STAFF PAPER

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IASB Meeting

Project	**Insurance Contracts**
Paper topic	Mandatory effective date of IFRS 17

CONTACT(S)	Andrea Pryde	apryde@ifrs.org	+44 20 7246 6491
	David Ji	dji@ifrs.org	+44 20 7246 6494

Purpose of this paper

1. This paper asks the International Accounting Standards Board (the Board) to specify the mandatory effective date for IFRS 17 *Insurance Contracts*, assuming that the Board issues the Standard in the first half of 2017.

Staff recommendation

2. The staff recommend that:

   (a) an entity should apply IFRS 17 for annual periods beginning on or after 1 January 2021, assuming IFRS 17 is issued in the first half of 2017. This would allow 3 ½ to 4 years from the issuance of IFRS 17 to the mandatory effective date.

   (b) an entity may apply IFRS 17 before 1 January 2021, provided the entity also applies IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* at the same time.

Background

3. *The IASB and IFRS Interpretations Committee Due Process Handbook*[1] paragraph 6.35 provides the following guidance on setting the mandatory effective date of a new Standard:

> The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

4. Consistent with this guidance, the 2013 Exposure Draft *Insurance Contracts* (2013 Exposure Draft) proposed that IFRS 17 would be effective approximately three years after its publication. Paragraph BC184 of the Basis for Conclusions to the 2013 Exposure Draft noted that the Board generally allows 12–18 months after the issuance of a new Standard before its mandatory effective date. However, the Board suggested providing a relatively long implementation period of approximately three years because the proposed Standard would be pervasive for most entities that issue insurance contracts, and the task of implementing the proposals would be extensive. The long implementation period was intended to allow entities time to interpret the new requirements, assess and perform any new processes, procedures, controls and systems, prepare comparative information and educate internal and external stakeholders.

Summary of feedback

5. This section summarises feedback on the 2013 Exposure Draft as well as subsequent feedback.

6. About one third of the 196 comment letters received provided comment on the proposed three-year implementation period following the issuance of IFRS 17. Stakeholders also commented on the proposed implementation period at various outreach meetings and in correspondence. The majority agreed with the proposal in the 2013 Exposure Draft. The other respondents to the 2013

[1] Updated in June 2016.

Exposure Draft either recommended a longer period, ranging from four to 10 years, or suggested no definitive timeframe, stating only that the Board needed to set a date that permitted sufficient implementation time.

7. Most respondents to the 2013 Exposure Draft and interested parties agreed with the Board that the effect of the new Standard would be significant and would encompass multiple areas of operations as a result. Some of the main challenges identified arose from the need to:

   (a) develop and test new processes, procedures, controls and systems of financial reporting and related operations;

   (b) develop guidance and interpretations of the new requirements; and

   (c) provide adequate education and training for internal and external stakeholders.

8. The staff note that most of those who commented agreed on what measures would be necessary to implement the Standard but their views differed on whether approximately three years would give them sufficient time. Different views on the timeframe are likely to reflect differences in the extent to which accounting and regulatory requirements previously applied by an entity differ from the requirements in IFRS 17 and the number and type of the entity's insurance contracts to which the Standard will apply.

9. Some respondents suggested the resource constraints for small and medium-sized entities would make implementation more challenging than for larger entities and therefore small and medium-sized entities should be allowed a longer implementation period.

10. Some interested parties thought entities that measure insurance liabilities on a cost basis, applying existing accounting practices, would find the introduction of current value measurement for insurance contracts challenging. Aside from operational challenges, these interested parties were also concerned about the effect of current value measurement of insurance contracts on equity, and suggested that the Board should allow more time for entities to meet any increased regulatory capital requirements that follow the reporting of higher liabilities.

Staff analysis

11. The Board has a practice of allowing a period of around 12–18 months between the finalisation of a new Standard and its mandatory effective date, as noted in paragraph 4 of this paper. However, in the case of major Standards that have a pervasive effect on entities and in particular where there is complexity in application, the Board has allowed longer implementation periods to assist entities in facing the operational challenges in implementing those Standards.

12. The staff expect that the complexity of implementing IFRS 17 is at least as great as the complexity of implementing other Standards recently issued by the Board. The staff believe that the level of complexity is probably most comparable to the complexity for banks of applying the new expected credit loss model in IFRS 9. However, as it did with those other Standards, the Board needs to balance the advantages of a longer implementation period for preparers against the disadvantages of allowing inferior accounting practices, arising from IFRS 4 *Insurance Contracts*, to continue.

13. The table below compares the implementation periods, and corresponding effective dates of the recently issued IFRS 9, IFRS 15 and IFRS 16 *Leases*.

	IFRS 9 *Financial Instruments*	**IFRS 15 *Revenue from Contracts with Customers***	**IFRS 16 *Leases***
Implementation period provided:	Approximately 3 ½ years	Approximately 2 ½ years when published	Approximately 3 years
Issue date:	24 July 2014	28 May 2014	13 January 2016
Effective date:	1 January 2018	1 January 2017 (subsequently extended to 1 January 2018 because of a combination of factors, including amendments to the requirements)	1 January 2019

14. It is useful in considering the effective date of IFRS 17 to note the main reasons given for the periods allowed to implement the above Standards as in each case there was a specific basis for the decisions:

    (a) when determining the effective date of IFRS 9 the staff recommended that consideration be given to an effective date of 1 January 2017 or 1 January 2018 to allow time for the complexity of implementing the new expected credit loss model with the latter date being chosen in large part not due to operational considerations but rather to allow further visibility of the decisions about insurance contracts accounting before entities needed to implement IFRS 9;

    (b) for IFRS 15 the initial effective date was set providing a longer time period than usual due to the range of entities effected and the importance of revenue recognition; and

    (c) for IFRS 16 the effective date was set considering the large operational exercise involved in transitioning to IFRS 16, along with the fact that many entities were also implementing IFRS 9 and IFRS 15 at the same time.

15. Accordingly, given the operational complexity, data gathering and systems implications of implementing IFRS 17, the staff recommend that the Board confirm its proposal to allow a period of approximately three years between issuance of the Standard and the mandatory effective date.

16. By convention, the mandatory effective date for IFRS Standards is for annual periods beginning on or after 1 January. Therefore, assuming IFRS 17 is published in the first half of 2017, the staff recommend that entities should be required to apply IFRS 17 for annual periods beginning on or after 1 January 2021.

17. The staff note views that the long implementation period of between 3 ½ and 4 years between the issuance of IFRS 17 and the mandatory effective date may assist entities in meeting any increased regulatory capital requirements that follow the reporting of higher liabilities. However, regulatory capital requirements and IFRS Standards have different objectives. In the staff's view,

the possible effects of regulatory capital requirements should not delay the implementation of a Standard intended to provide transparency about an entity's financial position.

Other considerations

Early application

18. Early application is often permitted for new IFRS Standards to facilitate voluntary application of new requirements for entities that wish to provide the improved information from new Standards earlier than the mandatory effective date.

19. Paragraph BC190 of the Basis for Conclusions of the 2013 Exposure Draft noted the Board’s conclusion that it would not be appropriate to prohibit early application of the new requirements since IFRS 4 would permit an entity to change the accounting policies for insurance contracts if it shows that the change results in more relevant or reliable information. Applying IFRS 17 will result in more relevant or reliable information, and consequently an entity would be able to apply the requirements of IFRS 17 under the existing requirements of IFRS 4. It would therefore be consistent with that requirement to permit early application of IFRS 17. The staff continue to believe that it is appropriate for entities to be able to early apply IFRS 17.

20. However, IFRS 17 has been developed in the context of other recently issued Standards:

    (a) the requirements in IFRS 17 relating to contractual terms, unbundling of goods and services and revenue were developed using IFRS 15 as a guide.

    (b) the financial position and performance of an entity that issues insurance contracts reflects the interaction between IFRS 17 and IFRS 9. The Board acknowledged this interaction when it issued the amendments to IFRS 4 in September 2016.

21. Given that IFRS 17 was developed in the context of IFRS 15 and IFRS 9, and given the extent of changes the staff expect will be needed to apply IFRS 17, the staff would expect most entities applying IFRS 17 for the first time to also apply IFRS 15 and IFRS 9.

22. IFRS 15 and IFRS 9 are effective from 1 January 2018.[2]. There is a theoretical possibility that an entity that applies IFRS 17 early might do so before 1 January 2018. Therefore, the staff recommend that the Board require entities that apply IFRS 17 before its mandatory effective date should also be required to apply IFRS 15 and IFRS 9 at the same time.

Questions for the Board

Questions
Does the Board agree that: (a) an entity should apply IFRS 17 for annual periods beginning on or after 1 January 2021, assuming IFRS 17 is issued in the first half of 2017? This would allow a period of 3 ½ to 4 years from the issuance of IFRS 17 to the mandatory effective date. (b) an entity may apply IFRS 17 before 1 January 2021, provided that the entity also applies IFRS 9 and IFRS 15 at the same time?

[2] In September 2016, the Board issued *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts *(Amendments to IFRS 4)*. That amendment permitted some entities to defer the application of IFRS 9 provided specified criteria are met. However, deferral expires when IFRS 17 is applied.