



International Organization of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organização Internacional das Comissões de Valores  
Organización Internacional de Comisiones de Valores

September 9, 2019

International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
London, E14 4HD  
United Kingdom

Our Ref: 2019/O/MS/C1/IASB/123

RE: ED/2019/4 – *Amendments to IFRS 17*

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the proposed amendments to IFRS 17 (“proposed amendments”).

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO’s mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. Unless otherwise noted, the comments provided herein reflect the consensus among members of Committee 1 and are not intended to include all the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

### **Overall Comments**

We welcome the implementation of IFRS 17 as a global and consistent accounting standard for insurance contracts and we expect that IFRS 17 will have material implications for the balance sheet measurement and recognition of insurance contracts as well as the profit and loss composition and earnings profile.



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From an overall perspective, we strongly support IFRS 17 and the proposed amendments as well as the next steps, the Board announced in the amendments.

Further, we encourage the IASB to issue the final standard as soon as possible so that the relevance and comparability of the financial reporting for insurance contracts could be improved.

We appreciate the opportunity to express our views on your questions 1 to 10 in the invitation to comment, as noted below.

**Question 1 Scope exclusions - credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30)**

We support the decision of the Board to permit entities to apply IFRS 17 or IFRS 9 in case of loan contracts that provide insurance coverage only for the settlement of the policyholders obligation created by the contract.

From our point of view, the scope exclusion of certain credit cards that provide insurance contracts will lead to reduced costs and burdens without a decrease of useful information. Therefore, we support the decision.

To prepare the standard for the future we would like to encourage the Board to replace the term “credit cards” with a different one, e.g. “financial payments” or “payment instruments”. We propose this, because we believe the standard should not only stick to “credit cards” as one possible payment instrument. Terms such as “financial payments” or “payment instruments” could cover credit cards but furthermore a wider range of instruments, like debit cards, apps and so on.

**Question 2 - Expected recovery of insurance acquisition cash flows (paragraphs 28A–28D, 105A–105C, B35A–B35C and BC31–BC49)**

We agree with the decision of the Board, because renewals are an important part of the business case of insurance companies and usually have a significant impact on insurers’ success.





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The decided treatment of acquisition costs will better reflect the economic substance of the transaction. This will bring the treatment closer to the logic of IFRS 15 for fixed-fee service contracts, whereby portions of costs of a future contract are initially valued as assets and subsequently recognized in profit or loss in later periods. From our point of view, we would encourage the Board to clarify the expected periods/lifetime of the acquisition cash flows.

Notwithstanding the above we suggest the IASB provides additional guidance related to how to allocate on a “systematic and rational basis” the insurance acquisition costs to expected renewals and which factors may be indicative of an impairment instead of including a general reference to “facts and circumstances”. This additional guidance may result in a more consistent application of this amendment.

**Question 3 - Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44–45, 109 and 117(c)(v), Appendix A, paragraphs B119–B119B and BC50–BC66)**

With regard to investment components under the VFA approach, we welcome the decision of the Board regarding the proposed amendment for the CSM under the VFA approach, as well as under the general model. We support the reform proposal whereby investment return services under the general model and investment related services were treated more comparable with regard to the CSM that will be allocated to profit or loss.

Furthermore, we agree with the disclosure and transition related amendments in paragraphs 109 and 117 (c) (v) on the basis that the above-mentioned improvements will also be incorporated. We hope for useful information under consideration of adequate cost and burdens and the awareness of a declining value of further information.

**Question 4 - Reinsurance contracts held - recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B, B119C–B119F and BC67–BC90)**

We expect that the proposal of the IASB could be a first suitable step to reduce the number of accounting mismatches for reinsurance contracts held. Nevertheless, from our point of view, the narrow scope on “insurance contracts held, that provides proportionate coverage” will not necessarily result in reduced complexity.



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The new definition of “proportionate” (see p. 29 of Exposure Draft from June 2019 – ED/2019/4) is different from the description in BC304 of IFRS 17.

The ED states: *“A reinsurance contract held that provides an entity with the right to recover from the issuer a percentage of all claims incurred on groups of underlying insurance contracts. The percentage the entity has a right to recover is fixed for all contracts in a single group of underlying insurance contracts, but can vary between groups of underlying insurance contracts.”*

BC304 states: *“Many reinsurance arrangements are designed to cover claims incurred under underlying insurance contracts written during a specified period. In some cases, the reinsurance contract held cover the losses of separate contracts on a proportionate basis. In other cases, the reinsurance contract held covers aggregate losses from a group of underlying contracts that exceed a specified amount.”*

According to BC304, proportionate reinsurance treaties are covering losses of individual underlying policies compared to a non-proportionate reinsurance, where the cover relates to the collective loss of a portfolio/group of underlying policies. The BC304 description is therefore different from proportional reinsurance, for which each individual underlying contract is covered on a proportional basis. Proportional reinsurance covers include all quota share and surplus reinsurance, whereas stop loss, catastrophe excess of loss and per risk excess of loss are regarded as non-proportional reinsurance. But even the per risk excess of loss is regarded as proportionate under BC304, since it also covers separate underlying contracts and not just on an aggregate basis.

Following the new definition of the ED, only unlimited quota share reinsurance would pass as proportionate reinsurance. As soon as limits are introduced, the percentage of how individual claims are shared is not identical for all underlying policies under such a reinsurance arrangement. Therefore, they would not fall under the new definition of the ED, although each claim is shared proportionally on a defined percentage for each underlying policy. As such, they provide a natural and effective hedge for the loss component of each reinsured policy. Under current market practice, retentions and limits are frequently used when entering into





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proportional reinsurance arrangements. Some members are of the view that the IASB should amend the definition more in line with BC304 or explain why it has decided to use a definition of proportionate reinsurance that departs from the proportional concept provided in BC304.

**Question 5 - Presentation in the statement of financial position  
(paragraphs 78–79, 99, 132 and BC91–BC100)**

Paragraph 78 originally required an insurance company to present separately in the statement of financial position the carrying amount of groups of insurance contracts issued that are assets and liabilities and the carrying amount of groups of reinsurance contracts held that are assets and liabilities. The amendment to paragraph 78 allows the preparer to present assets and liabilities of insurance contracts issued and reinsurance held on a portfolio level.

We support the amendments and expect reduced costs and burdens for the preparer without a material loss of information for the investors.

**Question 6 - Applicability of the risk mitigation option  
(paragraphs B116 and BC101–BC109)**

We agree with the proposed amendment to paragraph B116. The extension of the risk mitigation option available if an entity uses derivatives to mitigate financial risk will partly reduce accounting mismatches that result from using reinsurance held to mitigate financial risks.

**Question 7 - Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4  
(paragraphs C1, [Draft] Amendments to IFRS 4 and BC110–BC118)**

We agree with the deferral for one year and we are strongly supporting the effective date of IFRS 17 as well as of IFRS 9 from annual reporting periods beginning on or after 1 January 2022.

With regard to those insurance companies who started on time with the implementation of IFRS 17 it is, due to costs and burdens, not acceptable to extend the parallel run of IFRS 4 and IFRS 17 for more than one year. Additional delays may lead to uncertainties in the technical implementation process.



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**Question 8 - Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119–BC146)**

We support the proposed amendment on transition relief for business combinations for both the modified retrospective approach and fair value approach for practical reasons. Insurance companies probably do not have the information to classify contracts from former periods and the period before transition. Due to the tight schedule, we welcome the amendment to reduce undue burdens.

Regarding the transition relief for risk mitigation and regarding the fair value approach, we still recognize a narrow scope.

**Question 9 - Minor amendments (BC147–BC163)**

We have no concerns regarding the proposed amendments.

**Question 10 - Terminology**

For the sake of clarification, we support the IASB Board in their proposal to add the definition of “insurance contract service” to Appendix A. Furthermore, we agree with the proposed replacement of “coverage” with “service” to strengthen clarity and consistency in the standard.

Thank you for the opportunity to comment on the IASB exposure draft on the proposed amendments to IFRS 17. If you have any questions or would like to further discuss these matters, please contact Cameron McInnis at ph. + 1 416-593-3675 (email: [cmcinis@osc.gov.ca](mailto:cmcinis@osc.gov.ca)).

Sincerely,

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Chair, Committee on Issuer Accounting, Audit and Disclosure  
International Organization of Securities Commissions