

In the Spotlight

Transition to IFRS 17

Release Date: 30 October 2020 (Updated August 2022 as summarised in box below)

Frequently asked questions on IFRS 17

At a glance

IFRS 17 specifies complex transition requirements for entities that are applying IFRS 17 for the first time. Entities will need to evaluate the choices that are available to them and exercise judgement in applying many of the requirements. Those choices and judgements will have an ongoing, long-term effect on amounts recognised on transition, with a corresponding effect on shareholder equity and reported revenue and profit reported in subsequent years for some insurers.

This publication summarises the requirements relating to transition, along with frequently asked questions ('FAQs') related to the topic.

1. Introduction

The diversity in previous insurance accounting practices and the long duration of many types of insurance contracts create particular challenges for transition to IFRS 17, 'Insurance Contracts'. As a result, the transition requirements in IFRS 17 are complex and contain a number of options. The consequences of the choices made under those options can have an effect on the accounting for insurance contracts for many years, persisting for as long as the contracts that exist at the date of transition remain outstanding. We are already seeing, from initial impact assessments for companies writing long-term insurance contracts, that those choices can significantly affect the measurement of insurance contracts at the transition date, with a corresponding effect on shareholder equity and reported revenue and profit from those insurance contracts in the future.

This publication was originally released in October 2020 and has been updated in August 2022 to add the FAQ 2.2, to amend the section 'PwC Observations: Differences between IFRS 13 fair value and IFRS 17 fulfilment cash flows' related to the deposit floor, to include additional guidance in the section 'PwC Observations: Disclosures before IFRS 17 is applied' and to make a minor editorial correction in section '8.2 Redesignation of financial assets'.

Insurers will also need to understand the operational implications of their decisions about transition to IFRS 17 and the wider effect of those decisions on areas such as tax, solvency and dividend distribution, depending on their jurisdiction.

This publication summarises the transition approaches in IFRS 17 along with frequently asked questions for each approach. Those frequently asked questions do not answer all of the questions that might arise in practice. This publication is based on IFRS 17 as amended in June 2020. We hope that you find the publication useful in addressing some of your questions.

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2. Overview of requirements

Consistent with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', IFRS 17 requires an entity to apply the requirements of IFRS 17 retrospectively, unless it is impracticable to do so. However, insurers might issue long-term contracts, especially in the life insurance business, for which retrospective application might be impracticable. Where retrospective application for a group of insurance contracts is impracticable, IFRS 17 specifies two alternative transition methods that could be used:

- A modified retrospective approach that specifies modifications to full retrospective application. This approach allows insurers that lack limited information to achieve opening transition balances that are as close to the retrospective application as possible, depending on the amount of reasonable and supportable information available to that insurer. Each modification would increase the difference

between the modified retrospective approach and the outcome that would have been obtained if a fully retrospective approach had been applied.

- A fair value approach that uses the fair value of the contracts at the date of transition to determine a value for the contractual service margin ('CSM'). The fair value approach enables an entity to determine the opening transition balances, even if the entity does not have reasonable and supportable information about the contracts that exist at the transition date.

Given that the application of the modified retrospective approach could be costly, especially where there is extensive lack of data, the IASB permitted a fair value approach as an accounting policy choice to reduce the implementation costs. The choice is applied at the level of a group of insurance contracts.

PwC Observations: Applying IFRS 17 accounting policies before the mandatory effective date

It might be possible for an insurer to apply IFRS 17 accounting policies by changing the accounting policies under IFRS 4, 'Insurance Contracts', without applying IFRS 17 as a whole.

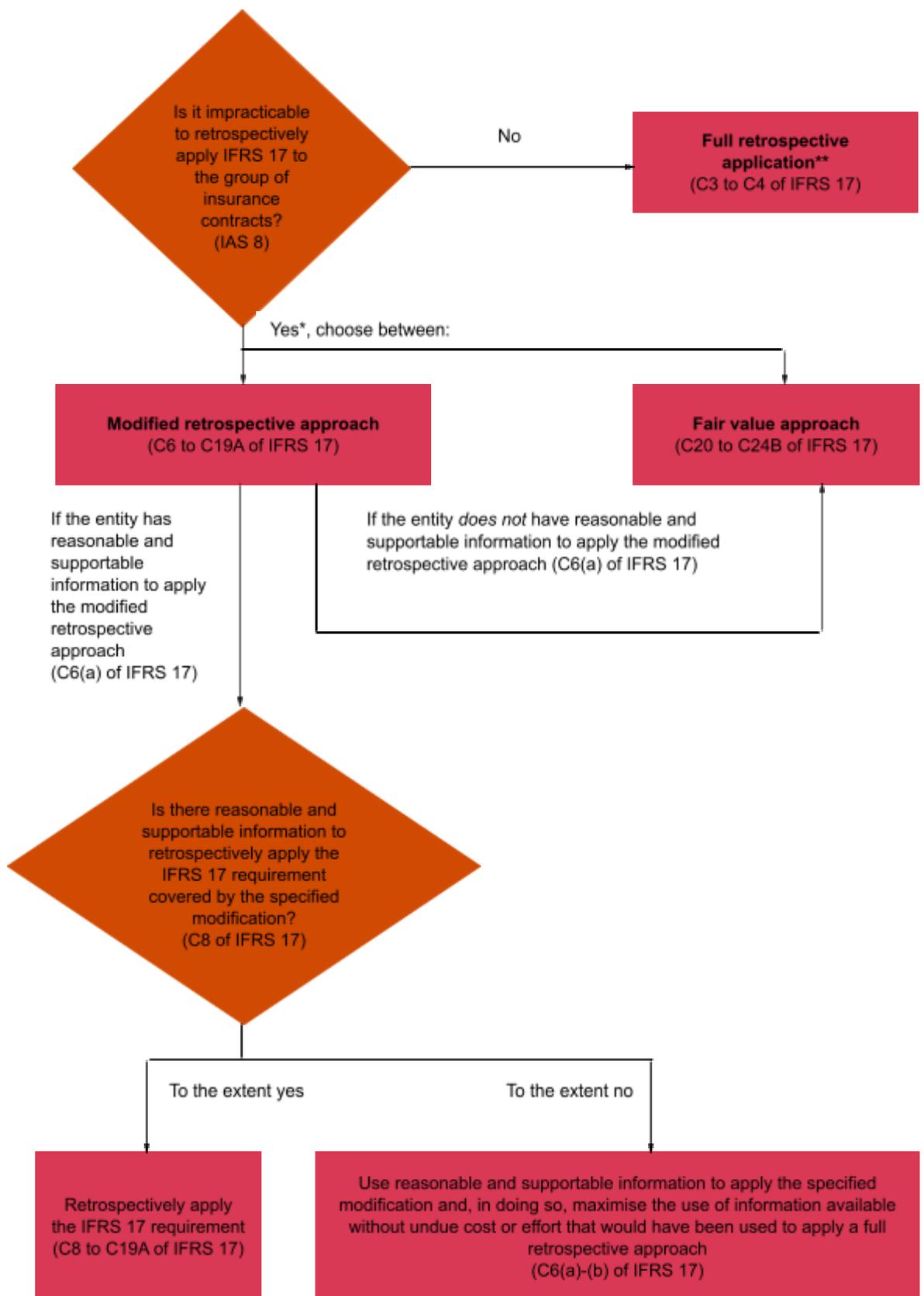
Under IFRS 4, an entity can change its existing accounting policies for insurance contracts where the change results in financial statements that are more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. [IFRS 4 para 22]. Paragraph BC123 of IFRS 4 notes that "*as the Board's conclusions for phase II develop, they will give insurers further context for judgements about whether a change in accounting policies meets the criteria*". Therefore, changing to an accounting policy that is an IFRS 17 requirement is considered to meet the criteria for changes.

However, unless IFRS 17 is early adopted, entities must follow IAS 8 requirements for changes in accounting policies. Those requirements specify that changes in accounting policies are applied retrospectively, unless impracticable [IAS 8 para 19(b)]. The simplified transitional approaches in IFRS 17 (modified retrospective application and fair value approach) are not available for use in such situations, because they are not part of IAS 8 or IFRS 4.

Consequently, if an entity chooses to change its IFRS 4 accounting policies to IFRS 17 policies prior to the effective date, and retrospective application is impracticable, paragraph 27 of IAS 8 notes that "*When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable ...*". As a result, entities that cannot apply the new policy retrospectively, and instead elect to adopt prospectively under IFRS 4, will need to perform another transition for past contracts under IFRS 17 transition rules when adopted.

In addition, the disclosure requirements of IFRS 4 will continue to apply until the entity adopts IFRS 17. However, an entity is permitted to include other disclosures, and so it could include the additional disclosures required by IFRS 17 where relevant.

The following diagram illustrates the application of the IFRS 17 transition requirements to a group of insurance contracts as set out in paragraphs C3 to C24B of IFRS 17:



* If the only reason why the full retrospective approach is impracticable related to the determination of an asset for insurance acquisition cash flows, see FAQ 2.2.

** An entity that has the information to apply the full retrospective approach can choose to apply the fair value approach for a group of insurance contracts with direct participation features if the entity (i) chooses to apply the risk mitigation option in paragraph B115 prospectively from the transition date; and (ii) used derivatives, non-derivative financial instruments measured at fair value through profit or loss or reinsurance contracts held to mitigate financial risk arising from a group of reinsurance contracts, as specified in paragraph B115, before the transition date. (C5A)

Sections 3 to 5 below describe the different transition approaches.

FAQs on transition approaches in IFRS 17	
<p>Differing results applying each transition method</p> <p>2.1 Will there be differing results from applying each of the three transition approaches?</p>	<p>Yes. The result of measurement of the same group of contracts, from applying the three transition approaches, will be different. The measurement using the full retrospective approach and the modified retrospective approach might be relatively close, compared to the fair value approach, depending on the availability of information and simplifications used. The fair value approach might provide a very different measurement compared to the fully retrospective or modified retrospective approach. For example, there might be no CSM when applying the full retrospective approach or the modified retrospective approach if the contracts are onerous, while there might be a CSM when the fair value approach is applied. This is because IFRS 13, 'Fair value measurement', indicates that the fair value includes the profit margin that a market participant would require to accept obligations under insurance contracts.</p> <p>The IASB acknowledged that the optionality available on transition will result in less comparable financial statements until the contracts written before the transition date are derecognised. However, the IASB concluded that the costs associated with the full retrospective approach or modified retrospective approach might exceed the benefits if there is little information available on the transition date. Thus, the fair value approach is permitted as an accounting policy choice in accordance with IAS 8 if a full retrospective approach is impracticable.</p>
<p>Transition approaches and insurance acquisition cash flows</p> <p>2.2 For eligible groups of contracts under the premium allocation approach, an entity can choose to expense insurance acquisition cash flows as incurred, applying paragraph 59(a) of</p>	<p>1) The asset for insurance acquisition cash flows at the transition date is a separate unit of account from the group of insurance contracts. Applying</p>

IFRS 17. This FAQ does not apply to groups of insurance contracts where this choice is elected.

In all other circumstances, an entity should allocate these expenses using a systematic and rational method to a group of insurance contracts, applying paragraph B35A of IFRS 17. On transition to IFRS 17, it might be impracticable for entities to determine insurance acquisition cash flows in previous years that would be allocated to groups of contracts that are recognised on transition and in future periods.

- 1) What transition approach can an entity apply if it is impracticable to determine the asset for insurance acquisition cash flows on transition?
- 2) What transition approach can an entity apply if it is impracticable to determine the allocation of past insurance acquisition cash flows to groups of insurance contracts with remaining coverage at the transition date where all other amounts can be determined on a fully retrospective basis?

paragraph C5B of IFRS 17, an entity can apply either:

- a) the modified retrospective approach in paragraphs C14B–C14D and C17A, subject to paragraph C6(a); or
- b) the fair value approach in paragraphs C24A–C24B.

The modifications in (a) allow an entity to recognise at nil any asset for insurance acquisition cash flows for groups of insurance contracts expected to be recognised after the transition date if the entity does not have reasonable and supportable information to apply the standard on a fully retrospective basis in accordance with paragraph C4(aa) of IFRS 17.

- 2) The allocation of past insurance acquisition cash flows forms an integral part of the fulfilment cash flows of groups of contracts. Since this determination is impracticable, the entity can apply either:
 - a) the modified retrospective approach by using the modifications described in paragraphs C14B–C14D of IFRS 17 with respect to the insurance acquisition cash flows only and determining all other amounts on a fully retrospective basis; or
 - b) the fair value approach to the entire group of contracts, including amounts that could otherwise be determined on a fully retrospective basis.

The modifications in (a) allow an entity to treat any adjustment to the contractual service margin of a group of insurance contracts recognised at the transition date for past insurance acquisition costs at a nil amount if the entity does not have reasonable and supportable information to apply the standard on a fully retrospective basis.

Under either option, the entity is not applying the fully retrospective approach, and so the disclosures under paragraph 114 of IFRS 17 apply.

PwC Observations: What are some of the practical implications of IFRS 17 transition choices?

The choice between the modified retrospective approach and the fair value approach on transition will impact shareholders' equity on transition and the release of profit from the insurance contracts in force after transition. It is also likely to affect operational complexity and the cost of IFRS 17 implementation. In addition, some profits from insurance contracts might not be recognised at all in profit or loss (that is, they would not have been recognised in profit or loss under IFRS 4 and will be recognised as an adjustment to equity on transition to IFRS 17), while other profits might be recognised in profit or loss twice (that is, they would have been recognised in profit or loss under IFRS 4 and will be recognised in the CSM and then in profit or loss after transition to IFRS 17). This is an unavoidable result of differences between measurement approaches used under IFRS 4 and on transition to IFRS 17.

Equity on transition and release of profit from insurance contracts after transition

The CSM on transition represents the profit from insurance contracts in force that insurers will earn after transition. On transition, the higher the CSM is, the lower the accumulated profit from insurance contracts recognised in shareholders' equity is and the more profit insurers will recognise in future periods until the end of the coverage of insurance contracts in force on transition. This might impact the ability to pay future dividends, meet solvency capital requirements or the determination of taxation payments, depending on local legal and regulatory requirements. This might also impact the way in which investors assess the performance of the entity on transition and at future dates until the end of the coverage period of the contracts in force on transition.

Operational complexity and cost of IFRS 17 implementation

The complexity of application of the different transition approaches and the cost of transition to IFRS 17 might be different, depending on the availability of information. Generally, for insurance contracts issued a long time before the transition date, the full retrospective approach and the modified retrospective approach will be more expensive to apply. For short-term contracts and contracts issued close to the transition date, more information is likely to be available, and the fair value approach might be more complex compared to the alternatives.

3. Retrospective application

Paragraph C3 of IFRS 17 requires an entity to apply IFRS 17 retrospectively, unless impracticable, that is as if IFRS 17 had always applied.

IFRS 17 requires an entity to apply IFRS 17 retrospectively, unless impractical, except that the entity need not present quantitative information required by paragraph 28(f) of IAS 8, and it should not apply the risk mitigation option in paragraph B115 of IFRS 17 before the transition date.

In applying IFRS 17 retrospectively, an entity identifies, recognises and measures each group of insurance contracts and each asset for insurance acquisition cash flows as if IFRS 17 had always applied (except that a retrospective impairment test is not required), and it derecognises any existing balances that would not exist if IFRS 17 had not always applied. Any resulting differences are recognised in equity.

For many entities, the retrospective application of IFRS 17 will be impracticable for some groups of contracts, particularly for long-duration contracts that were written many years ago. Paragraph 50 of IAS 8 notes that retrospective application might be impracticable if the required historical data had not been collected in prior periods and if it is impracticable to recreate the information. Entities will need to consider, for each component within the measurement model, what historical data is available for each group of contracts. They will then need to assess the extent to which the retrospective approach calculation could be performed without the use of hindsight.

Paragraph 5 of IAS 8 states that, “Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so”. It also explains that:

“For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects of the retrospective application or retrospective restatement are not determinable;*
- (b) the retrospective application or retrospective restatement requires assumptions about what management’s intent would have been in that period; or*
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
 - (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and*
 - (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.”**

There is little difficulty in determining fulfilment cash flows at the date of transition in a retrospective application of IFRS 17, because the fulfilment cash flows are measured directly at each reporting date. However, it is more difficult to determine amounts that are not measured directly at each reporting date and that depend on the estimates and assumptions made at earlier dates. This applies to amounts such as the CSM and the amount accumulated in other comprehensive income (‘OCI’) at the date of transition. Retrospective application requires the entity to determine such amounts at each reporting date from inception of the contracts, using information about the cash flows and relevant estimates and assumptions at each historical reporting date.

Many insurers lack this historical data, both actuarial and accounting, particularly at the level of granularity of data required to apply IFRS 17. This might mean that the effects of applying IFRS 17 are ‘not determinable’, because there is not enough data available to be able to determine the impact of IFRS 17 components at inception, or between inception and transition date, to perform the CSM roll-forward to the transition date - for example, best estimate assumptions might not have been documented or saved. There will be judgement

required in determining whether existing data is available, or if the information can be recreated, at an appropriate granularity and at a quality that can be used in the retrospective calculations. These reasons will be less likely to be supportable for groups of contracts issued closer to the transition date.

PwC Observations: Examples of amounts that might be impracticable to determine retrospectively

Examples of amounts needed for retrospective application, but that might often be impracticable to be measured for a group of insurance contracts at the transition date (because they can be determined only using hindsight), are included in paragraph BC378 of the Basis for Conclusions on IFRS 17:

- the estimates of cash flows at the date of initial recognition;
- the risk adjustment for non-financial risk at the date of initial recognition;
- the changes in estimates that would have been recognised in profit or loss for each accounting period because they did not relate to future service, and the extent to which changes in the fulfilment cash flows would have been allocated to the loss component;
- the discount rates at the date of initial recognition; and
- the effect of changes in discount rates on estimates of future cash flows for contracts for which changes in financial assumptions have a substantial effect on the amounts paid to policyholders.

Further, paragraphs BC381 and BC382 of the Basis for Conclusions on IFRS 17 indicate that, for contracts in force on transition, performing the following assessments at the initial recognition of the contracts would often be impracticable (that is, they would be impossible without the use of hindsight):

- eligibility for the variable fee approach;
- level of aggregation; and
- effect of discretion on estimated cash flows for contracts subject to the general model.

In addition, many of the estimates needed to apply IFRS 17 retrospectively cannot be made without using hindsight in making assumptions about what management’s intentions would have been in a prior period or in estimating amounts to be recognised, measured or disclosed in a prior period. Paragraph 53 of IAS 8 states that hindsight should not be used when applying a new accounting policy to a prior period, either in making assumptions about what management’s intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period.

Example - Avoiding the use of hindsight when applying the full retrospective transition approach for contracts modified before the transition date

Scenario	Can the entities adopt the full retrospective transition approach under IFRS 17?
<p><i>Insurer A holds a portfolio of insurance contracts issued many years ago. These contracts were modified two years prior to the IFRS 17 transition date, to bring their contractual terms in line with more recently issued contracts. The modification did not result in a derecognition under IFRS 4 but, on transition to IFRS 17, it results in a derecognition in accordance with paragraph 72 of IFRS 17, requiring these original contracts to be recognised as ‘new’ contracts on modification. No cash flows occurred at the point of modification. For retrospective transition purposes, an estimate</i></p>	<p>It depends. Management of insurer A might have supportable data, including premium data for similar contracts issued immediately prior to or on the modification date that, while not directly linked to the modified transaction, is a good approximation and fairly reflects the characteristics of the modified transaction and can be used to measure the notional premium. In this case, assuming that no further adjustments or additional assumptions are made, it might meet the requirements of IAS 8.</p>

<p><i>of the notional premium is required to recognise the new contracts on modification.</i></p> <p><i>At the time of the modification, insurer A also sold new contracts with the same terms as the modified contracts, covering similar risk profiles.</i></p>	
<p>Scenario</p>	<p>Can the entities adopt the full retrospective transition approach under IFRS 17?</p>
<p><i>Insurer B holds a portfolio of insurance contracts that were initially sold five years prior to the IFRS 17 transition date. Management uses a cost of capital approach to determine the risk adjustment, which is similar to its current local regulatory reporting. However, such an approach has only been effective for regulatory reporting purposes for the last three years prior to the IFRS 17 transition date. Management is proposing to estimate the risk adjustment on the same basis for contracts initially recognised in the first two years of the full retrospective approach - that is, prior to the cost of capital approach becoming effective for local regulatory purposes.</i></p>	<p>Probably not.</p> <p>Given the lack of the calculation and modelling of the cost of capital approach for the first two years, it is unlikely that management will be able to meet the requirements of IAS 8. The required estimates and judgements needed will be challenging without the use of hindsight, particularly since as the time elapsed between the contract start date and the transition date is significant. Therefore, unless insurer B modelled and documented the risk adjustment calculations using the cost of capital approach prior to this being required for regulatory purposes, insurer B will most likely need to adopt a different transition approach.</p>
<p><i>Reinsurer C assumes mortality risk exposures on protection products through various facultative reinsurance contracts (that is, reinsurance coverage provided to primary insurers to cover a single risk or a block of risks held by the respective primary insurers). These reinsurance contracts issued are accounted for using the general measurement model. A reinsurance contract was modified five years prior to transition to IFRS 17 which did not result in derecognition under IFRS 4 but, in accordance with paragraph 72 of IFRS 17, results in derecognition of the original contract and recognition of a new contract on transition to IFRS 17. For retrospective transition purposes, an estimate of the notional premium is required to recognise the new contracts on modification.</i></p> <p><i>The modified reinsurance agreement relates to business that reinsurer C no longer sells. Each contract is highly customised for each cedant, requiring tailored underwriting, and so each contract is considered to be unique. Data is available for other current reinsurance contracts, also covering mortality risk, but with different overall risk profiles and underlying insurance contracts. Management of reinsurer C is</i></p>	<p>No.</p> <p>While there is some data that relates to similar contracts issued at the same time to the modified contract, there is no information that is specific to the risk profiles of the insureds. It is likely that significant judgement will be required to assess the appropriate profit levels in excess of the remaining cash flows to estimate a notional premium. This will not be achievable without the use of hindsight, because each facultative reinsurance contract is considered to be unique.</p>

proposing to make adjustments to premium information with respect to new business contracts issued in the year of modification to estimate the notional premium.

Finally, paragraph BC390 of the Basis for Conclusions on IFRS 17 explains that, for the fully retrospective approach, it will be necessary to estimate the effect of contracts derecognised before the transition date on the allocation of the CSM between past and future periods on transition date. This might be particularly challenging for large portfolios of long-term contracts, for which terms and circumstances (for example, size and number of contracts issued in prior reporting periods) often change.

FAQs on retrospective application

Use of estimates

3.1 Can an entity use estimates in applying accounting policies at transition?

Paragraph 51 of IAS 8 highlights the need to make estimates in applying accounting policies, and it notes that developing estimates is potentially more difficult in retrospective application, because of the longer time period that might have passed since the affected transaction occurred.

Impact of reporting at interim periods

3.2 Paragraph B137 of IFRS 17 gives an accounting policy choice over whether an entity changes the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual financial statements.

Is an entity, that has chosen as its accounting policy not to change the treatment of accounting estimates made in previous interim financial statements, using the fully retrospective approach on transition to IFRS 17 required to calculate the CSM as if it applied paragraph B137 of IFRS 17 in its interim reporting in accordance with IAS 34?

Yes. Paragraph 22 of IAS 8 notes that, if an entity is changing its accounting policies retrospectively, it should adjust equity (and the comparatives) as if the new accounting policy had always been applied.

Thus, if an entity has chosen as its accounting policy not to change the treatment of accounting estimates made in previous interim financial statements, retrospective application requires the entity to calculate the 'roll forward' of the CSM from inception, considering each interim reporting period, subject to materiality considerations.

If an entity is unable to use the fully retrospective approach and instead uses the modified retrospective approach to the extent allowed by paragraph C8 of IFRS 17, paragraph C14A of IFRS 17 permits an entity to determine the CSM at the transition date as if the entity had not prepared interim financial statements before the transition date.

PwC Observations: Transition for contracts previously acquired in a business combination

Where contracts are acquired in a business combination, retrospective application of IFRS 17 would mean that the coverage period, CSM and locked-in assumptions might differ between the financial statements of an acquired subsidiary and the consolidated financial statements of the group. There might

also be differences in the classification of obligations as a liability for incurred claims or a liability for remaining coverage. This is because the contract inception date in the consolidated financial statements of the group is the date when the subsidiary is purchased. In contrast, in the separate financial statements of the acquired subsidiary, the contract inception date does not change. Thus, the dates of initial measurement of contracts, the amount used to calculate the CSM and the nature of the insured event might be different for the acquired subsidiary and the group. This could result in different measurements of the CSM in the group compared to the acquired subsidiary after transition.

Where retrospective application is impracticable, paragraphs C9A (for the modified retrospective approach) and C22A (for the fair value approach) of IFRS 17 permit an entity to classify, as a liability for incurred claims, a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business, or in a business combination within the scope of IFRS 3, 'Business combinations'.

4. Modified retrospective approach

The modified retrospective approach is an approximation to retrospective application, with prescribed modifications to address some of the challenges of retrospective application. An entity applies the modified retrospective approach to a group of insurance contracts only where retrospective application of IFRS 17 to that group of contracts is impracticable.

The modified retrospective approach specifies modifications intended to approximate retrospective application by addressing some of the challenges that prevent entities applying IFRS 17 retrospectively. The modifications include:

1. Assessments that would have been made at the date of inception or initial recognition can be determined instead at the transition date. These assessments include:
 - a. how to identify groups of contracts, including that an entity does not need to divide groups into those that do not include contracts issued more than one year apart;
 - b. the eligibility of contracts for the variable fee approach¹;
 - c. how to identify discretionary cash flows for contracts measured under the general model;
 - d. whether a contract meets the definition of an investment contract with discretionary participation features; and
 - e. the classification of a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.
2. Modifications for determining the CSM or loss component on transition for the general model. These modifications specify how to determine:
 - a. cash flows at initial recognition;
 - b. discount rates at initial recognition;
 - c. risk adjustment at initial recognition;
 - d. allocation of any insurance acquisition cash flows that occurred between the date of initial recognition and the transition date to groups of insurance contracts that are recognised at the transition date, and those that are expected to be recognised after the transition date;
 - e. the amount of the CSM at initial recognition that would have been recognised in profit or loss because of the transfer of services before the transition date or amounts allocated to a loss component before the transition date; and
 - f. any loss recovery components for groups of reinsurance contracts held that provide coverage for an onerous group of insurance contracts that were acquired before or at the same time that the insurance contracts were issued.
3. Modifications for determining the CSM or loss component on transition for the variable fee approach.
4. Modification for determining the cumulative amount of insurance finance income or expenses included in other comprehensive income, where an entity chooses to disaggregate insurance finance income or expense between amounts included in profit or loss and amounts included in other comprehensive income.

The IASB's objective for the modified retrospective approach was to specify an approach in which insurers would achieve an approximation to retrospective application using reasonable and supportable information without undue cost or effort. Therefore, in the modified retrospective approach, an insurer is required to

¹ Further information on the criteria for testing whether contracts are eligible for the variable fee approach and the accounting for contracts applying the variable fee approach can be found [here](#).

maximise the use of information that would have been used to apply IFRS 17 retrospectively, using each specified modification only where retrospective application in that particular area would be impracticable. In the case of the modification regarding the estimation of cash flows (specified in paragraph C12 of IFRS 17), for example, this also means using the earliest estimate of future cash flows that is available – rather than the estimate as at the transition date.

PwC Observations: Applying the modified retrospective approach to contracts eligible for the variable fee approach

One challenge for insurers applying the modified retrospective approach to contracts that will be accounted for using the variable fee approach is that they will need to determine the CSM based on the fair value of the underlying items as at the transition date. This means that uncertainty regarding the opening value of the CSM will continue until the transition date arrives and the fair value is known.

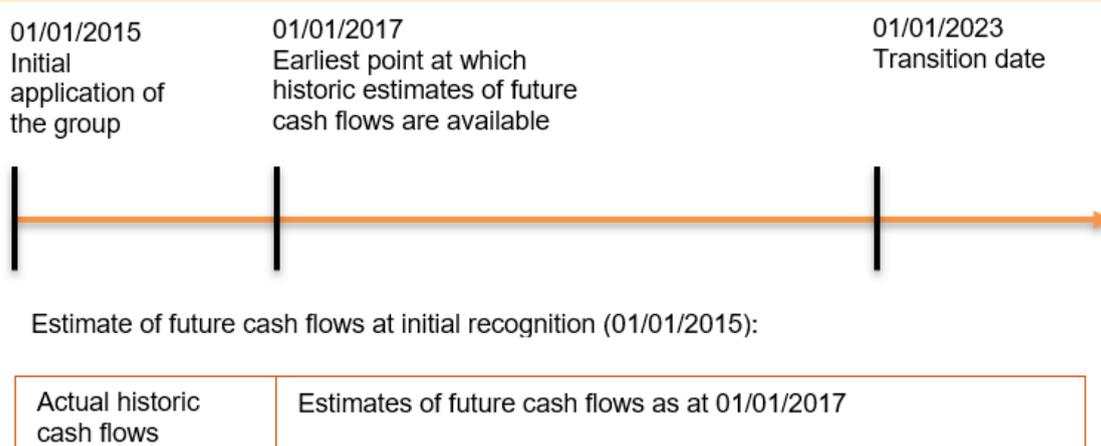
PwC Observations: Estimation of cash flows at initial recognition

Paragraph C12 of IFRS 17 specifies that an entity estimates the future cash flows at initial recognition as:

- the amount of the future cash flows at the transition date or earlier date, if the future cash flows at that earlier date can be determined retrospectively; adjusted by
- the cash flows that are known to have occurred between the date of initial recognition of a group of insurance contracts and the transition date or earlier date.

Paragraph C8 of IFRS 17 requires each modification to be used only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach. Thus, historical estimates must be used as far back as possible - essentially, following a full retrospective approach wherever possible. The example below shows how applying this modification for a group of contracts will result in the estimate of future cash flows at initial recognition being a combination of actual cash flows and estimates of future cash flows as at a historical date.

Application of the modification in paragraph C12 of IFRS 17:



FAQs on modified retrospective approach

Annual cohorts at transition

4.1 Can contracts issued more than one year apart be grouped together when applying the modified retrospective approach on transition?

Yes. Paragraphs C8 and C10 of IFRS 17 require an entity to establish groups that do not include contracts issued more than one year apart, if the entity has reasonable and supportable information to do this, when applying the modified retrospective approach on transition. The IASB acknowledged (in paragraph BC392 of the Basis of Conclusions on IFRS 17) that it might not always be practicable for entities to group contracts written in the same year retrospectively, and therefore it provided this transitional relief so that entities would not have to divide contracts that are in place on transition into annual cohorts.

Using a date earlier than the transition date

4.2 For contracts with direct participation features, when applying the modified retrospective approach on transition, can the CSM be calculated at a date earlier than the transition date by using the fair value approach, followed by a yearly roll-forward under the full retrospective approach until the transition date?

No. One of the simplifications available under the modified retrospective approach allows entities to determine the CSM for contracts with direct participation features by using the fair value of the underlying items at the transition date minus the fulfilment cash flows at the transition date. [IFRS 17 para C17]. Paragraph C2 of IFRS 17 determines the transition date as the beginning of the annual reporting period immediately preceding the date of initial application.

5. Fair value approach

The fair value approach is a method of determining the CSM at transition using the fair value of the insurance contracts less IFRS 17 fulfilment cash flows at the transition date. The fair value approach is the only approach that can be used where the insurer does not have the cash flow information needed to apply other approaches.

An entity can elect to use the fair value approach if the full retrospective approach is impracticable, and it is required to use the fair value approach if the modified retrospective approach is impracticable. An entity can also elect to use the fair value approach for a group of insurance contracts with direct participation features to which it could apply IFRS 17 retrospectively if, and only if:

- (a) the entity chooses to apply the risk mitigation option in paragraph B115 of IFRS 17 to the group of insurance contracts prospectively from the transition date; and
- (b) the entity has used derivatives, reinsurance contracts held, or non-derivative financial instruments measured at fair value through profit or loss to mitigate financial risk arising from the group of insurance contracts before the transition date.

FAQs on eligibility to use the fair value approach

When can the fair value approach be used?

5.1 Does an entity have a free choice to use the fair value approach on transition?

No. The full retrospective approach must be used on transition, unless it is impracticable to do so, in which case the entity can choose between applying the modified retrospective approach and the fair value approach to calculate the CSM or the loss component for each group of insurance contracts. If the modified retrospective approach is also impracticable, the fair value approach must be used.

Outcome of applying fair value approach

5.2 Will the fair value approach on transition provide an outcome comparable with the other two transition approaches?

No. The objective of the fair value approach is different from that of the modified retrospective approach:

- The objective of the modified retrospective approach is to achieve an outcome closer to the full retrospective approach using specified simplifications.
- The objective of the fair value approach is to determine the CSM in the absence of historical cash flow information.

Under the fair value approach, the CSM is calculated as the difference between what a market participant would demand as at the transition date to assume the unexpired risk in the group of contracts, including how much profit it would require, and the fulfilment cash flows of that group measured under the general principles of IFRS 17. The fair value approach might be less burdensome, because it requires no historical data or retrospective tracking of the CSM.

Similar to the modified retrospective approach, entities using the fair value approach are allowed to identify groups of insurance contracts using reasonable and supportable information available on the date of

transition, and there is no need to divide contracts issued before the date of transition into annual cohorts. Similarly, reasonable and supportable information available on the date of transition can be used to determine whether an insurance contract meets the definition of an insurance contract with direct participation features, to determine the discretionary cash flows for insurance contracts without direct participation features, and to determine whether a contract meets the definition of an investment contract with discretionary participation features. Under the fair value approach, these accommodations are available unconditionally, whereas under the modified retrospective approach an entity is permitted to use each of these modifications only to the extent that reasonable and supportable information is not available.

Although IFRS Standards have, for many years, required insurers to determine the fair value of insurance contracts in business combinations or portfolio transfers, there is likely to be diversity within the insurance industry in determining the fair value for insurance contracts. This is because of the lack of observable information for many insurance contracts and relatively limited market transaction data available to directly calibrate a fair value. Many companies are considering how to leverage existing information where possible – for example, regulatory requirements such as Solvency II in Europe, embedded value-based approaches, discounted dividend models, historical acquisitions data, and sales or pricing information.

PwC Observations: Differences between IFRS 13 fair value and IFRS 17 fulfilment cash flows

There could be differences between the IFRS 13 fair value and the IFRS 17 measurement of fulfilment cash flows.

Fair value measurement applying IFRS 13 reflects how the current market would be expected to price the asset or liability by incorporating the factors that market participants would consider in agreeing to a price. The entity is not required to identify specific market participants; instead, it should develop a profile of hypothetical market participants. The profile should consider factors specific to the group of contracts being fair valued, the principal (or, in its absence, the most advantageous) market for it, and market participants with whom the entity would be able to transact in that market.

Estimation of the market participant's view of the expected profit from holding a group of contracts requires judgement. Paragraph 22 of IFRS 13 requires an entity measuring the fair value, when using a valuation technique, to assume that market participants act in their economic best interest. Irrespective of the estimation approach used, an entity would consider observable market data from comparable market transactions, including portfolio transfers, acquisitions or reinsurance, if it is reasonable that market participants would use this data.

In the absence of recent market transactions of similar contracts, some form of a present value technique will typically be used to value a group of contracts. Where the expected cash flows approach is used, a starting point is a set of cash flows that represents the probability-weighted average of all possible future cash flows, adjusted to incorporate uncertainties with respect to the amount and timing of projected cash flows. Cash flows included in the fair value measurement are limited to those falling within the boundaries of the respective contracts under IFRS 17 although market participants might have different assumptions about those cash flows (for example, different policyholder or mortality assumptions). The cash flows should therefore exclude future renewals and new business that would be outside the boundaries of the contracts under IFRS 17.

Under IFRS 13, the fair value of a financial liability with a demand feature (such as a demand deposit) is not less than the amount payable on demand, discounted from the first date when the amount could be required to be paid (sometimes referred to as the 'deposit floor'). Paragraph B94 of IFRS 17 states that the deposit floor does not apply when measuring the fair value of contracts in a business combination. Similarly, paragraph C20 notes that the deposit floor does not apply when applying the fair value approach on transition. For further guidance on the inclusion of the deposit floor when determining eligibility for the variable fee approach and the measurement of the fair value of underlying items in that approach, please

refer to FAQ 50A.167.1. In addition, paragraph 132(c) of IFRS 17 requires entities to disclose the amount payable on demand in a way that highlights the relationship between such amounts and the carrying amount of the related contracts.

Examples of some potential differences between the IFRS 13 and the IFRS 17 measurements could include the following:

1. Expected cash flows under IFRS 17 might include some entity-specific assumptions outside an industry range that would be adjusted in determining the fair value using the market participant's view. For example, an entity might assume a level of future expenses that is not consistent with the market expectation, due to entity-specific economies of scale. Another example could be differences in expected settlement of claims to protect the brand (such as payment of claims on items similar to those covered by the policy).
2. Those expenses and income taxes that are not part of the fulfilment cash flows under IFRS 17 and that will be expensed as incurred might still be considered by a market participant in pricing a group of contracts, and thus adjust the fair value measurement.
3. The IFRS 17 measurement reflects the compensation that an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risks. Typically, this is an entity-specific assessment. For the purpose of an IFRS 13 measurement, a risk adjustment needs to reflect the risks and a degree of risk aversion consistent with a market view. A market participant might use a different method, assume different diversification benefits or require a different level of compensation.
4. In some markets, where investment returns are part of the embedded profit in a contract, and premiums take this into account, market participants could include the estimates of those returns in pricing the group of contracts. The profit component could also include an adjustment for the asset-liability mismatch risk (being a financial risk, such an adjustment would not be part of the risk adjustment under IFRS 17).
5. In some territories, regulatory capital requirements and associated funding costs are considered by market participants in pricing respective groups of contracts. In those cases, the fair value of an insurance liability might include such costs of holding required solvency capital.

FAQs on how to apply the fair value approach

Using existing measures of economic value to determine fair value

5.3 Can an alternative existing measure of economic value be used as the fair value of contracts for the purposes of transition to IFRS 17?

Historically, many insurers issuing long-term contracts applied Market Consistent Embedded Value (MCEV) or European Embedded Value (EEV) Principles, issued by the European Insurance CFO Forum, to measure insurance contracts for supplementary reporting purposes. Entities will be able to use these measurements, where still produced, or other economic-based regulatory measures (such as Solvency II in Europe) as a starting point for the fair value approach on transition to IFRS 17. However, entities should ensure that such measurement is consistent with the IFRS 13 requirements, and they should adjust it for any differences.

What cash flows are included in fair value measurement on transition?

<p>5.4 In determining the CSM, what cash flows are included in the fair value measurement of a group of insurance contracts where the fair value approach is used on transition to IFRS 17?</p>	<p>For the purpose of determining the CSM at the transition date where the fair value approach is used on transition, groups of insurance contracts in force as at that date are subject to fair value measurement. Cash flows included in the fair value measurement are limited to those falling within the boundaries of the respective contracts under IFRS 17, and they should therefore exclude future renewals and new business that would be outside the boundaries of the contracts under IFRS 17.</p> <p>In addition, IFRS 17 does not require or allow the application of a deposit floor when measuring insurance contracts using the fair value approach on transition.</p> <p>IFRS 13 stipulates that fair value measurement assumes that a liability is transferred to a market participant at the measurement date, and not settled or extinguished. The price paid to a third party might differ from the settlement value that the direct counterparty would be willing to accept, for example, in a structured settlement arrangement. In measuring the fair value, an entity would assume that the insurance contract liability remains outstanding and the market participant transferee would be required to fulfil the obligation under the insurance contracts. The fair value of an insurance liability would therefore be the price that a market participant would be willing to pay to assume the obligation and the remaining risks of the in-force contracts as at the transition date.</p>
<p>Insurance acquisition cash flows when using fair value approach at transition</p> <p>5.5 When applying the fair value transition approach, for reporting periods subsequent to the transition date, should insurance acquisition cash flows that occurred prior to the transition date be included in the CSM, and so be recognised as revenue and expense in the statement of profit or loss after transition?</p>	<p>Yes.</p> <p>When applying the fair value approach on transition, paragraph C20 of IFRS 17 requires an entity to determine the CSM on transition by comparing the fair value of the group with the fulfilment cash flows.</p> <p>Paragraph C24A of IFRS 17 require an entity, in applying the fair value approach, to determine an asset for insurance acquisition cash flows at the transition date at an amount equal to the amount of insurance acquisition cash flows that the entity would incur at the transition date for rights to obtain:</p> <ul style="list-style-type: none"> (a) recoveries of insurance acquisition cash flows from premiums of insurance contracts issued before the transition date but not yet recognised at the transition date; (b) future insurance contracts that are renewals of insurance contracts recognised at the transition

	<p>date and insurance contracts described in (a); and</p> <p>(c) future renewals of insurance contracts, other than those in (b), after the transition date without paying again insurance acquisition cash flows that the entity has already paid that are directly attributable to the related portfolio of insurance contracts.</p> <p>At the transition date, the entity should exclude any asset for insurance acquisition cash flows from the measurement of a group of contracts.</p> <p>The asset for insurance acquisition cash flows should be derecognised, subsequent to the transition date, on initial measurement of the related group of insurance contracts.</p>
<p>Discount rate for fair value measurement</p> <p>5.6 Would the discount rate used for fair value measurement on transition always equal the rate used in calculating the IFRS 17 fulfilment value of the contracts under IFRS 17?</p>	<p>No. The nature of insurance and investment products, the local regulatory regime, risk appetite and diversification strategies could impact a market participant's view of the appropriate discount rate to be applied in measuring fair value on transition.</p> <p>A market participant would use a discount rate that could include financial risks. That discount rate could differ from the discount rate used under IFRS 17, because paragraph 36 of IFRS 17 allows financial risks to be reflected either in the discount rate or in the cash flows. The discount rate used for fair value measurement would include a provision for the non-performance risk (including insurer's credit risk) of the insurer. Under IFRS 13, non-performance risk is assumed to be the same before and after the transfer of the liability. The assertion is that the liability would transfer to a credit-equivalent entity.</p> <p>Where consistent with market practice, discount rates used for fair value measurement will reflect the perspective of market participants on the liquidity characteristics of the group of insurance contracts. In addition, in pricing a transaction, a market participant would typically include profit arising from investment management, either by adjusting the discount rate or by incorporating this into future cash flows.</p>
<p>Contracts onerous immediately prior to the transition date</p> <p>5.7 How will the fair value approach on transition apply for groups of contracts that are</p>	<p>When measuring groups of contracts that were onerous immediately prior to transition, the application of the market participant's view under the</p>

<p>onerous immediately prior to the transition date?</p>	<p>fair value approach is likely to result in a CSM, because a market participant would require compensation in profit margin above a risk adjustment to take on the obligations. Accordingly, future profits would then be recorded on these previously onerous groups of contracts, whereas such profits would not occur if a full retrospective approach is followed.</p>
<p>Onerous contracts at the transition date</p> <p>5.8 How will the fair value approach on transition apply for groups of contracts that are onerous at the transition date? How is subsequent accounting impacted?</p>	<p>Generally, the fair value of a group of existing contracts (that is, the potential amount that a market participant would demand to assume the liabilities) is likely to be more than the IFRS 17 liability measurement, resulting in the recognition of a CSM at transition. For example, a market participant might demand CU105 to assume liabilities that have an IFRS 17 liability for remaining coverage measurement of CU100. In this example, a liability for remaining coverage of CU100 and a positive CSM of CU5 would be recorded at transition.</p> <p>However, in some circumstances, application of the fair value approach might result in a fair value of a group of existing contracts that is less than the liability fulfilment cash flows under IFRS 17. For example, the fair value might be CU95 and the IFRS 17 measurement might be a liability of CU100. In these cases, the fulfilment cash flows should be recorded (CU100 in this example), and the difference between the fair value and the fulfilment cash flows (CU5 in this example) would not be recorded (because negative CSM is not permissible). Rather, the excess of fulfilment cash flows over fair value would be identified as a loss component of the liability for remaining coverage.</p> <p>Subsequent to transition, an entity should apply paragraphs 49–52 of IFRS 17 to allocate subsequent changes in fulfilment cash flows to that loss component. For example, if the liability for remaining coverage was subsequently re-estimated to be CU93, the liability would be reduced by CU7, profit or loss would be credited for CU5, and a CSM would be established for CU2.</p>
<p>Determining the fair value of reinsurance contracts held</p> <p>5.9 IFRS 17 requires the fair value of reinsurance contracts held ('RCHs') to be determined both on transition to IFRS 17,</p>	<p>Consider the following example:</p> <p>Entity A (the cedant) has RCHs that cover a single underlying insurance contract on a fully proportionate basis. The premium has already been paid to the reinsurer, and hence the RCHs are an asset for entity A. The underlying contract covers a single event for</p>

<p>where an entity uses the fair value approach, and in a business combination.</p> <p>What is the fair value of the RCHs from the perspective of the cedant?</p>	<p>which probability of a claim is 50%. If the event occurs, the amount of the claim will be CU500. If there is no claim, there is no further cash flow under the contract. The contract is short term, and so the impact of discounting is immaterial and, for the purposes of this example, it has been ignored.</p> <p>As such, the present value of the RCHs' expected cash flow to the cedant is: $50\% \times CU500 + 50\% \times CU0 = CU250$.</p> <p>Assume that, in this situation, the reinsurer would require a risk premium of CU20 for taking on this risk (for example, a reinsurer would charge a premium of CU270 – CU250 plus the CU20 premium for writing such a contract).</p> <p>The fair value of the RCHs is CU270.</p> <p>IFRS 13 does not specify the unit of account for measuring fair value, but it refers to other standards that require or permit the use of fair value. [IFRS 13 para 14].</p> <p>Under IFRS 17, RCHs are treated as a separate unit of account from the related underlying insurance contracts (see paras B93, C20 of IFRS 17 and BC298 of the Basis for Conclusions on IFRS 17). In particular, paragraph BC298 states that IFRS 17 requires RCHs subsequently to be accounted for separately from the underlying insurance contracts to which they relate.</p> <p>However, when determining fair value under IFRS 13, it is necessary to identify the amount that a market participant would be willing to pay to acquire this asset. For this purpose, it is necessary to assume that a market participant would also be exposed to the same underlying risk, or else the transaction would not occur, because any counterparty/reinsurer would require a premium of CU270. Such a participant would be willing to pay CU270 in recognition of those underlying risks essentially being transferred to the reinsurer through RCHs. The cedant of the underlying risk would be willing to pay the same amount to dispose of the risk as the reinsurer would demand for assuming it.</p>
<p>Date for assessing information needed to apply the fair value approach</p> <p>5.10 In applying the fair value approach on transition, paragraph C21 of IFRS 17 sets out four assessments to be performed. These relate to identifying groups of</p>	<p>Yes.</p> <p>An entity can use different dates for each of the four assessments in paragraph C21 of IFRS 17,</p>

insurance contracts, assessing eligibility for the variable fee approach, determining discretionary cash flows under the general measurement model, and assessing whether an investment contract has a discretionary participation feature. In performing these assessments, paragraph C22 of IFRS 17 allows the insurer to use 'reasonable and supportable' information either at the date of inception (or initial recognition) or at the transition date.

Can an entity select different dates for each of the four assessments listed in paragraph C21 of IFRS 17?

depending on when it has 'reasonable and supportable' information.

If, for one of the assessments, an insurer has 'reasonable and supportable' information at both the date of inception and the transition date, the entity has a choice over which date to use.

6. Comparative information

IFRSs require an entity to present one year of comparative information. Paragraph C25 of IFRS 17 permits an entity to present adjusted comparative information applying IFRS 17 for any earlier periods presented, but it does not require it to do so. If an entity does present adjusted comparative information for any earlier periods, the requirements that specify the beginning of the earliest periods presented should be read as referring to the beginning of the earliest adjusted comparative period presented. Any unadjusted comparative information should be clearly identified, with disclosure that it has been prepared on a different basis and what that basis is.

IFRS 17 specifies that entities presenting additional comparative periods need not present disclosures for those additional periods. It also permits an entity not to disclose previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies IFRS 17.

FAQ on comparative information

Comparative information required by regulatory bodies

6.1 Are there some other requirements where additional comparative information is mandated?

Some regulatory bodies require the presentation of comparative information for more comparative periods than is required under IFRS.

The IFRS 17 transition date is the beginning of the annual reporting period immediately preceding the date of initial application. This provides some relief from full retrospective application for all periods presented for entities filing with some regulatory bodies, such as the US Securities and Exchange Commission, which require presentation of financial statements and financial information for periods greater than two years. An entity should clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis. Alternatively, an entity can present adjusted comparative information applying IFRS 17 for any earlier periods presented, but it is not required to do so.

7. Disclosure

The application of the full retrospective approach, the modified retrospective approach and the fair value approach would result in different measurements of the same group of insurance contracts, impairing comparability in the periods after transition.

An entity is required to explain how it determined the measurement of insurance contracts at the transition date in each period for which insurance contracts that existed at the transition date are included in the financial statements. Additional disclosures are required for groups of insurance contracts for which the entity disaggregates insurance finance income or expenses between profit or loss and other comprehensive income.

In addition, IFRS 17 requires disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach or the fair value approach. In particular, IFRS 17 requires an entity to disclose the reconciliation of the CSM and the amount of insurance revenue separately for the insurance contracts to which each transition approach was applied. Therefore, IFRS 17 requires an entity to disclose the reconciliation of the CSM and the amount of insurance revenue separately for the insurance contracts to which each transition approach was applied.

An illustration of the disclosure requirements can be found [here](#).

PwC Observations: Disclosures before IFRS 17 is applied

IAS 8 requires entities to provide disclosures about the effect of applying IFRS 17 in the periods before IFRS 17's mandatory effective date. See the In Depth - [IFRS 17: Disclosures prior to the 2023 year end financial statements \(considerations under IAS 8 and IAS 34\)](#).

8. Interaction of IFRS 17 with IFRS 9, 'Financial Instruments'

Many insurers will implement changes in the accounting for the financial assets they hold to back the obligations arising from insurance contracts when implementing IFRS 9 at the same time as IFRS 17. Those changes will also bring significant changes to the financial statements of many insurers.

IFRS 9 replaces IAS 39, 'Financial Instruments – Recognition and Measurement'. It is meant to respond to criticisms that IAS 39 is too complex, inconsistent with the way entities manage their businesses and risks, and defers the recognition of credit losses on loans and receivables until too late in the credit cycle.

Possible consequences of IFRS 9 include:

- More income statement volatility. IFRS 9 raises the risk that more assets will have to be measured at fair value with changes in fair value recognised in profit and loss as they arise.
- Earlier recognition of impairment losses on receivables and loans, including trade receivables. Entities will have to start providing for possible future credit losses in the very first reporting period a loan goes on the books – even if it is highly likely that the asset will be fully collectible.
- Significant new disclosure requirements. Some insurers are more significantly impacted and may need new systems and processes to collect the necessary data.

IFRS 9 also includes significant new hedging requirements. In some cases, the interaction of IFRS 9 and IFRS 17 might give rise to accounting mismatches between how insurance contracts and the assets held to back them are recognised and measured. Further information on how these mismatches can be minimised by using the choices available within IFRS 9 and IFRS 17 can be found [here](#).

Further information on IFRS 9 for insurers can be found [here](#).

8.1 Timing of implementation of IFRS 17 and IFRS 9

The IASB has amended IFRS 4 to allow insurers that meet specified criteria an optional, temporary exemption from applying IFRS 9.

Insurers using the temporary exemption will apply IFRS 9 to account for assets held to back the obligations arising from insurance contracts at the same time as IFRS 17. Such insurers will need to apply the transition requirements in IFRS 9.

Information for insurers using the temporary exemption from applying IFRS 9 can be found [here](#). This includes information about the options available to an entity for adjusting comparative information relating to financial assets (paragraphs C28A–C28E of IFRS 17).

8.2 Redesignation of financial assets

Some insurers might have already applied IFRS 9, either because their activities are not predominantly connected with insurers (such as some bancassurers) or because they decided not to use the temporary exemption.

For insurers that apply IFRS 9 before applying IFRS 17, IFRS 17 provides some transition reliefs to designate eligible financial assets held in connection with contracts within the scope of IFRS 17. An insurer that redesignates financial assets in this way is not required to restate prior periods to reflect such changes in designations or classifications. Insurers can restate prior periods only if it is possible to do so without the use of hindsight. Insurers must also provide additional disclosures about the assets that are redesignated.

FAQ on reclassification of OCI reserves relating to insurance contracts on transition to IFRS 9 and IFRS 17

8.1 On transition to IFRS 9, the classification of assets held to back the obligations arising from insurance contracts might change from available-for-sale (under IAS 39) to fair value through profit or loss (under IFRS 9). Any amounts accumulated in the OCI reserves for an available-for-sale portfolio would be reclassified to retained earnings at the date of initial application of IFRS 9, applying paragraph 7.2.15 of IFRS 9.

Where both the insurance liability and the respective underlying assets are measured on a retrospective basis on transition, an accounting mismatch results, because the amounts accumulated in the OCI reserves for the insurance contracts, applying the current period book yield approach under the VFA, are not reclassified to retained earnings.

Can an entity reclassify an amount from the accumulated OCI reserves for the insurance liability on transition, to eliminate the accounting mismatch with the respective underlying assets?

Yes. IFRS 17 does not preclude an entity from reclassifying accumulated OCI reserves relating to insurance contracts to retained earnings, on transition to IFRS 9 and IFRS 17, to avoid the accounting mismatch.

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