



Report to the Board - Decisions taken in EFRAG TEG meeting held on 4 July 2019 - IFRS 17

EFRAG Secretariat has prepared a summary of the discussions and decisions on IFRS 17 taken during the EFRAG TEG meeting held on 4 July 2019.

IFRS 17 Insurance Contracts

Objective The objective of this session was to discuss the draft comment letter on the Exposure Draft, ED/2019/4 *Amendments to IFRS 17*.

*Discussions/
Decisions* All the TEG members attended the meeting.

Question 1. Scope amendments

- Loans: Members agreed with the proposed wording; they suggested to eliminate paragraph 7 of topic 1A.
- Credit cards: Members agreed with the proposed wording; they proposed to modify paragraph 15.

Question 2. Acquisition costs

- Members agreed with the wording in the DCL.

Question 3. CSM amortisation

- Members agreed with the wording.
- One member disagreed with the IASB definition of investment services.
- Members suggested to include a question to constituents in order to identify possible additional examples of investment activities that are not captured by the current definition; the Spanish example will be used as a basis.

Question 4. Reinsurance contracts held – recovery of losses on underlying insurance contracts

- Members agreed with the overall position but suggested rewording the DCL:
 - first focus on the concept of economic offsetting and clearly identifying that when there is linkage between the gain of the reinsurance contract with the loss to each of the underlying contracts under the coverage of the same reinsurance contract;
 - be clear that we are not advocating for a broad holistic hedge accounting at this stage;
 - avoid referring to “non-proportional” wording;
 - illustrate how IFRS 17 paragraph BC304 of the old standard is different from the current IFRS 17 paragraph BC67;

- use the surplus reinsurance as an example; and
- ask to constituents for more examples.

Question 5. Balance sheet presentation

- Members agreed with the wording

Question 6. Applicability of the risk mitigation option

- Members agreed with the wording in the response but suggested to align the summarised box.
- Members also suggested to limit the question to constituents in paragraphs 48 (a) as (b) and (c) in the paper are not closely related to the amendment that we are commenting.

Question 7. Deferral effective date IFRS 17

- Members agreed with the deferral to 2022 and to having the same effective date for IFRS 9 and IFRS 17.
- Two members supported paragraph 78 (b). Other members did not support any of the alternatives paragraph 78.

Question 8. Transition

- Members agreed with the wording for the business combination topic.
- Risk mitigation
 - Two members were in disagreement with the suggested request for retrospective application. The other members agreed with the proposed wording (i.e. to require retrospective application of the risk mitigation), suggesting to refer to mandatory nature of the retrospective application wherever the existing internal control/risk management/regulatory documents identify the risk management practices previously in place.
 - Members expressed a concern and ask for further clarification on the possibility to apply risk mitigation with reinsurance retrospectively.
- Members agreed with the wording for (1) the applicability of the risk mitigation option from the transition date and (2) the option to apply fair value approach when retrospective application of risk mitigation is not allowed.

Question 9. Minor amendments

- Members agreed with position.

Question 10. Terminology

- Members agreed with position.

Appendix 2 – Annual cohorts

- TEG members reiterated support to the IASB's reporting objectives.
- According to the Internal Rules Article 30, this Summary of Decision is reporting that TEG members were split: 8 members supported view 1 and 8 members supported view 2.

- Members supporting view 2 generally did not support to limit the special solution to the VFA.
- Some members supporting view 1 would re-consider their position, if it would be possible to identify a solution that would allow to fully meet the objectives of the IASB and identify a more robust boundary for the solution.
- As a consequence, members agreed to better articulate the questions to constituents, so that we ask feedback on:
 - Possible life insurance businesses other than those captured by B67-B71 for which the annual cohort approach is causing similar complexity.
 - How to identify a robust boundary of contracts to which apply the special accounting solution.
 - How to further articulate the special accounting solution so that the reporting objectives of IFRS 17 are preserved (i.e. depicting profit trends over time, recognising profits trends over time, recognising profits of the contracts over the duration of those contracts and timely recognising losses from onerous contracts).

Appendix 2 – Transition. Modified Retrospective Approach

- All members supported the view expressed in the DCL.
- Some members suggested to remove paragraph 118 as it was not adding new arguments to the conclusions.

Appendix 2 – Balance sheet presentation – separate presentation of receivables

- Only 3 members expressed sympathy with the conceptual argument that the current presentation requirements in IFRS 17 were creating offsetting of items having different nature.
- Members acknowledged that separate presentation on balance sheet of receivables is not currently a general applied practice and observed that if a problem of potential loss of information exists, it doesn't relate to the life insurance business, which accounts for the majority of the volumes of premiums. As a consequence, members questioned the materiality of this issue.
- With reference to the use in practice of different definitions of receivables, members supported the proposal to consult constituents on the need of separate presentation or disclosure in the notes and on the need to require either a common definition or to disclose in the accounting principles the definition adopted.
- Members agreed with the wording in the DCL.

Appendix 2 – Reinsurance contracts - contract boundary

- Members expressed consensus to retain the wording in view 1 and to consult constituents on the prevalence of the remaining issue.

Issues not addressed by the ED and other than the 6 EFRAG issues

Summary of Discussions and Decisions of the EFRAG TEG meeting held on 3-4 July 2019

- One TEG member suggested to address in the DCL the 3 additional issues highlighted by the IAWG members (ref. to the Report of the chair of the IAWG to TEG).
- Another TEG member suggested to address in the DCL the issue of setting OCI to nil at transition.

Vote

- Refer to the paragraphs above for the detailed outcome of the votes, which were taken at the meeting per each topic.

Next steps

- EFRAG Secretariat to update the draft comment letter with the suggestions from EFRAG TEG.