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Object: CIA submission to IASB for January 2019 meeting

On behalf of the Canadian Institute of Actuaries (CIA), this letter provides comments and suggestions on the concerns and implementation challenges to be discussed by the IASB in January 2019.

Taking the issues not yet discussed in the order laid out in Agenda Paper 2D of the October 2018 IASB meeting, we provide the following comments:

- #1 (Scope – Loans and other forms of credit that transfer insurance risk)
    - We suggest resolving this issue (and others) by clarifying the criteria in paragraph 32(b) to be that the lapse/maturity of **each** component causes the lapse/maturity of the other component. In other words, if there is one component of a contract that can continue to exist without the other (e.g., if the base policy can continue without its rider), the criteria in paragraph 32(b) would not be met.
    - This change will increase comparability between investment contracts (measured under IFRS 9) and investment contracts with an insurance rider when the components can be measured separately. It also simplifies the application of IFRS 17 in entities that issue loans and other forms of credit that transfer insurance risk in the same manner as today, without requiring a complicated change to the scope of IFRS 17.
- #2 (Level of aggregation of insurance contracts)
    - In our view, the prohibition to include in a group contracts that are issued more than one year apart should be removed.
    - Pooling of risk is fundamental to the insurance business model. We disagree with staff's statement that aggregation of contracts results in a loss of useful information; on the contrary, aggregation of contracts is necessary in order to provide useful information. Within a pool of like risks, the only useful information about profitability reflects the overall experience of the pool—it matters not **which** contracts within the pool incurred a claim and which did not. Splitting pools into groups that are not credible can lead to reported results that reflect statistical fluctuations rather than underlying profitability.

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    - Staff noted that this concern has been raised mainly with reference to insurance contracts with direct participation features. We agree that it is most important for such contracts, but the concern is relevant to all types of contracts whenever an annual cohort is too small to be credible. This arises in part due to another issue that was not discussed in Agenda Paper 2D for October 2018; namely, the fact that the experience adjustment for claims in a reporting period (i.e., the portion that goes through profit/loss) excludes the change in fulfilment cash flows that is a direct consequence of that experience. For example, if nobody dies in a particular annual cohort, the additional fulfilment cash flows related to experiencing fewer deaths than expected reduces the CSM (rather than current period profit), giving the wrong message to users about the future profitability of that cohort—its CSM is not depleted because it was underpriced or because experience has been poor, but rather because past profit was overstated.
    - Our suggested solution is to delete paragraph 22 or replace it with a cohort based on pooling of like risks. This will reduce costs and administrative burden and improve the meaningfulness of information provided.
- #3 (Measurement | Acquisition cash flows for renewals outside the contract boundary)
    - In our view, discussion at the February 2018 TRG meeting together with the amendment to paragraph 27 of IFRS 17 proposed in paragraph 7 of Agenda Paper 2A of the June 2018 IASB meeting adequately address this issue. It is clear that acquisition expenses can be allocated to groups not yet issued (including renewals of existing contracts), so the only remaining point of concern is **which** acquisition expenses can be so allocated, which in our view is a matter of judgment and requires no amendment to IFRS 17.
    - To avoid any misinterpretation, an editorial change or footnote could be added to the amendment proposed at the June 2018 meeting to clarify that contracts "expected to be issued" might include renewals of contracts that would be new.
    - Also, we do not agree with the suggestion made by some that a separate impairment test should be required for assets established under paragraph 27. In our view, paragraph 25(c) together with BC184 ("No amount can be recognized in the statement of financial position for insurance acquisition cash flows that are not recoverable") adequately fulfil that purpose.
- #7 (Measurement | Contractual service margin: coverage units in the general model)
    - In our view, an amendment should be made. Contrary to statements made by IASB staff, there are many contracts without direct participation features that provide investment-related services. Moreover, those investment-related services will contribute to the CSM, so amortizing CSM as both insurance and investment-related services are provided will improve comparability and enhance the usefulness of information.

  - Our suggested solution is to remove the word “insurance” before “services” in BC280. Paragraph 44(e) requires CSM to be recognized as “services” are provided, and this can be interpreted to include more than the service of providing insurance coverage. If this solution is adopted, the amendment to the definition of “coverage period” that was recommended following the September TRG meeting would be unnecessary.
  - An alternative solution would be to change the definition of “coverage period” for all insurance contracts and not just those meeting the definition of insurance contracts with direct participating features.
- #8 (Measurement | Contractual service margin: limited applicability of risk mitigation exception)
  - This issue was discussed at the December IASB meeting, but the treatment at transition was deferred to a later meeting.
  - In our view, if the requirement for a comparative year is retained (issue #21), paragraph C3(b) of IFRS 17 should be amended to allow the option in paragraph B115 of IFRS 17 to be applied in the comparative year.
- #11 (Measurement | Business combinations: contracts acquired during the settlement period)
  - This issue was discussed at the December IASB meeting, but the treatment at transition was deferred to a later meeting.
  - In our view, the IASB should clarify that reclassification of past acquisitions is not required at transition. This is consistent with item #S04 of the February TRG meeting, which retained the exception in IFRS 3 for acquisitions made prior to the effective date of IFRS 17.
- #12 (Measurement | Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous)
  - In our view, the measurement of reinsurance contracts held should recognize the relationship to the underlying direct contract at initial recognition as well as after initial recognition. Such an amendment would improve comparability and enhance the usefulness of information.
  - We think this change could be effected by interpreting paragraph 66(c) to apply at initial recognition as well as after initial recognition. This requires no amendment to the standard, but might require changes to the Basis for Conclusions (BC310–BC315).

- #13 (Measurement | Reinsurance contracts held: ineligibility for the variable fee approach)
    - We think the issue of ceding insurance contracts with direct participation features is adequately addressed through paragraph 66(c) of IFRS 17 as long as the editorial correction suggested in item #S16 of the February 2018 TRG meeting is **not** made.
- #21 (Effective date | Comparative information)
    - We think this amendment should be considered.
    - In our view, it is unlikely that simply restating financial statements measured under IFRS 4 to IFRS 17 would provide useful information, especially when IFRS 9 is also coming into effect. Users will need information to help understand the transition from IFRS 4 to IFRS 17, but a comparative year may not be the best information for that purpose.
- #23 (Transition | Optionality)
    - Though there are mixed views about whether requiring the fair value approach at transition would enhance or diminish the usefulness of information, it would improve comparability and simplify measurement and reporting at transition.
- #24 (Transition | Modified retrospective approach: further modifications)
    - We agree that demonstrating compliance with the objective of the modified retrospective approach could be burdensome.
    - Our suggested solution involves three changes:
        - Remove paragraph C8 and the references "To the extent permitted by paragraph C8 . . .";
        - Soften paragraph C6 from ". . . the closest outcome to retrospective application possible . . ." to ". . . an outcome approximating that of retrospective application . . ."; and
        - Revise paragraph C7 to allow other modifications as well as those suggested.
- #25 (Transition | Fair value approach: OCI on related financial assets)
    - We do not think this amendment should be made. We support the flexibility in IFRS 17 to take a simple approach or a more complex approach depending on the entity's circumstances.

Thank you for taking the time to consider our submission. If you have any questions, please contact Lesley Thomson or Les Rehbeli.

Yours truly,

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President, Canadian Institute of Actuaries

cc. Andrea Pryde, Darrel Scott, Tom Scott

The Canadian Institute of Actuaries (CIA) is the national, bilingual organization and voice of the actuarial profession in Canada. Its members are dedicated to providing actuarial services and advice of the highest quality. The Institute holds the duty of the profession to the public above the needs of the profession and its members.