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REPORT TO THE BOARD

IFRS 17 Amendments – report from EFRAG TEG discussion of the Final Comment Letter

EFRAG TEG received an illustration of the feedback from the consultation on the Draft Comment Letter and from the Users outreach.

EFRAG TEG discussed a final comment letter prepared by the EFRAG Secretariat on the basis of the results of the consultation and of the inputs received by the EFRAG IAWG.

EFRAG TEG provided several drafting comments that have been reflected in the final comment letter prepared for this Board discussion, available both in markup (compared to the DCL issued) and clean final version.

Two EFRAG TEG members were absent.

General outcome of the discussion

The EFRAG TEG members attending the meeting discussed and agreed with the final comment letter (subject to the drafting changes that are already reflected in the document that the Board is discussing at this meeting) on a consensus basis on all the issues, except for the topics of:

- Separate Presentation of Receivables, for which one member expressed a dissenting opinion;
- Annual Cohorts, for which the group was divided;
- Effective date, for which the group did not express a view.

Annual cohorts

All the members agree that the annual cohorts requirement:

- is an appropriate reporting approach for contracts other those in scope of the exception being suggested by EFRAG in the DCL;
- is resulting in unnecessary complexity and costs for contracts in scope of the exception being suggested by EFRAG in the DCL.

The following views emerged:

- 6 EFRAG TEG members attending the meeting considered the challenges to develop a sufficiently defined alternative solution considering the current timeframe; therefore they did not support the request to the IASB to develop an exception. Some of them clarified that they would not oppose if a solution could be identified in the short term. One of them clarified that he could change his view if the boundary for the exception could be better identified;

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- 7 EFRAG TEG members attending the meeting considered necessary to request to the IASB to develop an exception;
- One EFRAG TEG member expressed sympathy for both positions;
- Two EFRAG TEG members that were absent provided their written inputs; one of them supported the first group and the other supported the second.

All the EFRAG TEG members agreed on suggesting drafting amendments that would help to clarify the scope of the issue/exception, following the inputs received by constituents. They in particular considered that:

- the exception is needed for contracts having the characteristics of B67/71 of IFRS 17 that “substantially” share the risks. Most of the contracts in scope of the exception are eligible for the VFA;
- contracts exist in Spain and Denmark that are eligible for the GM and for which the exception is needed.

Effective date

On the topic of effective date of IFRS 17 and IFRS 9 EFRAG TEG members considered that they were not in the position to reach a consensus on a proposed date (2022 vs 2023), accordingly EFRAG TEG did not express a view on this topic.

Members considered the need/opportunity to avoid a European effective date different from the global effective date.

Members further considered, among the various arguments, the need for global/internationally active players to be ready in 2022.

Members considered, among the various arguments, the following argument supporting 2023 as the effective date:

- the reported present unavailability of appropriate IT tools and solutions on the market, able to support the implementation of the standard, as argument for 2023 as effective date;
- the relatively late stage of implementation efforts in smaller entities (supporting 2023);
- the concern existing in the market to defer further IFRS 9 to 2023.

EFRAG TEG members unanimously recommended to the EFRAG Board to avoid suggesting a relief from presenting comparatives for IFRS 17 in all cases (i.e. also in case of effective date as of 2022), considering the relevance of the accounting changes for the industry.

Members discussed the proposal put forward by some constituents to mandate the retrospective application of IFRS 9 in the preparation of comparatives, including to financial instruments that have been derecognised before transition. Only two members supported this proposal.

Other topics

Following the directions expressed by the EFRAG Board, the final comment letter has been prepared with a focus on the 6 issues identified in the EFRAG letter to the IASB. Feedback from constituents revealed several new issues (mainly resulting from interpretation issues arising from the progresses in the implementation projects) and reiterated some of the issues that were addressed and rejected by the IASB in the re-deliberation process.

Following the request by some EFRAG Board members to be informed on possible fatal-flaw issues reported by constituents and supported by EFRAG TEG, EFRAG TEG agreed to comment in the letter on the following additional issues:

- Interim reporting: members supported to recommend to the IASB to eliminate paragraph B137 or to make it optional (this paragraph is requiring the insurers to issue interim reporting on a “year-to-date” basis);

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- OCI-to-nil at transition under the FVA: members supported to recommend the IASB to allow to mitigate the mismatch arising from the use of different discount rates for the liabilities and the assets at transition when applying the fair value approach, as a way to mitigate concerns from some constituents and jurisdictions that believe they will not be able to apply the modified retrospective approach.

EFRAG TEG members considered the issue about business combination (extend the relief to the prospective transactions) and did not consider appropriate to recommend an amendment.

EFRAG TEG members considered the issue about hedge accounting and interactions between IFRS9 and IFRS 17 and recommended not to include this additional issue in the present letter, also considering that EFRAG will soon be working on the hedge accounting questionnaire and reporting to the public the results.