

# Open call for tenders to assist EFRAG in its impact analysis of IFRS 17 *Insurance Contracts* (economic and behavioural expertise)

## A. Summary of contract requirements and tendering procedure

### 1. Contracting entity

#### 1.1 Name and address

European Financial Reporting Advisory Group AISBL (EFRAG)  
35 Square de Meeûs  
B-1000 Brussels  
Belgium  
Email box: [call.for.tender@EFRAG.ORG](mailto:call.for.tender@EFRAG.ORG)

#### Contact persons:

- Andrew Watchman, EFRAG TEG Chairman and CEO ([Andrew.Watchman@EFRAG.ORG](mailto:Andrew.Watchman@EFRAG.ORG) ; +32-(0)2-210.44.06);
- Patricia McBride, EFRAG Technical Director ([Patricia.McBride@EFRAG.ORG](mailto:Patricia.McBride@EFRAG.ORG) ; +32-(0)2-210.44.03).

#### 1.2 Internet address

[www.efrag.org](http://www.efrag.org)

#### 1.3 Date of publication of this notice

26 January 2018

#### 1.4 Communication

Additional information can be obtained from the above-mentioned address.

#### 1.5 EFRAG's mission statement

EFRAG's mission is to serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring these views are properly considered in the IASB standard-setting process and in related international debates. EFRAG ultimately provides advice to the European Commission (EC) on whether newly issued or revised IFRS meet the criteria in the IAS Regulation for endorsement for use in the EU, including whether endorsement would be conducive to the European public good.

EFRAG seeks input from all stakeholders, and obtains evidence about specific European circumstances, throughout the standard-setting process and in providing our endorsement advice. Our legitimacy is built on transparency, governance, due process (which may include field tests, impact analyses and outreaches), public accountability and thought leadership. This enables EFRAG to speak convincingly, clearly and consistently, and be recognised as the European Voice in financial reporting.

## **2. Description of the contract**

### **2.1 Short description**

The objective of the contract is to assist EFRAG in its *ex ante* impact analysis of IFRS 17 *Insurance Contracts* (IFRS 17) by providing economic and behavioural expertise in specified areas. This will serve as an input to EFRAG's endorsement advice to the EC on whether IFRS 17 would be conducive to the European public good.

### **2.2 Detailed description**

See Section B.

## **3. Formal requirements and description of the procurement process**

### **3.1 Delivery deadlines**

The organisation of the study should take place in the following phases which do not aim at producing different papers but ensuring a close coordination between the contractor and the EFRAG Secretariat on the progress of the report:

- a) The contractor shall submit a structured outline (similar to a table of contents plus text indicating important points) of the study **by 16 March 2018** as basis for a kick off meeting **by 30 March 2018** at a date agreed between the EFRAG Secretariat and the contractor;
- b) The contractor shall submit the draft report **at latest by 16 July 2018** to EFRAG. The draft report should include at least all the elements specified in Section B 'Scope of work' and should explain the contractor's research and data gathering procedures, methodology for economic modelling and critical assumptions. EFRAG will comment on the draft report within 15 days of its receipt;
- c) The contractor shall follow up on the comments and submit the final report at latest by **3 September 2018**;
- d) The contractor shall give a presentation of its final report to the EFRAG Board at the EFRAG offices on **20 September 2018** (or at an alternative date to be agreed).

During the drafting of the report, an on-going information exchange between the contractor and the EFRAG Secretariat about the progress of the report shall be established via e-mail and/or telephone calls. The contractor should at least give monthly updates by means of conference calls.

Any coordination meetings, if considered necessary, will be held in Brussels unless otherwise agreed with EFRAG. **Travel expenses** of these kick-off and coordination meetings are part of the all-inclusive study price.

### **3.2 Duration of the contract**

The contract will expire on **31 October 2018** at the latest.

### **3.3 Maximum total value of the contract**

The maximum value of this contact is **150.000 EUR including VAT<sup>1</sup>** and all other costs, expenses (including travel costs, meeting and other out-of-pocket costs) and fees.

### **3.4 Subcontracting**

Subcontracting is possible subject to agreement of EFRAG (expressed by selecting the offer containing subcontracting). If the offer includes subcontracting, this shall be clearly indicated,

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<sup>1</sup> EFRAG has no VAT status and should therefore be invoiced VAT included for all provision of services, including those received from abroad.

including the envisaged percentage of subcontracted work (expressed in a percentage of price and working time).

During the contract award procedure, EFRAG reserves the right to require tenderers to supply further information about the financial, economic, technical and professional capacity of the proposed subcontractor(s).

No member of the team of authors (contractor and - if applicable - subcontractor(s)) shall currently be working for any project similar to that described in Section B. The contractor(s) shall deliver an unbiased and purely factual based study.

### **3.5 Report**

The report should be in English and be submitted in electronic MS Word format. Graphs, tables and figures being part of the text of the study must be provided in a format which can be edited using MS Word.

The report shall include:

- an abstract of no more than 200 words in English. The purpose of the abstract is to serve as a reference tool to help the reader to quickly ascertain the study's subject;
- an Executive Summary (the Executive Summary shall be independent from the main text. It shall offer an outline of the analysis and summarise the main results of the report and shall not be a repetition of the main text); and
- the following standard disclaimers:

*“The information and views set out in this report are those of the author(s) and do not necessarily reflect the views or opinion of EFRAG. EFRAG does not guarantee the accuracy of the data included in this report. EFRAG may not be held responsible for the use which may be made of the information contained therein. EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this document are the sole responsibility of the author(s) and can under no circumstances be regarded as reflecting the position of the European Union.”*

## **4. Quality standards**

### **4.1 General quality standards**

The contractor shall undertake to perform the tasks assigned to them in accordance with the highest professional standards and to observe the highest integrity throughout the process (data, research, analysis, presentation, citations, etc.). The standards to be respected include:

- All written deliveries should be drafted concisely, allowing readers to readily gain an overview of the specific subject, independent of their prior knowledge;
- The contractor should remain aware of the limitations of the research method, including a consciousness of the impact of their own views and opinions which may predetermine an outcome. Any uncertainty inherent in a result should be reflected in the findings and conclusions;
- The contractor should bear in mind that the delivery must stand up to scrutiny in a wider context and that factual errors, imprecise or ambiguous wordings or an unclear, inaccurate or incomplete stating of sources and references may jeopardise the credibility of the delivery as a whole;
- Factual accuracy shall be ensured. The contractor has the responsibility to present the results fully without omission, misrepresentation or deception. In particular:
  - The most recently available information and data shall be included. Existing work within the relevant community shall be taken into account as broadly as possible,

- including research that challenges the contractor's own results. Contradictory findings shall not be excluded at the outset;
- All material from the work of others which is used for the assignment, such as data, information, ideas, concepts, methodologies, quotes and literature must be clearly referenced at the appropriate place in the text by way of systematic referencing. A complete bibliography, and where applicable, a list of persons/organisations interviewed, is essential;
- Inverted commas or quotation marks shall be used in case another author's material is copied word-for-word (direct quotation). Sources should also be clearly referenced in case of paraphrasing, i.e. when putting another author's ideas into one's own words; and
- The contractor shall put in place effective internal quality control mechanisms.

Non-compliance with the above standards can lead to the rejection of the services.

## **4.2 Plagiarism**

Where performance of the contract entails the use of an intellectual or industrial property right belonging to a third party, the contractor must warrant that he has obtained authorisation from the holder or holders of the said rights or from his or their legal representatives to use those rights for the purposes of this contract. In such cases, the contractor must also inform EFRAG of any obligation or restriction arising from copyright or another intellectual or industrial property right belonging to a third party. Any fee for which the contractor may be liable for such authorisation shall be paid by him.

All material from the work of others which is used for the assignment, such as data, information, ideas, concepts, methodologies, quotes and literature must be clearly identified and stated at the appropriate place in the text by way of a systematic referencing system. These works must be attributable to their original authors. Where the texts referred to are available on the Internet, hyperlinks should be provided if possible. A complete bibliography ("references"), and where applicable, a list of persons/organisations interviewed, is essential. Plagiarism checks will be carried out. In the case that serious plagiarism is detected and not eliminated by the contractor, EFRAG will reject the study.

## **4.3 Results and copyright**

EFRAG acquires ownership of the results of the work carried out under the contract ('the results'). EFRAG may use the results for the following purposes:

- use for its own purposes;
- make the report publicly available;
- communication through press information services;
- inclusion in databases, indexes and portals as EFRAG would see appropriate;
- modification by or in the name of EFRAG; and
- quote from and/or incorporate extracts from the report in its letter of endorsement advice to the EC and in any other reports, presentations and technical papers that EFRAG might prepare in connection with this project.

The contractor may not publish or otherwise use the paper commissioned by EFRAG unless a prior written authorisation is obtained.

## **5. Exclusion, selection and award criteria**

### **5.1 Exclusion criteria**

Tenderers must meet the exclusion criteria as laid down in the Information Form and sign the Information Form as part of the tender in this respect.

## 5.2 Selection criteria

Tenderers must prove their economic, financial, technical and professional capacity to carry out the work subject to this call for tenders.

The economic and financial capacity will be assessed on the basis of a signed declaration of financial capacity, professional independence and absence of conflicts of interest (see point 3 of the Information Form) to be submitted by the tenderer. EFRAG reserves the right to seek evidence at any time relating to the tenderer's economic and financial capacity.

Tenderers must prove their technical and professional capacity. Tenderers must demonstrate relevant experience and credibility in delivering economic studies in the field of financial services or capital markets in an EU context. The tenderer must prove experience in the domain of the call for tenders with at least three projects delivered in this field, or similar fields, in the last five years. The tenderer should propose a team of experts with sound educational and professional qualifications and professional experience. Each team member should have a university degree and at least three years of relevant experience. The tenderer should propose a Project Manager with at least five years of relevant experience.

The tender should provide information about the tenderer's relevant experience including:

- experience in the field of analysing competitive and market structures and trends in economic behaviours in the context of assessing the impact of changes in financial or capital markets regulation on an EU-wide basis;
- experience in the investigation of causal factors affecting trends in economic behaviours on an EU-wide basis;
- experience in interview/survey techniques, data collection, statistical analyses and drafting reports and recommendations;
- experience in the insurance sector; and
- capacity to draft economic reports in English.

The tender should also provide CVs that summarise the relevant professional qualifications and experience of the Project Manager and other core team members of the project team.

The contractor may reject tenderers at selection stage in case of professional conflicting interests that may affect the performance of the contract.

## 5.3 Award criteria

The tenderer will be awarded according to the best-value-for-money procedure. The maximum total of quality score is 100 points divided as follows:

Quality	Max. points
a) <i>Quality and relevance of proposed approach to gathering evidence on market structure/competitive landscape, trends in product and investing strategies and investor attitudes in the insurance sector in the EU.</i>	25 points
b) <i>Quality and relevance of proposed approach for analysing the evidence referred to in a) above, including identification of the drivers of the observed past trends and assessment of the extent to which IFRS 17 could be expected to affect those trends in the future.</i>	20 points
c) <i>Knowledge of and experience in the insurance sector in the EU.</i>	10 points
d) <i>Organisation of the work.</i>	10 points
e) <i>Quality control.</i>	10 points

Quality	Max. points
f) <i>Price (Comparison of prices will be made on the basis of the stated, all-inclusive fixed price using a formula i.e. the lowest quoted price will receive the maximum number of 25 points; all other offers will receive a number of price points in relation to the lowest offered price: Price points = (lowest price / price of the respective tender) x 25</i>	25 points

### **Guidance on the quality criteria**

The tender should describe the methodology the contractor proposes to use to meet the objectives of the contract. This should include, at a minimum, a description of how the contractor would address the matters described in Section B, Part 3. The description should refer to:

- the proposed research and data-gathering techniques the contractor would use to obtain evidence about market structure/competitive landscape, trends in product and investing strategies and investor attitudes in the insurance sector in the EU;
- the proposed approach to identifying and analysing the major factors ('drivers') that have affected the trends observed, including the role of financial reporting and its significance among the drivers identified; and
- how the contractor would test investors' perception of the insurance sector, and the scope and methodology for its analysis of the cost of capital for European insurers.

The tender should also describe:

- how the contractor expects its findings to contribute to EFRAG's objective of assessing the anticipated impact of IFRS 17 on the insurance sector in the EU;
- any significant limitations anticipated by the contractor due to lack of data or other reasons
- If relevant, how the contractor would consider and address the potential for bias in the input obtained from stakeholders;
- whether and how the contractor would organise its results into sub-sectors of the insurance industry (e.g. life, non-life, reinsurance sub-sectors);
- how the contract would be organised and managed; and
- the quality control procedures the contractor would apply.

### **5.4 Other information**

The tenderer should complete and sign the Information Form that is part of the tender documents. This form includes a confirmation in relation to the EFRAG's EC grant agreement as well as a confirmation that the tenderer has no potential conflicts of interest.

#### *EFRAG's EC grant agreement*

Part of EFRAG's financing comes from the European Union in the form of a grant (the EC grant). The EC grant requires that Articles II.4, II.5, II.6, II.9 and II.27 of the Grant Agreement as laid down in the EC's Model Grant Agreement (mono beneficiary) November 2016 ([http://ec.europa.eu/regional\\_policy/sources/tender/doc/propositions/2017\\_16\\_bat\\_063/Model%20Mono%20beneficiary%20grant.pdf](http://ec.europa.eu/regional_policy/sources/tender/doc/propositions/2017_16_bat_063/Model%20Mono%20beneficiary%20grant.pdf)) are also applicable to the contractor. A condition for inclusion as a valid tender is that the prospective contractor confirms that it has been made aware of these Articles and agrees to be bound by them if the contract is awarded to them.

For information purposes, the Articles concerned relate to:

- Article II.4 – Liability for damages;
- Article II.5 - Conflict of interest;

- Article II.6 – Confidentiality;
- Article II.9 – Pre-existing rights and ownership and use of the results; and
- Article II.27 – Checks, audits and evaluations.

### **5.5 Other conditions for participation**

The tender is only open to organisations established/domiciled in the European Economic Area.

### **5.6 Time limit for receipt of tenders**

Tenders must be sent by **16 February 2018, 18.00 hrs Brussels time**.

Tenders must be sent by email to the email address: [call.for.tender@EFRAG.ORG](mailto:call.for.tender@EFRAG.ORG). Tenderers are advised to keep proof of the sending time.

### **5.7 Language in which tenders must be drawn up**

Tenders must be submitted in English.

## **6. Notification of the results and award of the contract**

### **6.1 Notification of the results**

EFRAG has the intention to notify the successful tenderer by **2 March 2018**. As part of the evaluation process, EFRAG has the right to request a presentation of the proposal at the EFRAG offices.

Please note that the notification at this stage does not constitute a commitment on the part of EFRAG. Prior to signing the Contract, EFRAG may either abandon or cancel this procurement procedure without entitling any tenderer to any compensation.

Notification of the results will also be sent to the unsuccessful candidates, indicating the reason(s) for rejection.

### **6.2 Award of the contract**

The contract will be awarded, through the signature of a Contract (the Draft Contract is part of the tender documents), to the candidate who has made the most advantageous offer in terms of quality and price. At the time of signature of the Contract, signed originals, forming an integral part of the Contract, shall be submitted.

The signature of the Contract will set the start for the period of execution of the contract. There can be no provision of services without such a Contract.

## **7. Components of this call for tenders**

This call for tenders consists of:

- Open call for tenders to assist EFRAG in its impact analysis of IFRS 17 *Insurance Contracts* (this document);
- Information Form;
- Draft Contract; and
- EC Request for advice on the endorsement of IFRS 17.

## **B. Scope of work**

### **1. General requirements**

The objective of the contract is to assist EFRAG in an *ex ante* impact analysis of IFRS 17 *Insurance Contracts*. In its endorsement advice to the EC, EFRAG will provide its assessment of whether endorsing IFRS 17 would be conducive to the European public good. EFRAG's impact analysis will provide the main basis for this European public good assessment.

Background information on IFRS 17 is provided in Section C Part 2.

The EC letter with the endorsement advice request to EFRAG is provided as one of the tender documents.

EFRAG's impact analysis and European public good assessment will focus mainly on the effects of IFRS 17 on insurance groups and financial conglomerates with substantial insurance activities ('insurance sectors') that are listed on regulated markets in the EU. Entities that are listed on regulated markets in the EU are required (by the EU's 'IAS Regulation') to prepare their consolidated financial statements in accordance with IFRS Standards as adopted in the EU. Although some entities have contracts that meet the definition of an insurance contract in IFRS 17, the study is limited to stand-alone insurers and the insurance sector within a financial conglomerate. This call for tender uses the term 'insurer' to cover both stand-alone insurance groups, reinsurers and the insurance sector within a financial conglomerate. Pension plans that apply IAS 26 are not included in the study.

The overall analysis should cover, or be representative of, the EU as a whole. Where resources or data constraints require it, deeper analysis can be restricted to specific product segments, or Member States. However, reasons why these restrictions are necessary should be documented.

### **2. Objective of the external study**

In accordance with current IFRS Standards, prior to the implementation of IFRS 17, insurers have considerable flexibility to select an accounting policy for insurance contracts. In practice, many insurers apply accounting policies that are based on generally accepted accounting principles (GAAP) in their particular country of domicile. IFRS 17 would introduce a more standardised approach to the financial reporting of insurance contracts, including the measurement of associated assets, liabilities, revenues and expenses. IFRS 17 is intended to lead to more consistent financial reporting than provided at present.

The changes in financial reporting brought about by IFRS 17 are expected to be substantial, although the exact nature and extent of those changes will vary from one insurer to another as a result of the differences in current accounting practices referred to above.

Initial implementation and ongoing application of IFRS 17 will involve compliance costs. These costs have not yet been quantified but could be significant.

In addition to the direct effects on insurers' reported results and financial position, it is possible that the move to IFRS 17 might also influence the economic and business decisions ('behaviour') of insurers, lenders and investors. This in turn could affect (positively or negatively):

- The competitiveness of European insurers;
- Product mix, product design and/or product pricing by European insurers;
- Investing behaviour of European insurers; and
- How European insurers are perceived by investors and lenders.

EFRAG's impact analysis will consider these and other possible effects. EFRAG's impact analysis will draw upon various sources, including a number of in-depth case studies that will examine the anticipated effects on a sample of individual insurers.

EFRAG is seeking tenders for an external study which will contribute to EFRAG's impact analysis ('the external study'). The external study will provide evidence and analysis to help EFRAG assess the potential impacts referred to above.

### **3. Scope of IFRS 17 external study**

#### **3.1 General**

The external study should provide input to EFRAG's impact analysis in the following areas:

- The competitive landscape (market structure) in which European insurers operate and the potential impact of a change in financial reporting on competitiveness;
- Observable trends in the business model(s) of European insurers, their causes and the potential impact of a change in financial reporting, in relation to:
  - product mix, product design and/or product pricing by European insurers;
  - investing behaviour of European insurers; and
- Investor perception of the insurance sector.

Paragraphs 3.2 – 3.5 below explain these requirements in more detail.

The contractor should apply appropriate research techniques to obtain the evidence required. These research techniques might include:

- Review of existing European economic and academic studies and other relevant literature;
- Interviews and/or questionnaires; and
- Economic analysis.

As noted above, EFRAG will develop an impact analysis of IFRS 17 which will draw upon various sources including case study findings, surveys and interviews with analysts. The contractor is expected to coordinate activities with EFRAG in areas where they might overlap or involve addressing the same audience.

#### **3.2 Competitive landscape for European insurers**

European insurers that are quoted on a regulated market will apply IFRS 17 in their consolidated financial statements, subject to endorsement. IFRS 17 is described by the IASB as the first truly global standard for insurance accounting. However, IFRS 17 will not be applied in every major jurisdiction. For example, EFRAG expects that US and Japanese domestic registrants will continue to apply accounting requirements that are specific to those jurisdictions.

In this context, EFRAG will assess whether and to what extent IFRS 17 could affect the competitive position of European insurers. This assessment will focus on competition between European insurers that apply IFRS 17 and non-European insurers that are not expected to apply IFRS 17. For this purpose, EFRAG will undertake a high-level comparison of IFRS 17 with the equivalent requirements in the US and Japan.

European insurers might compete with non-European insurers in various ways, e.g. by operating in markets outside Europe, and as a result of non-European insurers operating within Europe. A change in an insurer's competitive position may be driven by:

- The insurer responding differently from other insurers to economic impacts;

- Entity-specific impacts arising from both internal factors (such as cost structure) or external factors (such as different claims histories); or
- A change in financial reporting where the insurer responds differently from others in the market.

Competitiveness may also be affected if the one-off and/or ongoing compliance costs of financial reporting exceed the corresponding costs borne by non-European insurers, European insurers that will not apply IFRS 17 and those differences are material from a competition perspective.

The external study should contribute to EFRAG's assessment by analysing the market structure/competitive landscape for insurance in Europe. The objective is to help EFRAG to assess the extent to which European insurers in practice face competition for customers and/or capital from non-European insurers. The external study should also evaluate whether anticipated one-off and ongoing compliance costs of IFRS 17 are expected to be at a level which is material to the competitiveness of European insurers.

### **3.3 Product mix, product design and product pricing**

The ability to purchase insurance against adverse events is an important underpinning to the economic, social and political economy. EFRAG will assess whether, and to what extent, IFRS 17 could affect the mix, design and pricing of insurance products issued by European insurers. For example, an insurer might face a disincentive from issuing insurance contracts with features that result in a higher level of accounting complexity and compliance cost, or where the reported results are more volatile, under IFRS 17.

The external study should contribute to EFRAG's assessment by:

- Analysing key trends in the insurance market since the financial crisis, up to 2017 (to the extent data is available). This will include an analysis of trends in product mix and pricing;
- Identifying the main drivers/causal factors behind the observed trends;
- Identifying the factors that European insurers take into account in determining their product mix and pricing decisions and the role of external financial reporting requirements in those decisions; and
- Considering how, if at all, a change in external financial reporting requirements might reasonably be expected to affect product mix, product design and product pricing, including European insurers' practices for capital allocation to products to assess internal profitability and impact product offerings and prices.

Mechanisms of effect should be clearly described where applicable, in particular in relation to effects of changes in external financial reporting requirements.

### **3.4 Investing behaviour**

European insurers are major investors in the European economy, with total investments in the order of €10.000 billion. Most European insurers are expected to apply IFRS 9 *Financial Instruments* at the same as they apply IFRS 17. As a result of changes introduced by IFRS 17 and IFRS 9, some insurers may reassess how they carry out their asset and liability management. EFRAG will assess whether, and to what extent, IFRS 17 could affect European insurers' investment strategies (asset allocation and holding period).

The external study should contribute to EFRAG's assessment by:

- Analysing key trends in asset allocation since the financial crisis, up to 2017 (to the extent data is available);

- Identifying the main drivers/causal factors behind the observed trends;
- Identifying the factors that European insurers take into account in determining their asset allocation and holding period and the role of external financial reporting requirements in those decisions; and
- Considering how, if at all, a change in external financial reporting requirements might reasonably be expected to affect investing behaviour.

Mechanisms of effect should be clearly described where applicable, in particular in relation to effects of changes in external financial reporting requirements.

### **3.5 Investors' perception of the insurance sector**

EFRAG will conduct an assessment of whether and to what extent IFRS 17 will improve the transparency, understandability and comparability of the financial reports issued by European insurers. The objective of this part of the study is to help EFRAG assess whether IFRS 17 is expected to generate benefits by improving investors' perceptions of European insurers.

EFRAG has heard anecdotally that insurers may be less attractive to some investors than other investments because of actual or perceived challenges in understanding their financial reports prepared under current accounting requirements. Challenges in understanding the financial reports of insurers are claimed to be exacerbated by difficulties in comparing insurers with each other and difficulties in comparing insurers with non-insurers. The study should contribute to EFRAG's assessment by examining the evidence, if any, for these assertions.

The study should also assess how investor attitudes and/or behaviours have changed with past impacts on the insurance sector such as Solvency II. Sources of evidence could include interviews with and/or surveys of investors. If applicable, this should be coordinated with EFRAG's outreach to investors.

The study should also include an analysis of the cost of capital for European insurers. The scope of this analysis might include:

- Trends in cost of capital for European insurers;
- How cost of capital for European insurers compares to other industries in Europe; and
- Whether and to what extent any (actual or perceived) lack of transparency/comparability in the financial reporting of European insurers might affect the trends and comparison referred to.

## C. Background information

### 1. About IFRS in the European Union

Since 2005, in accordance with the IAS Regulation (Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of International Accounting Standards<sup>2</sup>), the consolidated financial statements of listed EU companies have been prepared in accordance with International Financial Reporting Standards (IFRS Standards). The objective of the IAS Regulation was to harmonise the financial reporting of listed companies by ensuring a high degree of transparency and comparability of their financial statements in order to enhance the efficient functioning of EU capital markets and of the internal market. The IAS Regulation attached importance to IFRS becoming globally accepted so that EU companies would be able to compete on an equal footing for financial resources in the world capital markets.

IFRS Standards are set by the London-based International Accounting Standards Board (IASB) – an independent body<sup>3</sup>. However, to become effective in the EU, each new standard or amendment must be “endorsed” in accordance with the following process:

- the IASB issues a standard;
- EFRAG holds consultations with interest groups. EFRAG delivers its advice to the EC as to whether the standard meets the criteria for endorsement as laid down in the IAS Regulation:
  - is not contrary to the principle set out in Article 4(3) of Directive 2013/34/EU (true and fair view principle) and is conducive to the European public good, and
  - meets the criteria of understandability, relevance, reliability and comparability required of financial information needed for making economic decisions and assessing the stewardship of management;
- The EC ultimately decides whether to endorse the standard, taking into account EFRAG’s advice and following consultation with the Member States and the European Parliament;
- EFRAG should support its advice by an impact analysis including a cost-benefit analysis and an analysis of the broader economic impacts.

The IAS Regulation applies directly only to the consolidated financial statements of companies listed on the EU’s regulated markets (approx. 4,800 companies). However:

- some Member States either permit or require the use of IFRS Standards by other companies based on Member State options in the IAS Regulation<sup>4</sup>;
- some non-regulated markets (e.g. AIM) either permit or require the use of IFRS Standards by companies listed on such markets.

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<sup>2</sup> The EC staff working document section 2.2 describes the main provisions of the IAS Regulation <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015SC0120&from=EN> Further detailed information about the IAS Regulation can be found at the DG FISMA website [http://ec.europa.eu/finance/company-reporting/ias-regulation/index\\_en.htm#legal-framework](http://ec.europa.eu/finance/company-reporting/ias-regulation/index_en.htm#legal-framework)

<sup>3</sup> See: <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>

<sup>4</sup> The EC staff working document section 3.1.1. describes the option for Member States to extend the scope of application of IFRS <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015SC0120&from=EN>

## 2. About IFRS 17 *Insurance Contracts*

IFRS 17 was issued by the IASB in May 2017. IFRS 17 requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. This requirement will provide transparent reporting about a company's financial position and risk.

IFRS 17 requires an insurer to recognise profits as it delivers insurance services (rather than when it receives premiums) and to provide information about insurance contract profits that the insurer expects to recognise in the future. This information will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time.

IFRS 17 applies to insurance contracts. Although this means that IFRS 17 affects any company that writes insurance contracts, such contracts are generally not written by companies outside the insurance industry.

IFRS 17 replaces IFRS 4 *Insurance Contracts*. IFRS 4 was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using previous practices, which may include national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.

IFRS 17 comes into operation on 1 January 2021, subject to EU endorsement.

Additional information is widely available, including the IASB's own 'Effects Analysis'<sup>5</sup>.

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<sup>5</sup> See: [IASB's Effects Analysis on IFRS 17](#)