IFRS 17 *Insurance Contracts* – Endorsement: with-profits inherited estates

Executive Summary

Project Type	Endorsement
Project Scope	Significant
Purpose of the paper	
At its 9 July 2021 meeting the Board agreed to consider a separate paper on issues arising in respect of with-profits inherited estates. This paper provides background to the issues, the Secretariat's assessment work to date and an overview of the principal endorsement concern. It also includes an indication of the scale and prevalence of with-profits business in the UK.	
Summary of the issues	
IFRS 17 does not explicitly address the inherited estates that have arisen in UK with-profits funds. Some stakeholders are concerned that the accounting treatment under IFRS 17 will not always fairly reflect the underlying economics because they think profit will be recognised before shareholders are unconditionally entitled to it.	
Decisions for the Board	
No decisions are required at this stage. Board members are asked for comments on: • The technical content of, and approach to reporting, the preliminary assessment; • Any further analysis required to enable the assessment to be finalised for inclusion in the DECA.	
Recommendations	
The paper recommends including the assessment set out in Appendix 1 in the DECA, subject to any amendments required by the Board and any drafting refinements.	
Appendices	
Appendix 1	Assessment of IFRS 17's requirements in respect of with-profits inherited estates

Background

1. The Financial Conduct Authority (FCA) describes a with-profits policy as follows:

   "A with-profits policy is a long-term insurance contract. It provides benefits to customers through eligibility to participate in discretionary distributions based on profits arising from the life insurer's business or from a particular part of the life insurer's business. Distributions are typically made in the form of bonuses that are added to the value of the policy annually."[1]

2. Inherited estates are a feature of some UK with-profits funds. The inherited estate ('the estate') represents assets in the fund that are surplus to those required to meet current contractual obligations. The sources of the estate are typically unknown, but may be due to seed capital, historic underpayment to shareholders and/or policyholders, historic profits and the investment return on those profits.

3. In the UK the allocation of profits arising in the with-profits fund, including the estate, and the application of the estate to support the business, is generally subject to the fund's Principles and Practices of Financial Management and possibly the entity's Articles of Association and other sources of governance. These documents determine how any profits from the fund are attributed to policyholders and shareholders, typically requiring 90% to be attributed to policyholders.

4. The same 90%/10% allocation between policyholders and shareholders respectively typically also applies to the estate, to the extent it is available for distribution and not needed to support current and expected future business. Any surplus attributable to shareholders is not accessible by shareholders except to the extent that policyholder bonuses are declared, or an attribution exercise is approved by the court.

5. Most UK with-profits funds are now closed to new business. The closure of a fund may lead to greater clarity over the future use of the inherited estate, including because of a court-approved attribution exercise. For example, some closed with-profits funds (in particular those resulting from demutualisations) do not allow any profits to be allocated to shareholders.

6. IFRS 17 does not explicitly address the accounting for UK with-profits funds or certain issues arising from how these funds operate, giving rise to a number of technical and operational considerations. This paper and its Appendix, however, focus only on the particular concern stakeholders have informed us about relating to the treatment of with-profits inherited estates.

7. The principal concern of these stakeholders is that the accounting treatment under IFRS 17 will not always fairly reflect the underlying economics because they think profit will be recognised before shareholders are unconditionally entitled to it. Although the details and the extent of the concern differ depending on whether the fund is open or closed, the fundamental issue can arise in both cases and is explained further from paragraph 16 below.

[1] FCA (2017), Review of the fair treatment of with-profits customers: https://www.fca.org.uk/publication/thematic-reviews/tr19-03.pdf.

Prevalence in the UK

8. With-profits business has been a feature of the UK long-term investment and savings industry for several decades and the assets under management of with-profits funds amount to in excess of £250bn[2] (roughly 12.5% of the total assets under management for insurance companies in the UK).

9. However, a significant proportion of UK with-profits funds is now closed to new business, so the scale of with-profits business is declining. The FCA reported that "*total with-profits assets were approximately £426bn as at 2001, £411bn as at 2005, £333bn as at 2010 and £296bn as at 2015*". As of 2017, the FCA reported £274bn.[3] Secretariat estimates based on Barnett Waddingham reports (see footnote 2) and company annual reports suggest that nearly half of the assets under management attributable to with-profit funds are linked to closed funds.

10. Of these closed funds, a number will have been subject to inherited estate attribution exercises. In these cases, the ownership of any inherited estate may have been established by court-approved schemes, so some of the principal judgements under IFRS 17 will be less challenging.

11. Some UK mutual entities have open with-profits funds; however, it is understood that these entities plan to report under UK GAAP.

Current UK accounting practice under IFRS 4

12. IFRS 4 permits the continuation of previously applied GAAP so current accounting is heavily based on accounting under old (pre-2005) UK GAAP. With-profits business is generally accounted for in accordance with FRS 27 *Life Assurance*. FRS 27 states that the Fund for Future Appropriations (FFA) is the balance sheet item required by Schedule 9A to the Companies Act 1985 to comprise all funds the allocation of which, either to policyholders or to shareholders, has not been determined by the end of the accounting period. Consequently, the inherited estate formed part of the FFA. Although IFRS 4 paragraph 34 (b) does not permit the use of an intermediate category between liabilities and equity,[4] it allows the discretionary participating feature of with-profits contracts to be classified as either a liability or a component of equity, or to be split between these components. In the UK it is generally treated in full as a liability on the IFRS 4 balance sheet.

13. Profit recognised is generally equal to the shareholder transfer for the period, in turn commonly determined with reference to the policyholder bonuses declared. Profit recognition therefore reflects the timing of declaration of policyholder bonuses. Since UK with-profits policies typically involve a significant terminal bonus, profits tend to be 'back end loaded'.

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2 Secretariat estimate based mainly on Barnett Waddingham (2021), draft *UK With-Profits Funds Investment performance and strategy 2021*. Most recent version available: https://www.barnett-waddingham.co.uk/comment-insight/research/uk-with-profits-funds-investment-performance-and-strategy-2020/

3 Source: see footnote 1. This long-term declining trend is reported also in O'Brien (2009), *The UK with-profits life insurance industry: a market review*

4 The FFA had been classified as an intermediate category under old UK GAAP

14. Profit recognition practices under current UK accounting closely reflect the regulatory requirements. Insurers are not permitted to make any payment to shareholders out of the with-profits fund unless it can be financed by the fund without causing a deficit and is made at the same time as the related distribution to policyholders.

15. Changes in the value of the estate (e.g. resulting from investment returns) do not result directly in distributions to policyholders so remain part of the FFA and do not impact the income statement.

The impact of IFRS 17

16. Under IFRS 17, UK with-profits business generally will be accounted for under the Variable Fee Approach (VFA), as policyholders participate in a clearly defined pool of underlying items. This reflects the contracts' nature as primarily investment-related contracts with participation features. In broad terms this means that the shareholders' share of changes in the fair value of the underlying pool of assets will form part of the variable fee, which is taken to the CSM. The future release of the CSM to profit or loss is designed to reflect the provision of investment services.

17. Compared with the treatment under IFRS 4 as currently applied in the UK, we expect a significant acceleration in profit recognition, due largely to the current 'back-ending' of profit referred to in paragraph 13 above. As a result, we expect net credits to equity in respect of with-profits business on transition, although quantitative data on the likely impact is not available to us.

18. As noted above, however, IFRS 17 does not explicitly address the accounting for UK with-profits funds or, in particular, the treatment of an inherited estate. Some of the questions arising, and the core concern expressed by some stakeholders, stem from the fact that IFRS 17 does not contain the flexibility of IFRS 4 (see paragraph 13 above) but requires judgements to be made as to the division of the inherited estate between shareholders and policyholders (between equity and liabilities). This will apply both on transition and on subsequent measurement and, given the variables involved[5], these can be complex judgements.

19. Specific questions on the application of IFRS 17 include:

    - Do the inherited estate assets function as 'underlying items' for with-profits contracts under the VFA (in accordance with IFRS 17: B101)?
    - How is a liability recognised under IFRS 17 for the policyholders' share of the estate and changes in its value?
    - How does IFRS 17 require the shareholders' share to be accounted for?

20. As explained in more detail in the Appendix, an entity's accounting will depend on facts and circumstances, including potentially whether a fund is open or closed. However, there is an emerging consensus within the industry that IFRS 17 requires a liability to be recognised for the policyholders' share. The principal stakeholder concern,

[5] Variables could include the future returns on the fund assets (including inherited estate assets), the declaration of future bonuses, and, in an open fund, the number and value of new policies that will be sold.

therefore, relates to the accounting for the shareholders' share and whether it is appropriate to recognise equity on transition, or profits on subsequent measurement, in advance of a formal transfer to shareholders.

Assessment work carried out to date

21. The key elements of the Secretariat's assessment work on this issue to date include the following:

    a) Discussion at meetings of the Insurance Technical Advisory Group (TAG) – see next paragraph;

    b) Desk-top analysis, including reviews of comment letters and other feedback to the IASB during the development and finalisation of the standard;

    c) Review of results from our preparer survey;

    d) Review of any technical papers issued by accounting firms or prepared by actuarial and accounting discussion groups.

22. Papers on the application of IFRS 17's requirements to UK with-profits business were discussed at the January 2021, March 2021 and April 2021 Insurance TAG meetings. Papers presented at the January meeting raised challenges in relation to the impact of the standard with regard to the accounting for inherited estates and the treatment of non-participating business written by with-profits funds.[6] As no clear conclusions were drawn, discussions were continued at the March and April meetings. Summaries of the Insurance TAG's discussions relating to these topics are available in the meeting summaries on the UKEB website.[7]

Endorsement concern in respect of inherited estates

23. The principal concern raised by some stakeholders is that the accounting treatment for inherited estates that appears to be required under IFRS 17 would, in their view, not always fairly reflect the underlying economics. This is because these stakeholders believe IFRS 17 will lead to the recognition of profit before shareholders are unconditionally entitled to it.

24. Appendix 1 to this paper presents a draft assessment of IFRS 17's principal requirements in respect of these matters against the technical endorsement criteria of understandability, relevance, reliability and comparability.

Questions for the Board
25. Does the Board have any comments on the draft assessment? 26. Are there any further considerations that ought to be included in the assessment?

6 See separate paper re Other significant issues – other VFA issues
7 https://www.endorsement-board.uk/endorsement-projects/ifrs-17/technical-advisory-group

27. Does the Board have suggestions on further analysis work required to enable the assessment to be finalised for inclusion in the DECA?

Proposed next steps

28. Subject to the Board's comments on the draft assessment set out in Appendix 1 and any further analysis work required, the Secretariat will incorporate the content of the Appendix in the DECA.

IFRS 17 *Insurance Contracts* – Endorsement: with-profits inherited estates

Appendix 1: [Draft] assessment against the technical accounting criteria

Background

1. Inherited estates are a feature of some UK with-profits funds. The inherited estate ('the estate') represents assets in the fund that have built up over time and have not been paid out to policyholders. These assets are surplus to those required to meet current contractual obligations and can be used at the discretion of management to enhance benefits of future policyholders. The exact sources of the estate are typically unknown, but may be due to seed capital, historic underpayment to shareholders and/or policyholders, historic profits and the investment return on those profits.

2. IFRS 17 does not explicitly address the accounting for inherited estates. However, application of the standard implicitly requires judgements to be made as to the division of the inherited estate between shareholders and policyholders (between equity and liabilities), both on transition and on subsequent measurement.

3. As set out in more detail below, a number of technical questions arise including how a liability should be recognised under IFRS 17 for the policyholders' share of the estate and how IFRS 17 requires the shareholders' share to be accounted for.

4. The precise accounting will depend on facts and circumstances, but there is an emerging consensus that IFRS 17 requires a liability to be recognised for the policyholders' share. The principal stakeholder concern, therefore, relates to the accounting for the shareholders' share.

5. The principal concern of some stakeholders is that the accounting treatment under IFRS 17 will not always fairly reflect the underlying economics because they think profit will be recognised before shareholders are unconditionally entitled to it. Although the details and the extent of the concern differ depending on whether the fund is open or closed, the fundamental issue can arise in both cases.

IFRS 17 requirements

6. IFRS 17 requires the estimates of future cash flows of a group of contracts to include all the future cash flows within the boundary of each contract in the group. Paragraph 33 states that the estimates shall

   a) *"incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37-B41). To do this, an entity shall estimate the expected value (i.e. the probability weighted mean) of the full range of possible outcomes.*

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b) reflect the perspective of the entity [……]

c) be current – the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future […..]

d) […..].”

7. IFRS 17's Application Guidance contains specific guidance relating to contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts.[1] This is the case where contracts require the policyholder to share with policyholders of other contracts the returns on the same specified pool of underlying items [B67]. B68 states that:

   “*The fulfilment cash flows of each group reflect the extent to which the contracts in the group cause the entity to be affected by expected cash flows, whether to policyholders in that group or to policyholders in another group. Hence the fulfilment cash flows for a group:*

   a) include payments arising from the terms of existing contracts to policyholders of contracts in other groups, regardless of whether those payments are expected to be made to current or future policyholders; and

   b) exclude payments to policyholders in the group that, applying (a), have been included in the fulfilment cash flows of another group.”

8. IFRS 17:B70 clarifies that “*different practical approaches can be used to determine the fulfilment cash flows of groups of contracts that affect or are affected by cash flows to policyholders of contracts in other groups. In some cases, an entity might be able to identify the change in the underlying items and resulting change in the cash flows only at a higher level of aggregation than the groups. In such cases, the entity shall allocate the effect of the change in the underlying items to each group on a systematic and rational basis.*”

9. IFRS 17:B71 explains that an entity is also permitted to establish a residual liability that is not allocated to specific groups:

   “After all insurance contract services have been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.”

10. For insurance contracts with direct participation features, the CSM is adjusted by the change in the amount of the entity's share of the fair value of the underlying items [IFRS 17: 45(b)]. The entity's obligation to the policyholder is the net of (a) the obligation to pay the policyholder an amount equal to the fair value of the underlying items and (b) a variable fee that the entity deducts from (a). [IFRS 17: B104]

11. The CSM is defined in IFRS 17 Appendix A as “*A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit*

[1] Sometimes referred to as contracts with mutualisation

the entity will recognise as it provides insurance contract services under the insurance contracts in the group".

Disclosures

12. IFRS 17 does not contain disclosure requirements relating specifically to with-profits contracts or inherited estates. Such contracts would be included in the disclosures required generally to explain recognised amounts (IFRS 17 paragraphs 97 to 116).

13. Paragraph 117 also requires an entity to disclose significant judgements and changes in judgements, including specifying the inputs, assumptions and estimation techniques used to measure insurance contracts.

14. In addition, IFRS 17:94 contains the general requirement that, if the specific disclosures required by the standard are not enough to meet the overall objective of enabling users of the accounts to assess contracts' effect on the entity's financial position, financial performance and cash flows, an entity shall disclose additional information necessary to meet this objective.

With-profits inherited estates - accounting impact

Transition

15. Given the number of years since the inception of most with-profits contracts, it is expected that a fully retrospective transition approach will be impracticable in many cases. We understand it is likely, therefore, that for many groups entities will apply a fair value approach (FVA) on transition.

16. Under the FVA, the CSM is determined as the difference between the fair value of a group of contracts at transition and the fulfilment cash flows at that date. For funds with an inherited estate, an assessment would need to be made of the extent to which a proportion of the inherited estate should be included in the calculation, because of an expectation it will be paid out to policyholders in the future. The amount of the inherited estate considered attributable to policyholders would be included in the measurement of fulfilment cash flows with the difference from fair value being the CSM. Any remaining excess of assets backing the estate would be recognised as equity on transition.

17. The analysis between CSM and equity on transition will be a matter of judgement based on the specific facts and circumstances of the inherited estate, which may differ depending on whether the fund is open or closed to new policyholders. There is likely to be greater certainty over the amount and timing of payments out of the estate to policyholders in the case of a closed fund. However, our understanding is that entities will recognise an increase in equity on transition: this is because while under current accounting in the UK the amount of an inherited estate is generally treated in full as a liability, under IFRS 17 at least some of the amount will be treated as attributable to shareholders and recognised as equity.

Subsequent measurement

18. Under IFRS 17, UK with-profits business generally will be accounted for under the Variable Fee Approach (VFA), as policyholders participate in a clearly defined pool of underlying items. This reflects the contracts' nature as primarily investment-related contracts with participation features.

19. IFRS 17 recognises that some insurance contracts have cash flows that affect the cash flows to policyholders of other contracts, as is generally the case for UK with-profits contracts. The standard requires the fulfilment cash flows of each group to reflect the extent to which contracts in the group cause the entity to be affected by expected cash flows, whether to policyholders in that group or to policyholders in another group, regardless of whether those payments are expected to be made to current or future policyholders (IFRS 17: B68).

20. After transition, changes in the fair value of the inherited estate (e.g. due to investment return) will need to be allocated between policyholders and shareholders in accordance with the fund's Principles and Practices of Financial Management. Again, this will be a matter of judgement based on the specific facts and circumstances of the case, and stakeholders have differing views as to the precise mechanics under IFRS 17. However, there seems to be consensus that the policyholders' share (typically 90%) can be recognised as a fulfilment cash flow liability under IFRS 17: B70 or B71 (see paragraphs 8 and 9 above).

21. The shareholders' share (typically 10%) of any change in fair value of the inherited estate will then be recognised as either CSM or directly as profit. The analysis under IFRS 17 does not seem clear cut, and stakeholder views may differ depending on whether the fund is closed or open:

    - If the inherited estate assets are considered to be 'underlying items' for current with-profits contracts, then the shareholders' share will form part of the variable fee under the VFA and will adjust the CSM. The CSM will then be released to profit as investment services are provided, for example in line with asset shares. This may be the assessment for a closed fund.

    - Alternatively, and typically for an open fund, some stakeholders consider that (a) the inherited estate assets are not underlying items as they support both current ***and future*** policyholders, and (b) no CSM can be recognised because IFRS 17 does not allow for a CSM other than for groups of current contracts. In this case the shareholders' share will be recognised directly as profit.

Assessment against the endorsement criteria

Recognising the interests of policyholders and shareholders

22. IFRS 17 does not explicitly address the inherited estates that have arisen in UK with-profits funds. These are UK-specific features and give rise to some areas of judgement and complexity in applying IFRS 17's requirements.

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23. However, generally it will be clear from the entity's Principles and Practices of Financial Management or other governance documents that the surplus represented by the estate will be shared by both policyholders and shareholders. This may also be clear from regulation and past business practice, which are required to be taken into account in determining an entity's substantive rights and obligations. [IFRS 17: 2] Typically in the UK, policyholders collectively (both current and future, if the fund is still open) have expectations to share in the estate. This may be through the process of smoothing returns or meeting guarantees in adverse economic conditions, special distributions of excess surplus or as a result of an attribution exercise. Recognising the relative interests of policyholders and shareholders in the estate, as will be required by IFRS 17, should enable a faithful representation of the insurer's economic position. This is not the case under current accounting, under which a liability is recognised for both the policyholder and shareholder shares, although these is no current obligation for the latter, so IFRS 17 will **enhance relevance and reliability**.

24. Treating the policyholders' share (typically 90%) as part of fulfilment cash flows within insurance contract liabilities will result in **relevant and understandable** information. It is clear from IFRS 17's requirements that fulfilment cash flows are the entity's best estimate of cash flows and should consider all potential scenarios (see paragraph 6 above). The fact that the ultimate attribution of the estate may be subject to uncertainty does not affect this principle.[2] This treatment will also be comparable with that for other insurance contract liabilities, whether from with-profits or other business, enhancing consistency within the entity. This is not the case under current accounting (IFRS 4 as applied in the UK), under which the accounting is triggered by the declaration of policyholder bonuses and is thereby subject to management discretion. Consequently, IFRS 17 will **enhance comparability**.

25. As explained above, the recognition of the shareholders' share (typically 10%) in equity on transition or as profit on subsequent measurement (whether via CSM release or directly to profit or loss) may differ depending on the entity's application of judgement to its particular facts and circumstances. However, recognition of the shareholders' interest in the estate in some form reflects the fact that the amount represents surplus which has arisen from past activities and is in excess of the fulfilment cash flow liability. This treatment **enhances understandability** because it is consistent with shareholders' reasonable expectations based on the underlying contractual arrangements and therefore provides **relevant** information.

Disclosures

26. As noted in paragraph 12 above, IFRS 17 does not require specific disclosures in respect of UK with-profits contracts or inherited estates. However, disclosures include explanations of recognised amounts, explanations of significant judgements and estimates and the nature and extent of risks arising from insurance contracts.

[2] See also IFRS 17 BC170: "*The Board considered whether to provide specific guidance on amounts that have accumulated over many decades in participating funds and whose 'ownership' may not be attributable definitively between shareholders and policyholders. It concluded that it would not. In principle, IFRS 17 requires an entity to estimate the cash flows in each scenario. If that requires difficult judgements or involves unusual levels of uncertainty, an entity would consider those matters in deciding what disclosures it must provide to satisfy the disclosure objective in IFRS 17.*"

27. In aggregate these disclosure requirements extend beyond those in IFRS 4 and should therefore enhance the **understandability** of the impact of inherited estates on the entity's financial position, financial performance and cash flows.

Potential challenges to the endorsement criteria and mitigations

28. While there may be several implementation or interpretation challenges when applying IFRS 17 to UK with-profits business, the principal concern raised by some stakeholders relates to the treatment of the shareholders' interest in the inherited estate.

29. These stakeholders note that the estate supports both current and future contracts and that its ownership is not yet determined. In their view IFRS 17 will lead to surplus (profit) being recognised before all potential services in respect of that surplus have been provided. In addition, as transfers to shareholders can be made only on the basis of declared bonuses, or on court approval of an attribution scheme, profits will be recognised before shareholders are unconditionally entitled to it. Some stakeholders therefore consider that the accounting will not faithfully represent the underlying economic position, impairing relevance and reliability.

30. Discussions with stakeholders, including at the UKEB's Insurance Technical Advisory Group, indicated that recognition of the shareholders' interest as equity (whether directly in equity on transition or through profit or loss) was not considered a clear cut decision but, on balance and having explored other possibilities, was seen as the most appropriate treatment. It was noted that the inherited estate arose from past service and past events and, although it might be utilised to support current and future policyholders, no current service obligation existed.

31. Treatment as equity would be in accordance with the IASB's Conceptual Framework, which by definition classifies claims against the entity's assets that are not liabilities as equity. Recognition in equity does not necessarily mean there is an earned profit from past events (consider for example capital contributions, grant income or credits arising on equity-settled share-based payments), nor that the amount is immediately accessible by shareholders.

32. Profit recognition under IFRS 17 will inevitably be different from current practice, under which shareholder profits are recognised only when transfers to shareholders take place based on bonus declarations. The profit recognition regime under IFRS 4 as applied in the UK is therefore very different from the asset/liability framework that underpins IFRS. It seems appropriate for the accounting to recognise the shareholders' interest in the estate: past attribution exercises provide evidence that shareholders do receive at least the expected share (typically 10%).

33. Stakeholders also note that it is not unique for profit to be recognised in accounts without it necessarily being immediately accessible to shareholders. They note that an estate can function as a resource to the entity even if not accessible immediately in cash or other transferable form.

34. The required disclosures (see paragraphs 12 - 14 above) are designed to provide evidence of the approach taken and facilitate users' assessments of management's judgements. The required disclosures also enhance relevance and will mitigate risks to comparability, in particular those of the inputs, assumptions and estimation techniques

used. In aggregate the disclosures should highlight differences between entities, in terms of facts and circumstances and management's expectations, and facilitate analysis of performance.

35. Users of accounts informed us that they were familiar with assessing the extent to which profit is immediately accessible or 'locked in'. Clear disclosure and potentially separate presentation (e.g. in equity) would continue to be important as users felt it unlikely that the accounting alone could 'tell the whole story'. Further, specialist insurance investors broadly understand the nature of the estate and already receive additional disclosures in this area (both within and outside the annual accounts) on which to base their own analysis. Such additional information can continue to be provided.[3]

36. The fact that IFRS 17 does not contain detailed requirements in this area means that entities must develop an accounting treatment that reflects their particular facts and circumstances and is therefore relevant and understandable. This is not unexpected when implementing a major new international standard. International financial reporting standards are developed as principle-based to allow widespread use and cannot include specific accounting requirements for every type of product or transaction. This facilitates consistent application of measurement and presentation requirements without excessive prescriptive rule-making. IFRS 17 will need to be interpreted and practical approaches developed which reflect the underlying economics and are in line with the standard's principal objectives.

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[3] IAS 1 paragraphs 17(c) and 31 already require the provision of additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.