

Beyond the GAAP

Mazars' newsletter on accounting standards

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Editorial

In March, the IASB completed its marathon discussions on the proposed amendments to IFRS 17 – *Insurance Contracts* (see our 'A Closer Look' feature). The Exposure Draft is now scheduled for publication at the end of June, and the Board has tentatively decided that the comment period will be three months (thus including August).

Meanwhile, the IFRS IC has been particularly busy, publishing eight agenda decisions, six of which are discussed in the 'IFRS highlights' section below. We particularly welcome the publication of clarifications as to when and how entities are expected to implement such agenda decisions.

Enjoy your reading!

Edouard Fossat

Isabelle Grauer-Gaynor

IFRS highlights

Implementation period for accounting policy changes resulting from IFRS IC agenda decisions

The IFRS IC has clarified its position on how quickly entities should implement its published agenda decisions.

First, it reminds entities that the process for publishing an IFRS IC agenda decision often provides new information that is useful in applying IFRSs and that was not otherwise available, which could therefore lead some entities to review their accounting policies.

It then goes on to state that entities that need to change an accounting policy as a result of an IFRS IC agenda decision would be entitled to sufficient time to consider and implement the change (for example, an entity may need to obtain new information or adapt its systems to implement a change).

As no further details are given on what constitutes 'sufficient' time, entities must make use of judgement to determine how much time is required to implement the accounting policy change.

In addition to this clarification in IFRIC Update, an article written by Sue Lloyd (the vice-chair of the IASB and chair of the IFRS IC) was published on the IASB's website on 20 March 2019. In the article, Ms Lloyd clarifies that the change an entity needs to make to the accounting treatment of a transaction as a result of an IFRS IC decision is not necessarily the correction of an error (i.e. the previous accounting treatment was not an error simply because it was inconsistent with an agenda decision). She also states that the IFRS IC envisaged a period of months, rather than years, for implementing such an accounting policy change.

For more details, see the March issue of IFRIC Update (<https://www.ifrs.org/news-and-events/updates/ifric-updates/march-2019/>) and Sue Lloyd's article (<https://www.ifrs.org/news-and-events/2019/03/time-is-of-the-essence/>).

IASB publishes update on Principles of Disclosure project

On 21 March, the IASB published a Project Summary on its *Principles of Disclosure* project, following up on the *Disclosure Initiative – Principles of Disclosure* Discussion Paper published in March 2017 (see 'A Closer Look' in Beyond the GAAP no. 110 – April 2017). The Project Summary explains how stakeholders' feedback on the Discussion Paper will be taken into account.

Thus, the Board will **not** undertake the following activities, which stakeholders felt would not be effective in resolving the problems with financial disclosures:

- developing centralised disclosure objectives, as these are unlikely to be specific enough to be effective;
- developing principles of effective communication, as many respondents felt that these would be either too generic, or not necessary in any case, given that some entities have already improved their disclosures even without such principles. The Project Summary draws attention to the fact that the IASB has already published a document with examples of good practice in this regard, in October 2017 (*Better communication in financial reporting – Making disclosures more meaningful*);
- developing guidance on the location of disclosures on accounting policies;
- developing principles for the format of information and data disclosed in the notes;
- developing guidance on the placement of 'IFRS information' outside the financial statements and 'non-IFRS information' within the financial statements.

Instead, the Board is pursuing the following activities:

- a targeted review of the disclosure requirements in individual standards, starting with IAS 19 – *Employee Benefits* and IFRS 13 – *Fair Value Measurement*. This will also help the IASB to develop its own principles for drawing up disclosure requirements;
- developing guidance on applying materiality judgements to accounting policy disclosures (on which an exposure draft is expected in a few months' time);
- considering some topics as part of the IASB's separate project on primary financial statements (the roles of the primary financial statements and the notes; presentation of aggregates relating to EBIT, etc.; unusual or non-recurrent items; and presentation of performance measures);
- considering the implications of technology for financial communication as part of the IFRS Foundation Technology Initiative.

The document is available on the IASB's website here: <https://www.ifrs.org/-/media/project/disclosure-initiative/disclosure-initiative-principles-of-disclosure/project-summary/di-principles-of-disclosure-project-summary.pdf?la=en>

Taking account of credit enhancement in the measurement of expected credit losses

The IFRS IC was asked to clarify whether a financial guarantee or other credit enhancement should be taken into account in the measurement of expected credit losses on the asset to which it relates. The request related to situations in which the credit enhancement must be recognised separately under IFRSs.

The IFRS IC referred back to paragraph B5.5.55 of IFRS 9, which states that a financial guarantee or other credit enhancement may only be included in the measurement of expected credit losses if it is both:

- part of the contractual terms of the asset in question; and
- not recognised separately.

Thus, the IFRS IC concluded that IFRS 9 is already sufficiently clear with regard to this situation. As the credit enhancement is already recognised in the balance sheet under the applicable standard, it shall not be taken into account when measuring expected credit losses on the asset to which it relates. Otherwise, this would run the risk of 'double counting' of these contractual rights.

Presentation of 'cured' credit-impaired financial assets in the statement of profit or loss

IFRS 9 specifies that interest revenue from credit-impaired financial assets (i.e. those at Stage 3 of the impairment model) shall be calculated on the basis of the gross carrying amount after impairment. In practice, this means that the interest revenue recognised is less than the contractual revenue, but this is not recognised as impairment. Instead, this results in reduced interest revenue.

The IFRS IC received a request to clarify the correct presentation in the statement of profit or loss when the assets are either paid in full or reclassified from Stage 3 of the impairment model following an improvement in their credit risk level.

The Committee concluded that IFRS 9 was sufficiently clear and that any adjustment should be presented as a **reversal of expected credit losses**, including any amount relating to unrecognised interest that was not recorded as impairment. Thus, the reversal of impairment losses may exceed the total amount of impairment losses recorded previously.

Real estate development and borrowing costs (IAS 23)

The IFRS IC has published an agenda decision on the capitalisation of borrowing costs relating to the construction of a residential multi-unit real estate development, sold as individual units.

The question put to the IFRS IC was whether a real estate developer who borrowed funds specifically to construct such a complex could capitalise the borrowing costs as part of the

cost of constructing the complex. The fact pattern presupposes that the housing complex is sold to end customers as individual units, under contracts that specify that control is transferred over time, i.e. as construction work progresses.

Thus, the question was whether a qualifying asset exists in the specific case of real estate development when control is transferred over time. In its March 2019 agenda decision, the Committee concluded that:

- the receivable that the entity recognises in relation to its end customers, in accordance with IFRS 15, is a financial asset and therefore cannot be a qualifying asset (IAS 23.7);
- the contract asset (as defined in Appendix A of IFRS 15), which corresponds to revenue recognised over time for which the right to consideration has not yet been established, is not a qualifying asset because the intended use of the asset is to collect cash (or another financial asset) and this is not a use for which it necessarily takes a substantial period of time to get ready;
- unsold inventory under construction (i.e. units that are still on the market) is not a qualifying asset as it is ready for sale in its current condition. The developer intends to sell the part-constructed units as soon as it has the opportunity, i.e. as soon as it finds a buyer. In other words, work-in-progress will be transferred to the customer on signature of the contract.

This IFRS IC agenda decision is significant for real estate developers, as current practice is usually to capitalise specific borrowing costs. Thus, this will require a change in accounting policy for many entities. This must be carried out in a timely fashion, although entities are entitled to 'sufficient' time to implement the change, particularly if they need to obtain new information or adapt their systems (see the first item in 'IFRS highlights', above).

Customer's right to receive access to a supplier's software hosted on the cloud

The IFRS IC has published an agenda decision on how a customer accounts for its right to access software hosted on the cloud (Software as a Service or SaaS). The request submitted to the IFRS IC specified that the software runs on cloud infrastructure managed and controlled by the supplier, the customer accesses the software as needed (over the internet or via a dedicated line), and the contract does not convey to the customer any right to the infrastructure (i.e. the tangible assets).

The IFRS IC was asked whether the customer received an intangible asset (the software) at the contract commencement date or a service over the contract term.

Having noted that a customer receives a software asset at the contract commencement date only if either (a) the

contract contains a software lease, or (b) the customer otherwise obtains control of the software at the contract commencement date, the IFRS IC considered whether either of these conditions is met.

Does the contract contain a software lease?

The Committee's analysis began with the definition of a lease set out in IFRS 16, which states that a contract is a lease if it conveys to the customer the right to use an asset, i.e. if the customer has the right to obtain substantially all the economic benefits from use of the asset (an identified asset) and the right to direct the use of that asset. The IFRS IC noted that a right to receive future access to the supplier's software, running on the supplier's infrastructure, does not in itself convey the right to direct the use of the software (how and for what purpose to use the software). The Committee observed that the supplier would retain this right, e.g. by deciding how and when to update or reconfigure the software, or deciding on which hardware the software will run.

Consequently, the Committee concluded that the contract does not contain a software lease if it only conveys to the customer the right to receive access to the supplier's software over the contract term.

Does the customer receive a software intangible asset?

Starting with the definition of an intangible asset set out in IAS 38, the Committee observed that a contract that conveys to the customer the right to receive access to the supplier's software over the contract term is not a contract that conveys to the customer the right to receive an intangible asset at the contract commencement date.

The right to receive future access to the supplier's software does not give the customer, at the contract commencement date, the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

Consequently, the Committee concluded that a contract that only conveys to the customer the right to receive future access to the supplier's software is a service contract.

Physical settlement of contracts to buy or sell non-financial items (IFRS 9)

Contracts to buy or sell non-financial items (such as commodities) are accounted for as IFRS 9 derivatives except when they are entered into and continue to be held for the purpose of the receipt, delivery or usage by the entity of a non-financial item (the 'own-use scope exception' defined in IFRS 9.2.4).

The IFRS IC received a request relating to contracts that do not fall within the scope of the own-use exception but that may nonetheless be settled physically by the delivery of the underlying non-financial item. In the fact pattern in question, the derivatives are not designated as part of a hedging relationship either.

The question put to the IFRS IC was whether, having initially classified the derivative as a financial instrument and measured it at fair value through profit or loss, an entity could make an additional journal entry once the underlying item had been delivered, reversing the previous entry and making a corresponding adjustment.

In this specific situation, the Committee concluded that physical settlement is not sufficient in itself to subsequently change the accounting treatment required under IFRS 9. Therefore, an entity is not permitted to retrospectively determine that the derivative meets the own-use scope exception or designate it as part of a hedging relationship at contract settlement. In other words, it is not possible to make an additional entry that would retrospectively change the impact on profit or loss of the entries made during the derivative's term, which measured it at FVPL.

Application of the 'highly probable' criterion when the notional amount of the hedging instrument is dependent on the outcome of the hedged item (IAS 39/IFRS 9)

IFRS 9 (and IAS 39) permit forecast transactions to be designated as hedged items on condition that they are deemed to be 'highly probable'.

The request put to the IFRS IC asked how the 'highly probable' criterion should be applied when the notional amount of the hedging instrument (load following swap) is dependent on the outcome of a hedged transaction (forecast energy sales).

The Committee reached the following conclusions:

- The fact that the Board did not carry forward the hedge accounting section of the IAS 39 Implementation Guidance into IFRS 9 does not mean it has rejected that guidance. In particular, this section includes additional guidance on hedging forecast transactions that is relevant here.
- When assessing whether a forecast transaction is highly probable, an entity must take account of uncertainty relating to both its timing and its magnitude (IAS 39.IG F3.7 and IAS 39.IG F3.11).
- In order for the forecast transaction to be eligible for a cash flow hedge, it must be documented with sufficient specificity that the entity can identify it when it occurs. Thus, specifying a percentage of forecast sales during a period is not sufficient as the entity would be unable to identify the particular transaction (IAS 39.IG F3.10 and IAS 39.IG F3.11).
- The terms of the hedging instrument (i.e. load following swap) are not taken into account when assessing whether the forecast transaction is highly probable.

Consequently, the hedging relationship described in the fact pattern put to the IFRS IC (hedging all forecast sales, with an adjustment to the derivative to reflect the actual volume of

sales) cannot be designated as a cash flow hedge, as the hedged forecast transaction does not meet the criteria to be classified as ‘highly probable’.

The IFRS IC agenda decisions discussed in the six ‘Highlights’ above are just a selection of the decisions published in IFRIC Update this month; it can be found on the IASB’s website here:

<https://www.ifrs.org/news-and-events/updates/ifric-updates/march-2019/>.

European highlights

ESMA publishes 2018 report on European enforcers’ regulatory and enforcement activities

The European Securities and Markets Authority (ESMA) published its annual report on European enforcers’ activities on 27 March 2019.

In this report, ESMA provides an overview of the activities and actions undertaken by enforcers in 2018, and on sanctions imposed, in order to promote good practice in financial reporting. In addition to the usual focus on application of IFRSs, enforcers have this year expanded their activities to cover Alternative Performance Measures and non-financial information, in line with the enforcement priorities for 2018, published in autumn 2017.

The report states that European enforcers examined the (interim or annual) published financial statements of 947 issuers (around 16% of the issuers listed on EU regulated markets). Of these, 885 were ex-post examinations of annual or interim financial statements, and actions were taken against 296 issuers (33% of the ex-post examinations), primarily due to infringements in the following areas:

- presentation of financial statements;
- impairment of non-financial assets;
- accounting for financial instruments.

The actions required were generally to make a correction in future financial statements (232 issuers), to publish a corrective note (58 entities) or, in a very few cases (6 issuers), to reissue amended financial statements.

Still on the subject of enforcement, the report notes that enforcers also carried out ex-post examinations of the financial statements of 260 issuers to assess their compliance with ESMA’s 2017 enforcement priorities (for more details of these, see Beyond the GAAP no. 115 – October 2017). Enforcers took actions against 28 of these issuers, relating to:

- IAS 7 – *Statement of Cash Flows*;
- revenue in accordance with IFRS 15;
- business combinations in accordance with IFRS 3.

In the same report, ESMA and the European enforcers remind issuers of the topics on which they will focus in 2019, including issues relating to IFRS 9 and IFRS 15 as well as disclosures on the impact of implementation of IFRS 16 – *Leases*.

As noted above, ESMA also reports on enforcement activity relating to the following areas:

- Alternative Performance Measures (APMs): Enforcers examined the financial statements of 746 issuers (or 13% of European issuers), and 652 of these examinations covered all the principles set out in ESMA’s Guidelines on Alternative Performance Measures. Actions were taken against 136 issuers (or 18% of the issuers examined), with similar proportions of each action to those cited above for examinations of financial statements. The three main topics for which actions were required were: reconciliations of APMs with IFRS data (31%), definitions of Alternative Performance Measures (24%) and explanations on the use of APMs (16%);
- Non-financial information: 819 issuers were examined by enforcers, with 484 examinations checking for the existence of non-financial information, and 385 examinations looking at both the existence and the content of the non-financial statement. Actions were taken against 51 of the issuers examined, most of which simply required a correction in future non-financial statements.

In the report, ESMA also discusses its work on convergence of the supervision activities of national enforcers, and mentions its contribution to standard-setting by working with the IASB, EFRAG, the other European (prudential) regulators and other international market regulators.

ESMA’s 2018 report on enforcers’ activities is available via the following link:

https://www.esma.europa.eu/sites/default/files/library/esma71-99-1128_press_release_2018_enforcement_report.pdf

Annual Improvements 2015-2017 Cycle adopted by the EU

On 14 March 2019, the European Commission adopted the Annual Improvements 2015-2017 Cycle, which was published by the IASB on 12 December 2017.

These annual improvements amend the following standards (for more details on the scope of these amendments, see Beyond the GAAP no. 117 – December 2017):

- IAS 12 – *Income Taxes*, clarifying that the income tax consequences of the distribution of dividends on financial instruments classified in equity must be accounted for in profit or loss at the date the dividend liability is recognised;
- IAS 23 – *Borrowing Costs*, clarifying the concept of specific borrowing;

- IFRS 3 – *Business Combinations* and IFRS 11 – *Joint Arrangements*, clarifying the accounting treatment of the acquisition of an interest in a joint operation.

Commission Regulation (EU) 2019/412, which was published in the OJEU on 15 March 2019, is mandatory for financial periods commencing on or after 1 January 2019.

It is available here:

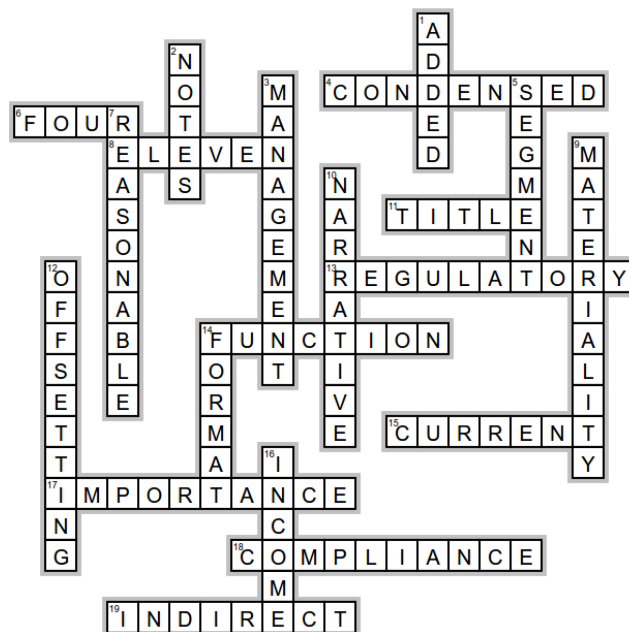
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2019.073.01.0093.01.ENG&toc=OJ:L:2019:073:TOC.

New EFRAG appointments

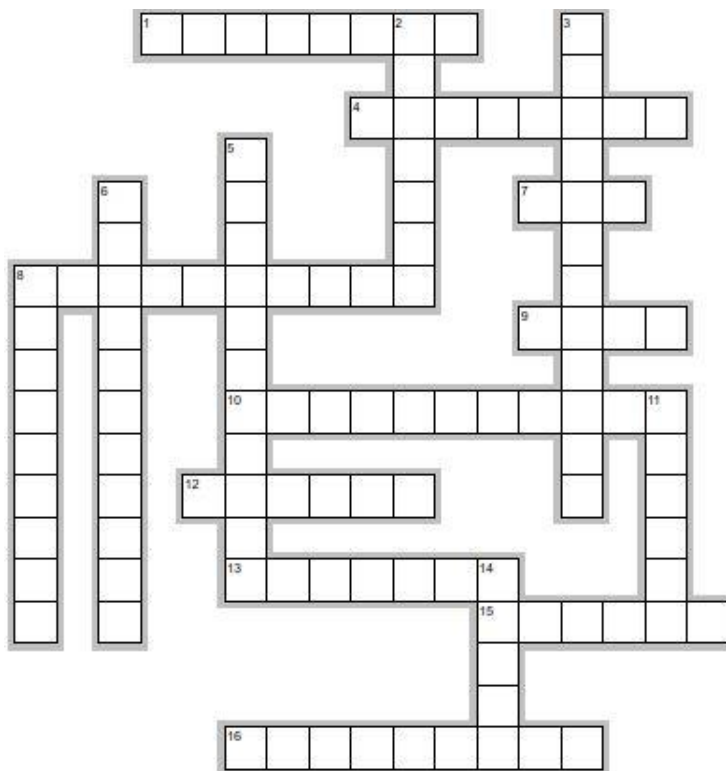
Chiara Del Prete has been appointed Chair of the TEG of EFRAG for a three-year term, renewable once, and Saskia Slomp has been appointed CEO of EFRAG. Their terms began on 1 April 2019.

Chiara Del Prete and Saskia Slomp replace Andrew Watchman, whose term ended this month.

Crossword: last month's solution



Crossword: IAS 7 – Key points of the cash flow statement



Across

1. This method is most commonly used for presenting cash flows, although it is not the one recommended in IAS 7
4. The standard does not specify a classification for this type of cash flow
7. Some cash flows, particularly those relating to items in which the turnover is quick, the amounts are large, and the maturities are short, may be presented in this way
8. Cash flows relating to transactions in a foreign currency or to a foreign subsidiary shall be converted at the exchange rate between the foreign currency and this currency at the date of the cash flow
9. Information on such flows is useful to users of financial statements, and hence forms one of the primary financial statements
10. A recent amendment to IAS 7 requires entities to present disclosures on changes in these items when arising from financing activities
12. Cash flows relating to this type of tax are classified as cash flows from operating activities, unless they can be specifically identified with other activities
13. IAS 7 reminds issuers that it may be relevant to disclose cash flow information relating to each of these when they are reportable

15. Cash flows relating to a hedging instrument are classified in the same manner as cash flows relating to this item
16. Cash flows relating to services they provide are classified as cash flows from operating activities and accounted for in accordance with IAS 19

Down

2. An entity must make specific disclosures on cash flows resulting from losing or obtaining it when related to subsidiaries or other operating units
3. Most of the requirements in IAS 7 relate to this
5. The term used in the standard to refer to instruments held for the purposes of meeting short-term cash commitments
6. Where no specific classification is required under IAS 7, this accounting principle applies
8. Activities that result in changes in the amount and composition of the contributed equity and borrowings of the entity
11. Such a transaction may give rise to several different types of cash flow that must be classified differently
14. The standard states that cash flows shall be classified according to this many different types of activity

A Closer Look

IASB planning amendments to IFRS 17 – *Insurance Contracts* (cont'd)

During its March meeting, the IASB continued its discussions on the amendments necessary to IFRS 17 – *Insurance Contracts*. Readers will recall that these discussions aim to address the criticisms raised by stakeholders and thus to represent the performance of insurance contracts in a way that will be more useful to users of financial statements.

At the end of this meeting the IASB tentatively decided to add additional amendments to the provisional list drawn up in January and February (see *Beyond the GAAP* no. 129 – January 2019 and *Beyond the GAAP* no. 130 – February 2019).

The new amendments relate to the following topics:

- credit cards that provide insurance coverage;
- transition requirements for loans that transfer significant insurance risk;
- transition requirements for the risk mitigation option under the variable fee approach;
- disclosure requirements relating to insurance contracts.

It should be noted that the IASB has decided to retain the current requirements of IFRS 17 relating to the level of aggregation of insurance contracts. This will no doubt come as a disappointment to life insurers, given that the annual cohort requirement adds complexity and does not accurately reflect the way in which life insurers monitor the performance of their contracts.

The official announcement of these decisions is available on the IASB's website via the following link:

<https://www.ifrs.org/news-and-events/updates/iasb-updates/march-2019/>.

The agenda papers for the topics addressed by the IASB in March are also available on the IASB's website, via the following link:

<https://www.ifrs.org/news-and-events/calendar/2019/march/international-accounting-standards-board/>.

Beyond the GAAP will address each of these topics below, point by point.

1. Credit cards that provide insurance coverage

The IASB has decided to exclude from the scope of IFRS 17 credit card contracts that provide insurance coverage where the price of the contract does not reflect the individual insurance risk of each customer. IASB Update does not specify which standard should be used to account for these contracts. Agenda paper 2D, prepared in advance of the meeting by the IASB staff, seems to indicate that IFRS 9 should be used to account for the loan commitment (during

the loan commitment phase) or loan (once drawn), while IFRS 15 should be used to account for the insurance component (i.e. the fixed-fee service contract). However, we will need to wait for the exact wording in the Exposure Draft of the proposed amendments before we can be sure of this.

2. Transition requirements for loans that transfer significant insurance risk

In our previous issue, we reported on February's decision to permit entities to account for loans that transfer significant insurance risk applying either IFRS 9 or IFRS 17.

At its March meeting, the Board clarified the transition requirements for these loans. It covered three different possible situations, which we will address in turn:

- If an entity elects to apply **IFRS 17** to these loans, the requirements of IFRS 17 shall apply, with no special exemptions or adaptations for loans that transfer significant insurance risk.
- If an entity elects to apply **IFRS 9** to these loans and initially applies IFRS 9 **at the same time** as IFRS 17, the current transition requirements of IFRS 9 shall apply.
- If an entity elects to apply **IFRS 9** to these loans and initially applies IFRS 9 **before** applying IFRS 17, it shall apply (a) the current transition requirements of IFRS 9 that are necessary for the proposed amendments on loans that transfer significant insurance risk, and (b) additional requirements for loans that transfer significant

insurance risk, to be added to IFRS 9 by means of amendments. The new requirements will be as follows:

- at the date the entity first applies the new amendments, the entity has to review the designations of **financial liabilities** at fair value through profit or loss (FV-PL) under the fair value option. The entity must revoke previous designations at FV-PL if the accounting mismatches no longer exist as a result of including loans that transfer significant insurance risk within the scope of IFRS 9, and it may elect to newly designate as measured at FV-PL financial liabilities previously measured at amortised cost if this reduces a new accounting mismatch.

It should be noted that financial assets are not covered by the IASB's agenda decision, as IFRS 17.C29 to C33 already permit entities to reassess previous designations of **financial assets** under the fair value option when IFRS 9 is initially applied before IFRS 17.

- Entities are permitted, but not required, to restate prior periods, provided that certain conditions are met (these will likely be set out in the forthcoming Exposure Draft, scheduled for publication in June). It should be noted that agenda paper 2F, prepared in advance of the March meeting by the IASB staff, recommends the following conditions for permitting an entity to restate prior periods: (a) it is possible

without the use of hindsight, and (b) the restated prior period comparative information reflects all the requirements of IFRS 9 for the affected instruments.

The amendments would exempt entities from the requirement to present quantitative information under paragraph 28(f) of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*.

However, on initial application of the amendments, entities would be required to disclose specific information on these loans in the notes to the financial statements (in particular: their previous classification, their carrying amount immediately before applying the amendments, their new classification under IFRS 9 and their new carrying amount at the start of the period of initial application of the amendments, as well as the carrying amounts relating to any redesignation or dedesignation under the fair value option, and the reasons for any such redesignation or dedesignation). These disclosures are in addition to the existing disclosure requirements under IFRSs, such as the disclosures already required in IFRS 17.C32 and C33 on reassessments of previous designations of financial assets under the fair value option.

As a reminder, the choice between IFRS 9 and IFRS 17 can be made at the portfolio level (as defined in IFRS 17).

3. Transition requirements[†] for the risk mitigation option

In our last issue, we reported the IASB's decision to retain prohibition of retrospective application of the risk mitigation option on transition. However, the IASB asked the staff in February to continue to explore alternative proposals that would address stakeholders' concerns about the results of this prohibition.

In March, the IASB made some changes to the way in which the risk mitigation option should be applied on transition to IFRS 17, although it did not reverse its February decision to retain prohibition of retrospective application at the transition date:

- Eligible risk mitigation instruments[‡] held at the transition date may be designated **prospectively** as used for risk mitigation as defined in IFRS 17 **no later** than the IFRS 17 transition date (i.e. after 1 January 2022 the risk mitigation option may only be applied to risk mitigation instruments acquired after transition to IFRS 17).

- Moreover, entities that apply the risk mitigation option described above prospectively at the transition date may apply the fair value transition approach to groups of insurance contracts with direct participation features to which the risk mitigation option has been applied. Thus, the fair value transition approach is permitted even for entities that can apply IFRS 17 retrospectively, provided they use the risk mitigation option at transition. However, it is only permitted if the designated risk mitigation instruments were already held for the purposes of mitigating the entity's financial risk **before the transition to IFRS 17**. This possibility has been added with a view to reducing accounting mismatches that could have arisen if the entity had prospectively applied the risk mitigation option under the full retrospective approach.

[†] This option exempts entities from the standard accounting requirements for insurance contracts with direct participation features under the variable fee approach (VFA). See paragraphs B115 to B118 of IFRS 17, and the January 2019 issue of *Beyond the GAAP*, which discusses reinsurance contracts issued.

[‡] Derivatives and reinsurance contracts held

4. Disclosure requirements relating to insurance contracts

The IASB has decided to require the following additional disclosures in the notes to the financial statements, to reflect the amendments approved by the Board in January (see Beyond the GAAP no. 129 – January 2019):

- Specific disclosures on the contractual service margin (CSM) recognised in profit or loss for contracts that include investment-related services (under the VFA) or an investment-return service (under the IFRS 17 general model) in addition to insurance coverage, and for which the period over which the CSM is recognised includes the period during which these additional services are provided.
 - In particular, entities must present **quantitative** disclosures (in appropriate time bands) on when they expect to recognise in profit or loss the CSM remaining at the end of the reporting period (in other words, the IASB has decided to require quantitative disclosures in all cases, removing the option previously permitted under paragraph 109 of providing this information in a qualitative format);
 - They must also present an explanation of their approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment-return services when determining the CSM allocation pattern, in line with the existing requirements of paragraph 117 relating to the significant judgements made.
- Specific disclosures on acquisition cash flows recorded as an asset which have not yet been included in the measurement of recognised groups of insurance contracts. In particular:

- Reconciliation of the carrying amount of this asset at the beginning and the end of the reporting period, specifically noting any changes due to recognition of any impairment loss or reversals. The level of aggregation of this information should be consistent with the aggregation used by the entity when applying paragraph 98 of IFRS 17 to the related group of insurance contracts;
- Quantitative disclosure, in appropriate time bands, of the expected timing of the inclusion of these acquisition cash flows in the measurement of recognised group of insurance contracts.

The IASB decided to retain all other disclosure and transition requirements of IFRS 17, with the exception of the amendments detailed in agenda paper 2H, prepared in advance of the March meeting by the IASB staff. This paper brings together the new requirements already discussed in our articles on IFRS 17, together with some additional points. For example, this paper states that:

- disclosures on risk mitigation should be presented in the notes, with separate presentation of the effect of applying the risk mitigation exception for the use of derivatives and for the use of reinsurance contracts held, if this is considered useful;
- the gain recognised on reinsurance contracts held to reduce risk exposure to onerous underlying contracts is similar to the loss component on the onerous contracts, and IFRS 17 already requires that the disclosure requirements for insurance contracts issued shall be adapted to reflect the features of reinsurance contracts held.

5. What are the next steps?

The IASB has now officially completed its deliberations on the topics identified by the staff last October. At its April meeting, the IASB plans to review the package of amendments, to ensure that, on the whole:

- the benefits of amending IFRS 17 outweigh the costs; and
- the proposed amendments would not unduly disrupt implementation processes already under way.

At the April meeting, the IASB staff expect to request the Board's permission to start the balloting process for the proposed amendments to IFRS 17. The Exposure Draft is still scheduled for publication at the end of June.

Key points to remember

Progress was made on the following topics at the March meeting:

- excluding credit cards that provide insurance coverage from the scope of IFRS 17;
- establishing the transition requirements for loans that transfer significant insurance risk, which entities issuing such contracts may elect to account for under either IFRS 9 or IFRS 17;
- establishing the transition requirements for the risk mitigation option;
- adding new disclosure requirements relating to insurance contracts.

The Board has now completed its deliberations on the topics identified by the staff as potentially requiring amendments to IFRS 17.

The list of amendments to IFRS 17 is complete. The list will be reviewed one final time at the April meeting, before the staff draw up the final Exposure Draft of the amendments.

It will be necessary to keep a close eye on the exact wording of the forthcoming amendments, to ensure that they will achieve the desired aims.

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Events and FAQ

Frequently asked questions

IFRS

- Diluted earnings per share
- Assessing the level of control
- Recognising revenue from licensing agreements
- Accounting treatment of a convertible bond
- What disclosures are required in interim financial statements on IFRS 15?
- Asset acquisition vs. business combination
- Accounting treatment of preference shares

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
13-17 May	11-12 June	7 May	22-23 May
17-19 June	16-17 September	4 June	4 June
22-26 July	25-26 November	9 July	3-4 July

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