Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin American Accounting Standard Setters

September 2019

International Accounting Standards Board
7 Westferry Circus, Canary Wharf, London
E14 4HD
United Kingdom

RE: "Exposure Draft ED/2019/4 - Amendments to IFRS 17".

Dear Board Members:

On behalf of the **GLass (Grupo Latinoamericano de Emisores de Normas de Información Financiera)** I am writing to provide our comments on the "**Exposure Draft ED/2019/4 - Amendments to IFRS 17**".

We welcome the intention of the Board to develop more guidance on the specific issues addressed by the ED, resulting in more clarity in the implementation of IFRS 17 in our jurisdiction.

Please see our detailed comments and responses to the Invitation to Comment questions in the **"Appendix I"** to this letter. The answers incorporated in this letter include feedback collected from different working groups in our jurisdiction that have been working closely in the interpretation and analysis of the impacts of IFRS 17 for insurers in certain countries of Latin American market.

If you have any questions to our comments, please contact our Board Member, glenif@glenif.org.

Yours sincerely,

Eduardo Pocetti
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

Appendix I - Our answers to the questions for respondents

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)

(a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Do you agree with the proposed amendment? Why or why not?

Answers: Yes. We agree with the proposed amendment reflecting the specific scope exclusion to reduce the operational burden for financial institutions issuing credit card contracts for which the entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer. We understand that measuring these transactions under IFRS 9 would provide useful information about these contracts.

(b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)–(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the proposed amendment, allowing entities to apply IFRS 9, instead of IFRS 17, with an election made for each portfolio of contracts and on an irrevocable basis. We also agree with the notion of complexity covered by the ED that separating a loan component from such contracts, when they meet the definition of an insurance contract, would be difficult for an entity and doing so would result in more complexity. The development of a highly complex methodology that could potentially ignore relevant interdependencies between insurance and loan components in such contracts would result in situations where the financial statements would not reflect the economic substance of these loans if they would be ultimately classified as insurance contracts. Additionally, we believe that users of financial statements of banks and other financial institutions that issue loans with these special features would generally expect that these loans would be in the scope of IFRS 9 and measure these portfolios using valuation techniques that will capture such features to reflect the economics of the contracts. We also agree with the principle that an entity would not be required to restate prior periods to reflect the effect of the proposed amendment, and could chose to do so only if such restatement is possible without the use of hindsight and if the restated financial statements reflect all the requirements in IFRS 9 for the affected loans.

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

Paragraphs 28A–28D and B35A–B35C propose that an entity:

(a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;

Answer: Yes. We agree with the proposed amendment that proposes the use of a systematic and rational basis for the allocation of insurance acquisition cash flows that are directly attributable to a group of insurance contracts that include contracts that are expected to arise from renewals of the contracts in that group. In this context, we also understand that entities should develop proper documentation of their methodology including the rationale used to allocate such acquisition costs to cash flows of the contracts to justify the application of this principle when they defer a portion of these costs as an asset.

(b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and

Answer: Yes. We agree with the proposed amendment. We understand that using the approach proposed in the ED would better reflect the expected profitability at initial recognition of the groups of contracts in the calculation of the Contractual Service Margin associated to these groups. This would avoid situations of inappropriate classification of certain groups of contracts as ‘onerous at the date of initial recognition’ merely because of the influence of significant acquisition costs that are paid before these groups are recognized in the statement of financial position of the entity.

(c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

Answer: Yes. We agree with the proposed amendment that requires an additional group impairment test specific to cash flows for expected contract renewals, reflecting impairment losses when the entity no longer expects future renewals of contracts in that group to occur. We agree that incorporating this test in IFRS 17 aligns insurance accounting with the general principles already used in IFRS 15 by entities in other segments.

Paragraphs 105A–105C propose disclosures about such assets.

Do you agree with the proposed amendments? Why or why not?

Answer: Yes. We agree with the proposed amendment that requires the disclosure of the reconciliation between opening and ending balances of the assets covered by the amendment in appropriate time bands aligned with the timing of expected inclusion of insurance acquisition cash flows, recognized as an asset, in the measurement of the group of contracts to which they are systematically allocated. This reconciliation will provide useful information for the users of financial statements about the timing and risks associated to cash flows of these groups. Additionally, we understand that the entities will include relevant qualitative information regarding the portfolios, contracts and relevant terms and conditions of insurance and reinsurance contracts impacted by this amendment in their accounting policies or notes to these reconciliations, resulting in relevant information for users of the financial statements.

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)

(a) Paragraphs 44, B119–B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage.

Paragraph B119B specifies criteria for when contracts may provide an investment-return service.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the proposed amendment. We believe that the consideration of the quantity of benefits and expected period of investment-return service in the identification of the coverage units will better reflect in the measurement of the Contractual Service Margin, and corresponding revenue recognized in profit or loss. In this context, we understand that the amendment will make financial information more relevant, where the methodology used to determine the coverage units for contracts without participation feature will better reflect the nature, timing and substance of the services embodied in these contracts.

(b) Paragraphs 45, B119–B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the proposed amendment with a similar view provided in the answer for Question 3, item (a) presented immediately above in the context for contracts with direct participation features.

(c) Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c)(v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Do you agree with the proposed disclosure requirements? Why or why not?

Answer: Yes. We agree with the proposed amendment. Our general view is that the actuarial methodology that will have to develop to capture and reflect the substance, nature and timing of revenue recognition can be substantially complex in practice. We understand that entities will have to properly document and disclose the rationale used to determine the coverage units for such groups of insurance contracts to substantiate the weighting of different patterns of benefits in the calculation and when they recognize these benefits in profit or loss in the future. Insurers will have to provide proper and comprehensive disclosures in their accounting policies in order to provide useful information about the methods used for revenue recognition for these services.

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

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

(a) the loss recognised on the group of underlying insurance contracts; and
(b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the amendment proposed. We understand that significant accounting mismatches could be eliminated when entities apply the amendment in the future, compared to the current text in IFRS 17 before this proposal. Our general view is that the amendment will make financial statements more relevant, reflecting better in profit and loss the economics of the proportionate reinsurance arrangements entered by the cedant, when losses from groups of underlying contracts are covered by such arrangements. Additionally, we welcome the approach presented in item (b) above that brings a more practical expedient for the calculation of the resulting income from the reinsurance coverage for the groups of onerous underlying contracts.

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

The proposed amendment to paragraph 78 would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the proposed amendment to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts, instead of the current approach that requires the disclosure by group. Our general view is that this change will result in financial information more aligned with the way insurers manage their business in practice. In other words, the proposed approach in the ED will better reflect in the balance sheet the notion of the definition of a 'portfolio' of insurance contracts, already incorporated in IFRS 17, disclosing contracts with risks that are similar and managed together in the statement of financial position. Under the current approach, depending on the position of inflows and outflows of groups of contracts there is a risk that a same group classified as an asset in one period could be classified, arbitrarily, as a liability in other periods, resulting in more complexity to compare financial positions of contracts in different points in time. The approach of the ED eliminates, to some extent, the burden of more extensive reconciliations in the notes to the financial statements to reconcile assets and liabilities at a group level with portfolios of contracts. We believe that the portfolio approach for disclosures will solve this issue, and consequentially reduce the operational burden discussed in more details in the ED for this topic.

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

The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the proposed amendment. Although we had not identified a broad applicability of the issue in our jurisdiction, our general view is that we agree to extend the application of the risk mitigation option in IFRS 17 for reinsurance contracts held when an insurer enters in such arrangements to mitigate financial risks in contracts with direct participation features. This extension will better reflect the economic substance of transactions when an entity uses reinsurance contracts held in connection with its strategy to hedge financial risks of contracts with direct participation features. Additionally, we understand that management should properly document the use of such strategy following the general requirements of IFRS for hedge accounting.

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)

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date.

(a) The proposed amendment to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the proposed amendment to defer the effective date of IFRS 17.

However, in the context of the application of IFRS 17 in the **Brazilian** domestic market, we observe that IFRS 17 (converted locally in the translated version of the IFRS 17 into CPC 50) could potentially be effective in a date later than 1 January 2022 in our jurisdiction. The effective date of CPC 50 for insurers supervised in our domestic market has not yet been defined as of the date of issuance of this letter. Different working groups are still carrying out the discussions for a number of technical topics. Consequentially, the effective date for local application might depend on (the list below is not exhaustive and only reflects certain preliminary views collected during the discussion of the questions for respondents raised by the ED):

- The general expectation of the efforts of implementation by insurers in the Brazilian market;
- Endorsement of CPC 50 by the Brazilian Central Bank, Brazilian Securities and Exchange Commission (CVM), Health Insurance Supervisor (ANS) and Brazilian Tax Authority (Receita Federal);
- The finalization by the Brazilian Insurance Supervisor (SUSEP) of a Memorandum of Understanding including certain views about the impact of IFRS 17 in the Brazilian domestic market; and
- Consolidation of a more complete understanding by preparers about the impacts of IFRS 17 in the financial position of local insurers, compared to current practice.

IFRS 17 is still under discussion by the Argentinean and Mexican markets and effective date might happen later than 1 January 2022, as compared to the effective date proposed by the ED.

(b) The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the proposed amendment, subject to the same comments provided for Question 7, item (a) above.

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

(a) Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.

Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims.

Do you agree with the proposed amendments? Why or why not?

Answer: Yes. We agree with the proposed amendment that incorporates the modification and reliefs for previous business combinations. Our general view is that this relief will help insurers to implement the standard when the entity does not have reasonable and supportable information to apply a retrospective approach at the transition date to IFRS 17. Additionally, we understand that entities will have to prepare a complete set of documentation to support the use of this exemption in their evaluation of the level of impracticability in this context.

(b) The proposed amendment to paragraph C3(b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the proposed amendment that permits the application of the option in B115 to avoid accounting mismatches and distortions in profit and loss in future periods, provided that the entity continues not applying the use of hindsight in such designations to avoid any potential abuse in the application of the principles proposed by the standard.

(c) Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Do you agree with the proposed amendment? Why or why not?

Answer: Yes. We agree with the amendment proposed to avoid accounting mismatches when the entity applies the fair value approach when the criteria relating to risk mitigation is met.

Question 9—Minor amendments (BC147–BC163)

This Exposure Draft also proposes minor amendments (see paragraphs BC147–BC163 of the Basis for Conclusions).

Do you agree with the Board's proposals for each of the minor amendments described in this Exposure Draft? Why or why not?

Answer: Yes. We agree with the minor amendments proposed. Our general view is that the changes that will be incorporated in different areas and topics of IFRS 17 will provide more clarity for preparers and users of financial statements.

Question 10—Terminology

This Exposure Draft proposes to add to Appendix A of IFRS 17 the definition 'insurance contract services' to be consistent with other proposed amendments in this Exposure Draft.

In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. If that change is made, those terms would become 'service units', 'service period' and 'liability for remaining service', respectively, throughout IFRS 17.

Would you find this change in terminology helpful? Why or why not?

Answer: Although we understand the general objectives of the changes proposed in the terminology of the standard by the ED, our general view is that the language (or terminology) used in the current text of IFRS 17 is sufficient for preparers and users of the financial statements, without material changes. There is a general perception collected in different sections held with working groups in our jurisdiction during the preparation of this letter that could be summarized as follow:

- The term 'Liability for Remaining Coverage (or LRC)' is better understood in the context of the insurance business
- The term 'coverage units' better reflects the economic substance of insurance contracts that primarily provide insurance coverage by transference of significant insurance risk, even when such contracts incorporate investment-service related activities that could impact the identification and methodology for coverage units.
- We genuinely do not believe insurers could eventually ignore the weight of investment related-services in the 'coverage units' if this terminology changes to 'service units'.