.15</p> <p>Proposed amended text with edit in red:</p> <p><i>However, although the contract legally continues, IFRS 17 may treat the renewal date as the contract boundary and the renewal as creating a new "contract" for IFRS 17 purposes separate from the existing contract (depending on an insurer's ability to fully reassess the risk and fully review the premium without restriction).</i></p>	
5 - Unit of Account	<p>Question 5.15</p> <p>We refer to the text:</p> <p><i>but to date of the renewal that inceptioned the contract under IFRS 17.</i></p>	We think that this is unclear.
5 - Unit of Account	<p>Question 5.16</p> <p>We refer to the text:</p> <p><i>Under the GMA and VFA</i></p>	Should this be GMM?
5 - Unit of Account	<p>Question 5.16</p> <p>Proposed amended text with edit in red:</p> <p><i>Under the GMA and VFA, each contract to be grouped is assigned to one of at least three categories (although the entity may determine that a group contains no contracts):</i></p>	



5 - Unit of Account	<p>Question 5.16</p> <p>We refer to the text:</p> <p><i>In practice, individual contract assignment might be possible, but insurers may not attempt to assess the risk exposure in full detail and will therefore choose a certain level of differentiation of contracts corresponding with such elements, such as differentiation of risk and pricing. Reasonable and supportable information is the terminology used in the standard.</i></p> <p>We would suggest deleting this paragraph.</p>	We think that this paragraph is unclear and the subsequent sentences in this section sufficiently explain the point that is trying to be made.
5 - Unit of Account	<p>Question 5.16</p> <p>We refer to the text:</p> <p><i>Under the PAA, the entity assumes contracts in the portfolio are not onerous at initial recognition unless facts and circumstances indicate otherwise (paragraph 18).</i></p>	We suggest that it should be highlighted that the contracts under the PAA still follow the same categories as above.
5 - Unit of Account	<p>Question 5.18</p> <p>We refer to the text:</p> <p><i>it might be determined that contracts are subject to different risks, and hence be in different portfolios,</i></p>	We suggest it should be clarified that this does not mean unbundling contracts, as this can only be done if they meet certain criteria.
5 - Unit of Account	<p>Question 5.19</p> <p>Proposed amended text with edit in red:</p> <p><i>If the expected profitability of an open group changes during that period, it might be appropriate to close the open group and open a new one if new contracts are issued that differ in profitability level.</i></p>	Using 'issued' rather than 'added' clarifies that the contracts would not necessarily be added to the same group.
5 - Unit of Account	<p>Question 5.20</p> <p>Proposed amended text with edit in red:</p> <p><i>Paragraph 17 indicates consideration should be given to the availability of reasonable and supportable information to justify the grouping of a set of contracts.</i></p>	



5 - Unit of Account	<p>Question 5.20</p> <p>Proposed amended text with edit in red:</p> <p><i>Reasonable and supportable information could be considered to be readily available internal management and reporting information. Examples might include policy disclosure statements, valuation reports, pricing reports or other key profitability metrics presented to senior management or the Board of Directors. Per paragraph BC130, an entity should use information provided by its internal reporting systems but need not gather additional information.</i></p>	Additional context added here.
5 - Unit of Account	<p>Question 5.21</p> <p>Proposed additional text in red:</p> <p><i>The IASB believe that without this separation between no significant possibility of becoming onerous and other non-onerous contracts, IFRS 17 would fail to require timely recognition of contracts that become onerous, should the likelihood of losses increase.</i></p>	Additional context added to end of section.
5 - Unit of Account	<p>Question 5.22</p> <p>It appears that the answer to the question here is 'yes', but this is not clear from the answer; it would be helpful for it to be stated explicitly.</p>	In our view the LIC will need to be allocated to a portfolio for presentation purposes.
5 - Unit of Account	<p>Question 5.22</p> <p>We refer to the text:</p> <p><i>It is also noted that each group is a unit of account.</i></p>	It is noted in Q5.13 that IFRS 17 does not use the term 'unit of account' – should we continue to use this here?
5 - Unit of Account	<p>Question 5.23</p> <p>We do not feel that it is clear why this section is relevant to the Level of Aggregation chapter.</p>	
5 - Unit of Account	<p>Question 5.26</p> <p>Proposed amended text with edit in red:</p> <p><i>In these circumstances policies with differing levels of profitability due to these characteristics may be grouped together.</i></p>	



5 - Unit of Account	<p>Question 5.27</p> <p>Proposed amended text with edit in red:</p> <p><i>The categorisation would therefore be applied either to the portfolio as a whole, or groupings within the portfolio excluding the regulatory or legal constraints.</i></p>	
5 - Unit of Account	<p>Question 5.31</p> <p>Proposed amended text with edit in red:</p> <p><i>This may will lead to different treatments between the entity and its parent group accounts with non-alignment of the aggregations.</i></p>	The groups may not be different between the entity and the parent group: it will depend on the facts and circumstances of each insurer.
5 – Unit of Account	<p>Question 5.32</p> <p>Proposed amended text with edit in red:</p> <p><i>However, this modification can only be used to the extent that an entity does not have reasonable and supportable information to apply a fully retrospective approach.</i></p>	
6 – Contractual Service Margin and Loss Component	<p>Question 6.2</p> <p>Proposed amended text with edits in red:</p> <p><i>The CSM for a group of insurance contracts is established at initial recognition to offset anticipated profit that may arising from just considering the present value of fulfilment cashflows. The fulfilment cash flows include expected future cash outflows and inflows as well as the risk adjustment for non-financial risk and any pre-coverage cash flows (see 6.3 on pre-coverage cashflows).</i></p>	
6 – Contractual Service Margin and Loss Component	<p>Question 6.2</p> <p>We refer to the text:</p> <p><i>Therefore, at initial recognition, the CSM considers all contractual cash flows (future and past) within the contract boundary.</i></p>	<p>We would suggest that it does not follow from the previous sentences that all contractual cash flows are considered. Cash flows are also not necessarily within the boundary of a single contract, but could instead be allocated to a group of contracts.</p> <p>We would therefore suggest deleting this sentence.</p>



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.2</p> <p>Proposed amended text with edits in red:</p> <p><i>In the case of a profitable contract, the outcome of measuring all cash flows should be an anticipated gain represented by the total cash inflows less total cash outflows. This gain is eliminated at contract inception by the creation of the CSM as an additional liability component, which is then aggregated together with other contracts to determine the CSM for a group of contracts. However, pre-coverage cash flows can impact the amount actually recognised on the balance sheet (see question 6.3). The outcome in the case of an unprofitable contract is discussed in question 6.4.</i></p>	<p>Clarified wording suggested – it was not clear to us what ‘negative’ referred to nor what component was being defined as an ‘asset’ balance.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.2</p> <p>Proposed amended text with edits in red:</p> <p><i>The CSM on subsequent measurement is determined at the level of the group of insurance contracts (i.e., the CSM does not need to be calculated at individual contract level).</i></p>	<p>The CSM at initial recognition will be calculated for contracts added to the group, therefore not at a group level. We would therefore instead just refer to the <i>CSM on subsequent measurement is determined at the level of the group.</i></p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.3</p> <p>Proposed amended text with edits in red:</p> <p><i>Examples of pre-coverage cash flows may include:</i></p> <p><i>Premiums under the contract;</i></p> <p><i>Commissions paid due to contractual obligations with an intermediary in response to writing the contract; and</i></p> <p><i>Cost arising during the application and underwriting process (underwriting cost) and issuance cost.</i></p> <p><i>Pre-coverage cash flows, such as the examples provided above, include any insurance acquisition cash flows for which an asset or liability is held prior to the recognition of the group that gave rise to them (see paragraphs 27 and 38). Further, this includes both cash flows that are directly or indirectly allocated to a contract e.g., acquisition cost spent without success, provided they are directly attributable at a portfolio level.</i></p>	<p>Wording clarifications suggested- premiums are unlikely to be pre-coverage cash flows and would usually be associated with the contract initiation or be paid subsequently.</p>



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.4</p> <p>Proposed amended text with edits in red:</p> <p><i>Except in the case of reinsurance (see chapter 9 on reinsurance), the CSM cannot be negative and, when a net cost arises on initial recognition, this results in a loss being reported equal to the amount by which the CSM otherwise would have been negative.</i></p> <p><i>The net cost on initial recognition is referred to as the loss component (see questions 6.26 – 6.29 on onerous contracts).</i></p>	<p>Clarifications on wording as we feel that the use of negative may not be appropriate as it is unclear what accounting balance this refers to.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.5</p> <p>Proposed amendment to text highlighted in red:</p> <p><i>Paragraph 44 outlines how the CSM for a group of insurance contracts without direct participating features moves over time.</i></p>	<p>Suggestion to include an appropriate reference as this is the first time that direct participating features is mentioned in this chapter.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.5</p> <p>Proposed amended text with edits in red:</p> <p><i>plus the changes in the value of fulfilment cash flows relating to future service (see questions 6.8 – 6.11);</i></p>	
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.7</p> <p>Proposed amended text with edits in red:</p> <p><i>Interest is accreted on the carrying amount of the CSM during the reporting period using the discount rate applied on initial recognition to reflect the time value of money (paragraphs 44(b) and B72(b)). This discount rate is the same rate as that applied to nominal cash flows that do not vary based on the returns of any underlying items. For further details on determining discount rates see Chapter 3.</i></p>	<p>Wording clarification to explain what interest rate is used.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.8</p> <p>Proposed amended text with edits in red:</p> <p><i>Table 6.1 summarises which components underlying the fulfilment cash flows qualify for adjusting the CSM according to the requirements for contracts without direct participation features.</i></p>	<p>We have suggested some clarification.</p>



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.8</p> <p>We refer to the text:</p> <p><i>Contract holder changes</i></p> <p><i>Contract feature changes</i></p>	<p>We suggest that it is unclear what these labels for changes to future coverage and services relate to.</p> <p>In addition, changes in contract features adjust the CSM unless they result in a contract modification.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.9 What is the experience investment component?</p> <p>We suggest changing the question to ‘<i>What does investment component experience refer to?</i>’</p> <p>Proposed amended text with edits in red:</p> <p><i>If, due to actual experience differing from expected experience, an investment component of the contract, i.e., an amount to be repaid to the policyholder under all circumstances, is not repaid in the current period (or a different amount from expected was repaid), it will be repaid in future. Since this repayment was not originally included in the estimate of future cash flows, the estimate is increased by the present value of the future repayment at a later estimated repayment date.</i></p> <p>...</p> <p><i>Except for amount resulting from the discounting effect, the adjustment is reversed by a second adjustment, adding the difference between the investment component expected to be paid, i.e. none, in the current period and the one actually paid, to the CSM (paragraph B96 (c)).</i></p>	
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.10</p> <p>Proposed amended text with edits in red (word omitted):</p> <p><i>The entity can disaggregate the change in risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses (paragraph 81). If the entity does not disaggregate in this way, then the entire change in risk adjustment is disclosed as part of the insurance service result.</i></p>	
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Provision (Transfer) of Services</p> <p>Question 6.12</p> <p>The standard uses both terms provision and transfer of services. The chapter so far used only the term provision. So, adding it would potentially improve clarity and connection between these two terms.</p>	



6 – Contractual Service Margin and Loss Component	Section Provision (Transfer) of Services (paragraphs 6.12 to 6.20) move to after the current paragraph 6.25 These paragraphs relate to determination of coverage units. The whole section has been put in between sections of CSM for contracts without direct participating features and CSM for contracts with direct participating features.	We suggest that having this section after the two CSM sections but not in between them would improve the flow of the chapter and natural order of the notes.
6 – Contractual Service Margin and Loss Component	Question 6.12 Proposed amended text with edits in red: <i>The amount of the CSM for the group at the end of the period, before allowing for the transfer of services, is after interest accretion, adjustment for changes relating to future service for cash flow estimates, premiums received and risk adjustment; investment component experience etc.</i> <i>The entity allocates the CSM at the end of the period equally to each coverage units (see question 6.13) provided in the current period and those expected to be provided in the future within the contract boundary, and recognises in profit or loss the amount allocated to the coverage units provided in the current period.</i>	Premiums received do not adjust the CSM unless they relate to future service, therefore suggest deleting or adding in a clarification.
6 – Contractual Service Margin and Loss Component	Question 6.13 Proposed amended text with edits in red: <i>The application guidance (paragraphs B7-B18) discusses what constitutes insurance risk.</i>	Changed reference to only refer to the description of insurance risk rather than the explanation of ‘significant’ insurance risk.
6 – Contractual Service Margin and Loss Component	Question 6.13 We refer to the text: <i>the analysis of the examples discussed at the May 2018 meeting reflects the fact pattern of each example and does not necessarily apply to other fact patterns;</i>	We feel that this is not required as the examples are not discussed in this section.
6 – Contractual Service Margin and Loss Component	Question 6.16 Which proxies (e.g. premium and passage of time) can be used as coverage units? Proposed change to question as above.	No need for the ‘e.g....’ example in the heading. The paragraph covers the range.



6 – Contractual Service Margin and Loss Component	<p>Question 6.18</p> <p>Proposed amended text with edits in red:</p> <p><i>No. As underlying business and reinsurance are valued and reported separately, coverage units need to be determined gross rather than net of reinsurance. On reinsurance contracts held coverage units need to be calculated separately.</i></p>	
6 – Contractual Service Margin and Loss Component	<p>Question 6.19</p> <p>Proposed amended text with edits in red:</p> <p><i>Coverage would normally begin on the inception of the contract as defined by the contractual terms.</i></p>	It is unclear what 'effective date' means in this context; is this the date on which the premium is received?
6 – Contractual Service Margin and Loss Component	<p>Question 6.21</p> <p>Proposed amended text with edits in red:</p> <p><i>For insurance contracts with direct participating features, the entity primarily provides investment related services and is compensated for the services by a fee that is determined with reference to the underlying items. The CSM is subsequently measured similarly as for contracts without direct participating features (see question 6.5) except in relation to:</i></p>	Clarified wording to talk to primary purpose of DPF contracts rather than them having a mix of features which would not align with the definition in the standard.
6 – Contractual Service Margin and Loss Component	<p>Question 6.21</p> <p>Proposed amended text with edits in red:</p> <p><i>any financial risk mitigation using derivatives where the accounting policy choice has been adopted and the requirements of the standard met (see question 6.25).</i></p>	
6 – Contractual Service Margin and Loss Component	<p>Question 6.23</p> <p>Proposed amended text with edits in red:</p> <p><i>Changes in fulfilment cash flows arising from time value of money and financial risks are regarded as part of the variable fee and recognised in the CSM unless the changes exceed the CSM or the risk mitigation option is taken (refer paragraphs B115 – B118).</i></p>	



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.24</p> <p>Proposed amended text with edits in red:</p> <p><i>No explicit interest is accreted on the CSM since changes in financial risks (including discount rates) also adjust the CSM for contracts with direct participating featuresit is remeasured when it is adjusted for changes in financial risks.</i></p>	
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.25</p> <p>Proposed amended text with edits in red:</p> <p><i>Paragraph B115 provides an option for an entity to reduce an accounting mismatch between the measurement of derivatives to mitigate financial risk and the insurance liability. Derivatives are generally measured under IFRS 9 at fair value through profit or loss. For direct participation contracts, changes in the carrying amount of the fulfilment cash flows related to financial risks adjust the CSM instead of being recognised immediately in profit or loss, regardless of whether they relate to the entity's share of the underlying items or fulfilment cashflows (see B112 and B113 in respect of items that adjust the CSM in the contracts with direct participating features).</i></p> <p><i>For contracts without direct participation features, such an accounting mismatch does not arise as changes in the carrying amount of the fulfilment cash flows related to financial risks do not adjust the CSM.</i></p>	<p>Expanding for clarity.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.29</p> <p>Proposed amended text with edits in red:</p> <p><i>Note that while the loss component changes areis not specifically recognised on the financial statements a reconciliation of opening to closing balance of the loss component needs to be disclosed (see paragraph 100(b)).</i></p>	



<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.31</p> <p>Replace text:</p> <p><i>Reduce the reinsurance held asset (i.e., present value of reimbursements from the reinsurance contract exceed the present value of reinsurance premiums) and therefore defer recognition of profit from the reinsurance contract; or</i></p> <p>with:</p> <p><i>Reduce the liability in respect of reinsurance held (i.e., present value of reinsurance premiums exceeds the present value of reimbursements from the reinsurance contract) and therefore defer recognition of losses from the reinsurance contract (see paragraph 65(a)).</i></p>	<p>We suggest that it should have the effect of a reduction in liability balance rather than an increase in asset.</p>
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.36</p> <p>Proposed amended text with edits in red:</p> <p><i>Unless the PAA for the liability for remaining coverage applies, on initial recognition the CSM 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. The fair value could be used as a proxy for the premium paid on a business combination where this is not separately identifiable from the rest of the transaction price.</i></p>	
<p>6 – Contractual Service Margin and Loss Component</p>	<p>Question 6.38</p> <p>We refer to the text:</p> <p><i>Refer to Chapter 15 for a discussion on what to present relating to the CSM.</i></p> <p><i>If an entity chooses to adopt the financial risk mitigation option (see question 6.25), then it discloses the effect of that choice on the adjustment to the CSM that would otherwise have been made in the current period (paragraph 112).</i></p>	
<p>7 – Premium Allocation Approach</p>	<p>Question 7.1</p> <p>(See question 7.2-unten)</p>	



7 – Premium Allocation Approach	<p>Question 7.1</p> <p>Proposed amended text with edits in red:</p> <p><i>With the exception of two simplifications under the PAA (paragraph 59), the liability for incurred claims is measured under the GMA, which is discussed in chapters 2 through 6. See question 7.13 which describes these simplifications further.</i></p>	
7 – Premium Allocation Approach	<p>Question 7.2</p> <p>Proposed amended text with edit in red:</p> <p><i>Therefore, entities may need to consider the benefits and drawbacks of implementing the PAA or the GMA for contracts that are eligible to use the PAA.</i></p>	Suggested change to use consistent phrasing.
7 – Premium Allocation Approach	<p>Question 7.3</p> <p>We refer to the text:</p> <p><i>and 5 Unit of Account.</i></p> <p>Change to:</p> <p><i>and 5 Level of Aggregation.</i></p>	Chapter title has changed.
7 – Premium Allocation Approach	<p>Question 7.4</p> <p>Proposed amendments to the text highlighted in red:</p> <p><i>While the PAA is primarily for groups of short-duration contracts, it is allowed whenever it provides a materially equivalent measure (in this chapter referred to as good approximation) to the GMA liability for remaining coverage (paragraph 53(a)), thus it is not able to differ materially. It is, however, qualified by paragraph 54 (see question 7.5).</i></p>	Does ‘materially equivalent measure’ have the same meaning and interpretation as ‘does not differ materially’? We would suggest using consistent terminology to the text.
7 – Premium Allocation Approach	<p>Question 7.4</p> <p>We refer to the text:</p> <p><i>materially equivalent measure</i></p>	In relation to materiality, it should refer to the introduction to the IAN which discusses materiality and proportionality.



7 – Premium Allocation Approach	<p>Question 7.4</p> <p>Proposed amended text with edits in red:</p> <p><i>Many non-life insurance contracts are likely to satisfy this criterion.</i></p>	
7 – Premium Allocation Approach	<p>Question 7.4</p> <p>We refer to the text:</p> <p><i>However, longer-term annual renewable contracts may also satisfy this criterion, if the contract boundary lies at the next renewal date.</i></p>	This reads to us as contradictory – if they are annually renewable, then they are not longer term under the IFRS 17 definition of the contract boundary. We would therefore suggest some clarification of the point would be helpful.
7 – Premium Allocation Approach	<p>Question 7.4</p> <p>We refer to the text:</p> <p><i>It might be suitable for many single-premium contracts. It may also be suitable for regular-premium contracts, where each premium is commensurate with the risk for the corresponding period of coverage.</i></p>	This seems to us like unnecessary detail in the paragraph and overlaps with the content in 7.5
7 – Premium Allocation Approach	<p>Question 7.5</p> <p>1st Scenario</p> <p>We refer to the text in red:</p> <p><i>The PAA approach reduces the liability for remaining coverage in line with the pattern of incurred claim costs while the GMA would consider the impact of both in the relevant building blocks potentially leading to significant differences in the value of the liability for remaining coverage under the PAA versus the GMA over the coverage period.</i></p>	It is not clear what 'both' refers to in the sentence. We assume it is the release of risk as per the left column but this should be clarified.
7 – Premium Allocation Approach	<p>Question 7.5</p> <p>5th Scenario</p> <p>Proposed amended text with edits in red:</p> <p><i>In a high interest rate environment where there is a significant financing component.</i></p>	



7 – Premium Allocation Approach	<p>Question 7.5</p> <p>5th Scenario</p> <p>We refer to the text in red:</p> <p><i>A high interest environment tends to be volatile and an entity that used the GMA without a locked in discount rate may produce a significantly different answer for the liability for remaining coverage than the PAA.</i></p>	<p>Presumably this refers only to the fulfilment cashflows in the LRC for the GMA (i.e. where the option is not taken to reflect changes in discount rates in OCI); the CSM in the GMA would always use locked in rates.</p>
7 – Premium Allocation Approach	<p>Question 7.6</p> <p>It is worth noting that, based on materiality, while a certain group of contracts may not be eligible for the PAA, that an entity may still be able to use the approach if they can justify that the groups (for which the PAA is not appropriate) are immaterial in the context of the entire business being reported on.</p>	<p>This is more a broader IFRS/IAS point rather than IFRS 17.</p>
7 – Premium Allocation Approach	<p>Question 7.6</p> <p>We refer to the text in red:</p> <p><i>For single premium contracts that run for only a few months more than a year, it may be sufficient to demonstrate that there is no obvious reason why the PAA would not be a good approximation to the GMA over the coverage period.</i></p>	<p>We think that it would be helpful to provide some justification.</p>
7 – Premium Allocation Approach	<p>Question 7.7</p> <p>It is unclear to us why this question is specifically relevant to the PAA section. Are contract boundaries covered elsewhere in the IAN?</p>	<p>If this question is being kept in it should be clarified that the recognition criteria quoted applied to inwards contracts only. Ceded reinsurance recognition is different.</p>
7 – Premium Allocation Approach	<p>Question 7.8</p> <p>We refer to the text:</p> <p><i>The situation is rather less clear for compulsory insurances, where the right of the insurer to set a premium that fully reflects the risk is compromised in certain jurisdictions.</i></p>	<p>It is not clear to us why this is specific/relevant to the PAA.</p> <p>Why is this in the Contract Boundary section? Does it refer to the obligation of the insured to renew/maintain cover? Then why the emphasis/italics on the pricing to reflect the risk?</p> <p>If it is on the legal obligation to maintain cover (e.g. Motor Third Party Liability), the insurer can reprice so we are not sure this is relevant.</p>



7 – Premium Allocation Approach	<p>Question 7.8</p> <p>We refer to the text:</p> <p><i>In cases of doubt, the actuary may seek guidance from the entity's technical accounting group to reach a consensus on the issue.</i></p>	We think that this applies in all areas. It is unclear why it is particularly relevant in this area.
7 – Premium Allocation Approach	<p>Question 7.9</p> <p>We refer to the text:</p> <p><i>Onerous contract liabilities are discussed below (see question 7.14).</i></p>	It is unclear why this is stated or is relevant to the surrounding text.
7 – Premium Allocation Approach	<p>Question 7.9</p> <p>Proposed amended text with edits in red:</p> <p><i>The PAA, through approximating the GMA of netting cash inflows and outflows, will not include the future inforce exposure by the amount of premium owed and therefore there will be a loss of transparency on debtors and credit risk compared to most current bases..</i></p>	
7 – Premium Allocation Approach	<p>Question 7.12</p> <p>We refer to the text in red:</p> <p><i>- auto policies in the northern states of the US incur 72-74% of incurred losses over the first 9 months of a calendar year with the remaining 26-28% being incurred over the last quarter with the inclement winter months.</i></p>	We question whether it is appropriate to give specific examples without supporting evidence or justification? Perhaps a better approach would be to give generic examples?
7 – Premium Allocation Approach	<p>Question 7.13</p> <p>Proposed amended text with edits in red:</p> <p><i>Based on paragraphs B133 and B72 (e) (iii), an entity that has used the PAA for measuring the liability for remaining coverage and wishes to adopt the OCI option for recognising changes in discount rates shall do so based on the incurred date of the claim liabilities.</i></p>	



7 – Premium Allocation Approach	Question 7.14 Proposed amended text with edits in red: <i>An onerous contract liability cannot arise for incurred claims, since these are not part of the liability for remaining coverage and are already valued at current fulfilment value under the GMA (subject to the simplifications discussed in 7.13).</i>	
7 – Premium Allocation Approach	Question 7.14 Proposed amended text with edits in red: <i>Onerous contracts are discussed further in chapter 5 on Level of Aggregation.</i>	Title of chapter has changed.
7 – Premium Allocation Approach	Question 7.16 We refer to the text: <i>Effectively, for practical purposes, for most portfolios of contracts this would imply the locked-in discount rate would be based on the average accident date of a period (e.g., quarterly or annual).</i>	This is a generalisation and we suggest that it should be removed due to the fact that there is nothing in the Standard that says it has to be based on the average accident date. Other dates could be used.
7 – Premium Allocation Approach	Question 7.19 We suggest that this section emphasises that Risk Attaching coverage period may be greater than one year even if the underlying contracts are 12 months or less. It is covered in 7.18 above but a reader may go direct to this section and not read the above.	Suggestion therefore made for further clarification.
8 – Contracts with Participation Features	Question 8.2 Proposed amended text with edits in red: <i>Reinsurance contracts, issued or held, never meet the requirements to be a DPC and therefore are measured in the same way as reinsurance contracts without direct participation features (B109 and explained in BC248-BC249). See also Chapter 9 on Reinsurance.</i>	Suggested update to the wording so that it is clear that reinsurance contracts are measured as reinsurance contracts rather than as insurance contracts.
8 – Contracts with Participation Features	Question 8.4 We refer to the text: <i>Enforceability cannot be assumed to apply for example across all products written by an entity.</i>	In our view it is not clear why this is the case. For example, if all the products are of the same type covered by an enforceable law, why would not this mean that enforceability can be assumed? This sentence would be more helpful with some more explanation.



8 – Contracts with Participation Features	<p>Question 8.11</p> <p>We refer to the text:</p> <p><i>The standard cites both stochastic modelling techniques and risk-neutral approaches as appropriate approaches for doing this. (B77).</i></p>	In our view the IAN should be clear that these are examples of approaches that can be used and are not prescribed approaches. In addition, there should be a clear link to the discussion on this topic in the Discount Rate chapter.
8 – Contracts with Participation Features	<p>Question 8.15</p> <p>Proposed amended text with edits in red:</p> <p><i>If risk mitigation is used then, for DPCs, the entity can choose to put some or all of the changes in the effect of financial risk in the entity's share of the underlying items component of the variable fee (B113(b)) through the P&L rather than CSM.</i></p>	<p>We would note that the risk mitigation option can only be used prospectively from the date of initial application of IFRS 17 although the IASB has tentatively agreed to extend this to the date of transition.</p> <p>The IASB has tentatively agreed to allow the risk mitigation option to apply for reinsurance of financial risk.</p>
8 – Contracts with Participation Features	<p>Question 8.24</p> <p>Proposed amended text with edits in red:</p> <p><i>....This may represent a change to current practice where guaranteed payments may be included in the group where they arise.</i></p>	
8 – Contracts with Participation Features	<p>Question 8.32</p> <p>Proposed amended text with edits in red:</p> <p><i>.....If risk mitigation is used and the CSM is not adjusted for some changes in the fulfilment cashflows the impact of this on the CSM is disclosed (paragraph 112).....</i></p>	
9 – Reinsurance	<p>Section 9.A</p> <p>Proposed amended text with edits in red:</p> <p><i>This chapter provides background and possiblesuggested practice on the treatment of reinsurance under IFRS 17...</i></p>	We suggest deleting the text as there should be no interpretation within IAN.
9 – Reinsurance	<p>Section 9.B</p> <p>Proposed amended text with edits in red:</p> <p><i>As noted in paragraph 4, all references in IFRS 17 that refer to insurance contracts also apply to reinsurance contracts held unless otherwise indicated by specific reference to reinsurance issued or as specified in paragraphs 3, 4, 29(b), 60-70, B14, B15, B19, B109 and BC296 – BC315 for reinsurance held.</i></p>	



9 – Reinsurance	<p>Question 9.1</p> <p>Proposed amended text with edits in red:</p> <p><i>IFRS outlines the criteria to determine whether there is significant insurance risk transfer under the contract (see question 9.2 below). Where a contract fails these criteria, IFRS 17 does not apply, and the reinsurance would be measured under another IFRS as appropriate.</i></p>	It is not necessarily financial instrument standards that would apply, therefore we suggest clarifying the wording.
9 – Reinsurance	<p>Question 9.2</p> <p>Proposed amended text with edits in red:</p> <p><i>Therefore, a reinsurance contract that meets this criteria can be considered as insurance contracts for both the entity issuing the reinsurance contract and the entity that holds the reinsurance.</i></p>	
9 – Reinsurance	<p>Question 9.3</p> <p>Proposed amended text with edits in red:</p> <p><i>This means that</i> <i>For the statement of financial position, the reinsurance held is shown separately from the underlying insurance contracts (paragraph 78).</i></p>	This statement does not follow from the previous one about grouping of contracts in assets and liability positions – therefore we would suggest removing the reference.
9 – Reinsurance	<p>Question 9.4</p> <p>Format the quote in <i>Italic</i></p> <p>No. Reinsurance does not impact the recognition of the underlying insurance contracts. As per paragraph 75, “when an entity buys reinsurance, it shall de-recognise the underlying insurance contract(s) when, and only when, the underlying insurance contract(s) is or are extinguished”.</p>	
9 – Reinsurance	<p>Question 9.5</p> <p>Proposed amended text with edits in red:</p> <p><i>No. Under IFRS 17, the valuation of insurance contracts issued by an entity is not impacted by entering into reinsurance contracts to mitigate risks in the contracts issued. The insurance contracts continue to be valued on a gross basis. Therefore, the estimates of future cash flows of a group of underlying insurance contracts would usually be the same regardless of whether there is reinsurance held associated with these obligations. This also applies to the entirety of the fulfilment cash flows, including the risk adjustment for non- financial risk, and the CSM.</i></p>	



9 – Reinsurance	<p>Question 9.6</p> <p>Proposed amended text with edits in red:</p> <p><i>With respect to the CSM, there are specific additional considerations for reinsurance contracts held (see question 49.7).</i></p>	
9 – Reinsurance	<p>Question 9.6</p> <p>Proposed additional text in red:</p> <p><i>The measurement of reinsurance held does however include allowance for reinsurance non-performance risk as required by para 63 “In addition, the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.”</i></p>	Suggestion to add reference to allowance for reinsurer default risk.
9 – Reinsurance	<p>Question 9.9</p> <p>Proposed amended text with edits in red:</p> <p><i>The risk adjustment for the reinsurance held can therefore conceptually be thought of as the difference in the risk position of the entity with (i.e., net position) and without (i.e., gross position) the reinsurance held. As a result, the appropriate risk adjustment for the reinsurance held could be determined based on the difference between these amounts, <i>although measurement differences may invalidate this assessment.</i></i></p> <p><i>For reinsurance held, because the risk adjustment for reinsurance held is defined based on the amount of risk transferred to the reinsurer, the risk adjustment for reinsurance held will normally <i>create a gain</i>. On this basis, where a reinsurance contract held is reported as an asset the risk adjustment will have the effect of increasing the value of the asset, and will decrease the liability value where the reinsurance contract held is reported as a liability.</i></p>	
9 – Reinsurance	<p>Question 9.18</p> <p>Proposed amended text with edits in red:</p> <p><i>The cashflows within the contract boundary are determined in line with the same principles as for underlying contracts. There is no specific treatment identified for cashflows relating to reinsurance contracts. The cash flows would reflect characteristics of the reinsurance contract. Reinsurance treaties may contain options that may be exercised at the discretion of the party holding or issuing the contract. The cash flows might assume that the entities issuing and holding the reinsurance contract each exercises its control over such options to its advantage taking into account any other considerations with respect to expected behaviour. Advantage would be determined based on the assumptions used in the valuation.</i></p>	



9 – Reinsurance	Question 9.20 Does this question overlap with Question 9.12?	The TRG papers are more definite; we would suggest these are referenced.
9 – Reinsurance	Question 9.22 Proposed amended text with edits in red: <i>In general, reinsurance issued business, once classified as insurance risk, is treated consistently in approach with all other gross insurance liabilities issued, although reinsurance contracts cannot be direct participating contracts.</i>	
9 – Reinsurance	Question 9.23 We refer to the text: <i>The considerations and relevant paragraphs in the standard are similar to reinsurance held as covered in question 9.12.</i>	We note Q9.17; is this the same question?
10 – Fair Value	Section 10.A Proposed amended text with edits in red: <i>This Chapter considers the fair value measurement of contracts as set out in IFRS 17 in the context of the more general guidance on fair value measurement found in IFRS 13 Fair Value Measurement and of common insurance industry practices.</i>	
10 – Fair Value	Section 10.A We refer to the text: <i>This Chapter considers the fair value measurement of contracts as set out in IFRS 17 in the context of the more general guidance on fair value measurement found in IFRS 13 Fair Value Measurement and of common insurance industry practices.</i>	This Chapter does not appear to address Measurement of Fair value of the Underlying Items.
10 – Fair Value	Section 10.B Proposed amended text with edits in red: <i>Paragraphs 39 and B94 specify are applicable to the use of fair value for initial recognition when contracts are acquired in a business combination. Paragraphs C5 and C20-24 discuss set out the use of fair value on transition to IFRS 17.</i>	Clarity and consistency with the Standard and other references within the IAN.



10 – Fair Value	<p>Section 10.C</p> <p>Add reference to Chapter 11:</p> <p>Chapter 11 – Business Combinations and Portfolio Transfers.</p> <p>Chapter 12 – <i>Transition</i>.</p>	Suggestion for relevance and consistency throughout the IAN.
10 – Fair Value	<p>Question 10.2</p> <p>Proposed amended text with edits in red:</p> <p><i>IFRS 17 does not provide guidance on determining the fair value of insurance contracts, except as noted below in relation to a demand deposit floor. To determine the fair value of insurance contracts IFRS 17 directs one to IFRS 13 and the principles of IFRS 13. The only exclusion is in relation to a demand deposit floor as noted below. IFRS 13 Fair Value Measurement provides guidance when other IFRSs require fair value measurement, with certain exceptions. Insurance contracts are not specifically excluded from the scope of IFRS 13, and consequently IFRS 13 is relevant to insurance contracts. IFRS 13 does not provide specific guidance on insurance contracts; hence the entity is left to consider how to apply the guidance in IFRS 13 to insurance contracts.</i></p>	
10 – Fair Value	<p>Question 10.2</p> <p>Proposed amended text with edits in red:</p> <p><i>Market transactions involving insurance contracts may provide information about fair value, and the estimated fair value should be consistent with observable market information where available. However, it may be difficult to find is unlikely that a directly relevant market price would be found. Furthermore, the transaction price at which a group of insurance contracts is exchanged may include factors (such as those in paragraph B4 of IFRS 13) that would be ignored for the purpose of estimating the fair value of a group of insurance contracts. Factors specific to insurance contracts that would be ignored include, for example:</i></p> <ul style="list-style-type: none"> Expected profits/losses associated with cash flows beyond the boundaries of the insurance contracts, 	<p>To improve clarity as in some countries and for some products such markets exist.</p> <p>Delete the first bullet point in order to avoid interpretation of the standard.</p>



11 – Business combinations and portfolio transfers	<p>Question 10.9</p> <p>We refer to the text in red:</p> <p><i>The general approach is the same as for direct written contracts. The market for reinsurance contracts would be related to the market for the contracts that are reinsured, as transactions involving reinsurance contracts are usually part of transactions involving the reinsured contracts. With this perspective, from the direct writer point of view, the fair value of a group of reinsurance contracts can be viewed as the amount that brings the fair value of the reinsured (underlying direct) contracts to the net fair value of the direct contracts combined with the reinsurance contracts. In other words, the fair value of a group of reinsurance contracts is the difference between the fair value of the underlying direct contracts (ignoring reinsurance) and the fair value of the underlying direct contracts combined with the reinsurance contracts.</i></p>	<p>Clarification of points as seen from insurers' or reinsurers' perspectives.</p> <p>From the point of view of a reinsurer, the reinsurance contract are equivalent to insurance contracts for a direct writer. All notes above related to insurance contracts would apply. If a reinsurer reinsures part of its business (i.e., enters into retrocession contracts), then notes above related to reinsurance contracts would apply.</p>
11 – Business combinations and portfolio transfers	<p>Question 11.2</p> <p>A reference to 'see Chapter 15 – Fair Value' needs to be updated to 'see Chapter 10 – Fair Value'.</p>	
11 – Business combinations and portfolio transfers	<p>Question 11.6</p> <p>We suggest changing the 2nd bullet point early in the paragraph to</p> <p><i>'control over the portfolio or group of contracts must be obtained as a result of the transaction.'</i></p>	Consistency with 1 st bullet point.
11 – Business combinations and portfolio transfers	<p>Appendix</p> <p>(In the paragraph on bargain purchases):</p> <p>A reference to IFRS 3.33 – 3.36 should read IFRS 3.34 - 3.36</p>	
12 - Transition	<p>Appendix</p> <p>The start of the last section on disclosure requirements to be reworded:</p> <p><i>'Disclosure requirements for business combinations is found in IFRS 3.59 – 3.63. Disclosure guidance for business combinations is found in IFRS 3, B64-B67. The disclosures....'</i></p>	Currently this section directs the reader to the guidance on disclosure requirements in IFRS 3, but not the requirements themselves.
12 - Transition	<p>Question 12.24</p> <p>We note that the determination of the fully retrospective approach should refer not only to materiality but the ability to use estimates in the calculation.</p>	



12 - Transition	<p>Question 12.36.</p> <p>We would suggest adding a full list of the modifications available for the modified retrospective approach at the start of this section and then include the examples as they are now.</p>	
14 - Contract Modifications and Derecognition	<p>Question 12.36.</p> <p>Proposed amended text with edits in red:</p> <p><i>This modification allows the entity to group contracts issued more than one year apart to allow the application of the modified retrospective approach whenever reasonable and supportable information necessary to do so is to group contracts into annual cohorts is not available.</i></p> <p><i>The paragraph continues with the following which is not directly relevant for determining whether annual cohorts should be used but is more relevant to demonstrate that a combination of approaches to transition can be used for one portfolio. This should be made clear. For example, if reasonable and supportable information is only available for contracts issued within 5 years of the transition date and the entity wishes to use the modified retrospective approach for such contracts, the entity could establish two groups of contracts, viz., those issued within 5 years of the transition date (for which the modified retrospective approach would be applied) and those issued more than 5 years before the transition date (for which the fair value approach would be applied).</i></p>	
14 - Contract Modifications and Derecognition	<p>Question 14.8</p> <p>The following sentence appears to be incomplete:</p> <p><i>The intent in setting the criteria in paragraph 72 was to capture those contract modifications that would result in a significantly different accounting treatment (see BC317-BC320) for the modified contract had the new terms always applied and only those contract modifications (see BC320).</i></p>	
14 - Contract Modifications and Derecognition	<p>Question 14.16</p> <p>We refer to the text:</p> <p><i>In this case, the contract does not qualify for derecognition under paragraph 77 and is treated as a contract modification.</i></p>	We would suggest that this does not constitute a modification and a new contract will not be recognised. We would therefore suggest deletion of the sentence after '77'.
14 - Contract Modifications and Derecognition	<p>Question 14.18</p> <p>Proposed amended text with edits in red:</p> <p>(2nd bullet)</p> <p><i>'not reflected in the CSM of the reinsurance contract to the extent that they do not adjust the CSM of the underlying group of insurance contracts (see paragraph 66(c)) and relate to future service.</i></p>	



15 - Measurement, Presentation and Disclosure	<p>Question 14.19</p> <p>There are two typos in the first sentence: ‘GMM’ not ‘GMA’, plus under section (a) ‘were’ not ‘where’.</p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.1</p> <p>Proposed amended text with edits in red:</p> <p><i>The following commentary is based on GMA. Other treatments may apply for PAA and this is discussed in the discussion below. This is covered in the relevant sections below, for example 15.27 highlights the key differences in relation to the PAA and presentation</i></p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.2</p> <p>Proposed amended text with edits in red:</p> <p><i>In effect, insurance contract revenue represents the value of the services that the entity expected to provide during the reporting period. This includes amounts in the statement of financial position at the start of the reporting period for the value of future coverage, including the release of CSM and risk adjustment in the reporting period, which will not be included in the statement of financial position at the end of the reporting period as the related coverage is provided in the reporting period. This component of the revenue is based on a view of the services that the company is standing ready to provide in the period. what services would be provided in the financial reporting period that were already included in the opening balance sheet.</i></p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.2</p> <p>Proposed amended text with edits in red:</p> <p><i>Over the lifetime of the contract, the total revenue is the sum of the premiums received, adjusted for a financing effect and excluding investment components. Therefore if the impact of discounting is removed, it is still equal to the premium but, for long term business, recognised in a very different way and timing compared to most accounting bases applying prior to IFRS 17.</i></p>	



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.5</p> <p>Proposed amended text with edits in red:</p> <p><i>This question is primarily interested in the presentation on investment components that are not distinct. Appendix A defines investment components as “The amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur.” The paragraph below briefly explains the treatment of non distinct investment components, which are excluded from revenue and expenses and the subsequent paragraph clarifies what are investment component under IFRS 17. It will be necessary to identify which insurance contracts have investment components that are not distinct but need to be presented separately.</i></p>	<p>Deletion: if the investment components are distinct, they are separated and this does not apply.</p> <p>Missing word: distinct investment components are measured under the relevant IFRS (not IFRS 17). It is non-distinct investment components which are excluded from revenue and expenses.</p> <p>An entity shall:</p> <p>(a) apply IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative.</p> <p>(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.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.5</p> <p>Proposed amended text with edit in red:</p> <p><i>An investment component of an insurance contract is the amounts the entity is required to pay to the policyholder even if the insured event does not occur (Appendix A). For example, where there are guaranteed benefits, some profit commission arrangements or where there is a fund that is repaid to the policyholder if it is not required to settle claims or pay benefits. For example, guaranteed amounts or repayments of funds payable by the entity when a contract lapses or is surrendered, may meet the IFRS 17 definition of investment components as the payments do not depend on an underlying insured event (paragraphs B14, B15).</i></p>	
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.6</p> <p>Proposed amended text with deletion in red:</p> <p><i>There is a specific requirement to allow for the difference between the expected and actual value of investment components that become payable in the period, in the CSM (paragraph B96(c)). See Chapter 6 for further information on the CSM.</i></p> <p><i>At the time of drafting, it seems likely that reporting entities will need to define a basis for measuring investment components of insurance contracts being reported under IFRS 17.</i></p>	



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.9</p> <p>Proposed amended text with edit in red:</p> <p><i>However, income and expenses from reinsurance contracts held is presented separately in the insurance service result from expenses and income from insurance contracts issued (paragraph 82). An entity may present income and expenses from a group of reinsurance contracts as a single amount or 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 (paragraph 86), excluding investment components (paragraph 85).</i></p>	
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.10</p> <p>We wonder if this question is needed. What is the connection to paragraph B124 at the start? Premium is no-longer part of revenue directly, only indirectly; this is the point that should be made and explained. We think this response is confusing and is not explaining IFRS 17.</p>	
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.11</p> <p>We refer to the text:</p> <p><i>Premiums already paid to reinsurers are in the past so are not included in the valuation of reinsurance contracts held in the statement of financial position.</i></p> <p><i>Future premiums due to be paid in respect of currently held reinsurance contracts that meet the recognition requirements and are within the contract boundary are included in the valuation of reinsurance contracts in the statement of financial position. They will be included in insurance expense in the statement of financial performance when the services are provided by the reinsurer which may be in a subsequent reporting period.</i></p>	<p>We suggest combining this with Q15.9.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.12</p> <p>Proposed amended text with edit in red:</p> <p><i>B124a indicates that revenue includes “insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period)”. Therefore, insurance revenue reflects policy terminations expected at the beginning of the period and will not reflect unexpected policy terminations that occur during the period. If the change in the terminations changes the expected cash flows for future coverage then this adjusts the CSM (B96(b)).</i></p>	



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.13</p> <p>We refer to the text:</p> <p><i>To answer this question, it is necessary to consider separately the impact of the unexpected policy terminations on the actual cash flows in the period and whether this changes the assumptions for the expected future cash flows for current service (i.e., the liability for incurred claims) and the expected future cash flows for future service (i.e., the liability for remaining coverage).</i></p>	<p>We would note that the first paragraph seems to be combining two points:</p> <ol style="list-style-type: none"> 1. actual claims are reported in insurance service expenses; 2. the impact of actual claims may have impact on future service and the CSM is adjusted for the experience variance impact of future service and any assumption changes. <p>How does CSM come into insurance service expenses (point 2)? This should be fully covered in Q15.12.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.13</p> <p>We refer to the text:</p> <p><i>Presentation of changes to expected future cash flows for future coverage</i></p> <p><i>Where the change in the valuation of insurance contracts relates to future coverage, the CSM may be adjusted. See Chapter 6 on the CSM for when and how changes in assumptions may lead to a change in the CSM. If the impact of the changes in assumptions in relation to future policy terminations cannot be offset by adjusting the CSM (i.e., because it relates to the current period and not future coverage), then the value of that impact of the change in assumptions is included in insurance expense.</i></p>	<p>We suggest this is moved to Q15.3: this is a new point that is correct, but could be brought out in Q15.3.</p>
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.14</p> <p>Proposed amended text with edit in red:</p> <p><i>Amounts included in OCI typically include items that affect the financial position of the company but do not directly relate to the performance of the business in the reporting period, for example, some unrealised gains on financial investments. In some cases there are options for the reporting entity to elect whether performance is reported in OCI or in profit / loss. In relation to insurance contracts, companies can choose in their accounting policies whether to show movements in the value of insurance contracts arising from changes in the current discount rates in the reporting period in profit or loss or as OCI (paragraphs 88 – 90). Paragraphs 82 and 83 of IAS 1 set out what should be presented in profit or loss or in OCI. IAS 1 paragraph 89 requires that all items of income and expenses should be included in profit or loss unless an IFRS requires or permits otherwise. Paragraphs 90 to 96 of IAS 1 specify some items to be included in OCI. There is more specific guidance in individual standards, such as in and IFRS 17 for insurance contracts.</i></p>	



15 - Measurement, Presentation and Disclosure	<p>Question 15.15</p> <p>Proposed amended text with edit in red:</p> <p><i>There is an IFRS Practice Statement on Making Materiality Judgements. Reporting entities should have a basis for setting materiality for each set of financial statements and the same materiality criteria should be applied to the application of IFRS 17. In the first instance it would be appropriate to ask one's principal what level of materiality should apply. In providing information/numbers for the report and accounts, the actuary should ensure they understand level of materiality to be applied.</i></p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.17</p> <p>Proposed amended text with edit in red:</p> <p><i>An actuary considering how to apply applying IFRS 17 may also wish to consider the entity's existing approach to reporting segments under IFRS 8 in order to consider the appropriate level of aggregation for insurance contracts in each component of the business. will need to make sure that the information/numbers they provide are in line with the chosen IFRS 17 reporting segments, as determined by the insurers.</i></p>	The selection of segments will be a management decision rather than solely an actuarial one.
15 - Measurement, Presentation and Disclosure	<p>Question 15.19</p> <p>Proposed amended text with edit in red:</p> <p><i>As explained in the answer to question 15.16 above, reinsurance contracts held are to be presented separately from insurance contracts issued and reinsurance contracts that are liabilities are to be presented separately from those that are assets liabilities.</i></p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.21</p> <p>Proposed amended text with edit in red:</p> <p><i>Under PAA, only premiums received are included in the liability for remaining coverage (paragraph 55(a)(i)). Hence if the premium is due but not received, this would not be included in the liability measurement.</i></p>	
15 - Measurement, Presentation and Disclosure	<p>Question 15.28</p> <p>Proposed amended text with edit in red:</p> <p><i>Adjustments to presentation under the variable fee approach are explained in Chapter 78 on contracts with participating features and other variable cash flows.</i></p>	



<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.34</p> <p>Proposed amended text with edit in red:</p> <p><i>If acquisition costs have been incurred prior to the financial reporting date and are associated with insurance contracts which will not be recognised until a later date, there will be no group of insurance contracts to which those expenses can be allocated. In those circumstances, the reporting entity can include an asset or liability in the statement of financial position for the value of those acquisition costs (paragraph 79). This asset or liability for acquisition costs is derecognised when the relevant insurance contracts are recognised so there is a group of insurance contracts to which the acquisition expenses can be allocated (paragraph 27). If the contract boundary is one year or less and the PAA is used, this treatment of acquisition costs is optional and the reporting entity can choose to recognise the acquisition costs as expense or income in the statement of financial performance when they are incurred (paragraphs 27, 38(b) and 59(a)).</i></p>	
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.34</p> <p>Proposed amended text with edit in red:</p> <p><i>Assets or liabilities for acquisition costs (relating to a group of issued insurance contracts before the group is recognised). are not shown as a separate line item in the statement of financial position but are included in the carrying amount of the related groups of insurance contracts issued or reinsurance contracts held (paragraph 79).</i></p>	
<p>15 - Measurement, Presentation and Disclosure</p>	<p>Question 15.35</p> <p>Proposed amended text with edit in red:</p> <p><i>Under the GMA and VFA, claim handling costs (i.e., the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments) are included in the insurance contract cash flows (paragraph B65(f)) and so are recognised in the financial statements when the associated insurance contracts are recognised, if those cash flows are within the contract boundary. Consequently, claims handling expenses are included in the valuation of insurance contracts and reinsurance contracts held in the statement of financial position; are included in insurance revenue in respect of services expected to be delivered in the financial reporting period; and are included in insurance service expense in the period in which the actual costs are incurred.</i></p>	



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Comments Template for Exposure Draft of IAN 100

Deadline: 26 April 2019

15 - Measurement, Presentation and Disclosure	Question 15.35 Proposed amended text with edit in red: <i>Under the PAA only acquisitions are included (paragraph 55(a)(ii)), claims handling costs are not explicitly included in the liability for remaining coverage and therefore are recognised when the claim is incurred.</i>	
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