Mr
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Date
16.05.2022

EFRAG's draft letter: IFRS IC Tentative Agenda Decisions in the final phase of implementing IFRS 17 Insurance Contracts

Dear Mr Gauzès

On behalf of the German Insurance Association (GDV) we greatly welcome the opportunity to comment on the EFRAG's draft letter regarding IFRS IC Tentative Agenda Decisions in the final phase of implementing IFRS 17 *Insurance Contracts*, published by EFRAG on 21 April 2022 for comments.

In general, we greatly appreciate the work of the IFRS Interpretations Committee (IFRS IC) to support stakeholders in consistent application of IFRS Accounting Standards. Nevertheless, we share the concerns raised by the EFRAG's constituents as portrayed in the EFRAG's draft letter. We agree that any Agenda Decisions regarding IFRS 17 at this stage of the implementation efforts of reporting entities are very problematic. The **unfortunate situation** needs to be addressed to avoid that specifically those reporting entities with well-advanced IFRS 17 projects would be 'punished'. Any potential repetition of the analyses and of the complex implementation work already done needs to be avoided as much as possible.

Consequently, **we welcome and fully support the proposed EFRAG's letter as drafted**. In the following we would like to note two additional aspects we have outlined in more detail in our comment letter to the IFRS IC.

- From the perspective of the German insurers specifically the recent submission to the IFRS IC *"Suggested agenda item: Foreign currency considerations on accounting for insurance contracts"* is a **problematic** one as it might impact core elements of the IFRS 17 implementation work (e.g., level of aggregation). It would be very disruptive if the many decisions on the interaction between IFRS 17 and IAS 21 made by the reporting entities (in close alignment with the responsible auditors) would have to be reassessed again. And we are afraid that

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it would be rather impossible to adopt any changes in the remaining timeframe given, ahead of the IFRS 17 effective date and with the parallel run of IFRS 4/IAS 39 and IFRS 17/IFRS 9 in 2022. Hence, any need to change the approach how the foreign currency implications had been implemented in the IFRS 17 projects would be fatal at this stage of the implementation process.

- Should the IFRS IC continue to proceed with the requests submitted as they arrive, we agree with EFRAG's view in the draft letter regarding the importance of the **outreach** that the IFRS IC undertakes before any Tentative Agenda Decision. In this regard we would like to highlight that the Transition Resource Group (TRG) on IFRS 17 has not been disbanded and is available for consultation. We like to encourage an appropriate involvement of the TRG for IFRS 17 in the consultation and outreach process of the IFRS IC to ensure that the high level of specific insurance accounting expertise and operational experience of the TRG members is sufficiently taken into consideration when proceeding at the IFRS IC's and IASB's level subsequently.

As a matter of fact, IFRS 17 is a complex, but a **principle-based** Standard. Its adoption requires reporting entities to exercise discretion and to apply professional judgment. Its consistent application does <u>not</u> mean the uniformity of the methods applied. It is inevitable that methods applied by entities might differ. And the certain degree of freedom being inherent to a principle-based Standard has been very useful when applying the professional judgment and dealing with system limitations arising from the financial reporting software available to reporting entities at this stage of the process.

Overall, our primary preference would be to pause the IFRS IC's activities on IFRS 17-related submissions to the greatest possible extent and to provide an appropriate **period of stability** to allow for a successful finalisation of the ongoing challenging implementation work. Should the IFRS IC continue to deal with the IFRS 17-related submissions in due course, any effort should be undertaken to ensure that any upcoming decisions are not disruptive for the implementation projects being in the final stage of their finalisation and on track to meet the IFRS 17 effective date, the 1 January 2023.

We would appreciate if the views of the German insurers would be considered when finalising the EFRAG's letter to the IFRS IC. Our detailed comments are provided in the GDV comment letter to the IFRS IC (<u>attached</u>).

If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

Mr
Bruce Mackenzie
Chair
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Cc: Dr Jianqiao Lu, member of the IASB Board

Date
16.05.2022

IFRS Interpretations Committee: submissions related to IFRS 17 *Insurance Contracts* & implications for the implementation work

Dear Mr Mackenzie

On behalf of the German Insurance Association (GDV) we would like to provide our comments and particularly to share our significant concerns in context of the IFRS Interpretations Committee's consultation on its recent Tentative Agenda Decision: *Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)* and specifically regarding the recent submission to the IFRS Interpretations Committee "*Suggested agenda item: Foreign currency considerations on accounting for insurance contracts*".

Overall, we greatly appreciate the work of the Interpretations Committee to support stakeholders in consistent application of IFRS Accounting Standards. And we acknowledge that the Board and Interpretations Committee seek to achieve in all cases a proper balance between maintaining the principle-based nature of the Standards and adding or changing requirements in response to emerging application questions raised by submitters.

The German insurers had also appreciated the IASB's commitment to provide implementation support for initial adoption of IFRS 17 being a highly complex and challenging Standard to apply. Consequently, we had closely followed and appreciated the intensive and valuable work conducted by the Transition Resource Group (TRG) for IFRS 17 between February 2018 and April 2019. And we acknowledge that the TRG has not been disbanded and is available for consultation by the Board if needed. However, the **TRG is not active since April 2019** not to disrupt the intensive adoption work at insurance entities' level. We support that pragmatic approach.

However, we have observed **IFRS 17-related requests being submitted recently to the Interpretations Committee** already and before the effective date of IFRS 17. This development concerns us **significantly**.

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I. Our general concern

The potential unintended and/or very disruptive implications of the recent development described above for the advanced IFRS 17 projects of the German insurers is concerning us significantly. Our rationale is as follows:

As a matter of fact, **IFRS 17 is principle-based**, and this principle-based nature of the Standard has been a common understanding and it has been supported by the community of stakeholders at large during the time of its development. It has been always evident for us and for all interested stakeholders that principle-based requirements in IFRS 17 will require from reporting entities to **exercise discretion** and to **apply professional judgment**. I.e., it has been expected that specific application questions - which always arise in the real implementation work - would need to be approached and addressed in a **bilateral dialogue** between the reporting entity and the responsible auditor. It is indeed contradicting the principle-based nature of the Standard, if in any single case in which there is no explicit rule-based guidance in the Standard, a request for clarification is submitted to the IASB or to the Interpretations Committee. From our perspective **consistent application** being the desirable objective **does not mean the uniformity of the methods applied**. It is inevitable that methods applied might differ. As a matter of principle, consistent application refers primarily to the need of common understanding of the principles in the Standard and its objectives.

As a matter of fact, very substantial costs, human resources, and organisational and management efforts have been already applied and are still required to be invested to successfully accomplish the transition to IFRS 17, together and aligned with adoption of IFRS 9 *Financial Instruments* (incl. the preparation of comparative information for 2022). Along the milestones of the implementation projects many hundreds of questions had been discussed and solved by the German insurers, in close cooperation with actuaries and after intensive bilateral dialogues with auditors. It would be **very disruptive if the same questions would have to be reopened and reassessed again** on a continuous basis by insurers, against the outcome of the respective discussions at the Interpretations Committee's level. In the **worst case** the potential changes required, as a consequence of the Interpretations Committee's work, could <u>not</u> be even adopted in the time remaining considering the very advanced stage of the implementation projects of the German insurers and the considerable workload already attributed to it.

As the principle-based requirements and objectives of the Standard can be fulfilled/met in different ways with different methods, it can be put in question whether any **potential repetition of the work already done** would provide truly a substantial added value from the perspective of investors or other users of financial statement. But this outcome is only known once the analyses are conducted by the reporting entities! Such an unfortunate situation needs to be avoided as it would specifically **'punish' those entities with well-advanced IFRS 17 implementation projects**. They have approached their projects in due time and without further delay after IFRS 17 was released in May 2017 and subsequently advanced their efforts further after the targeted Amendments to IFRS 17 have been published in June 2020.

Consequently, while we fully acknowledge that some differences might arise in detail in how entities determine their specific approaches to properly reflect their business model and their products and services provided to policy holders, from the perspective of the German insurers, the principle-based requirements in **IFRS 17 can be applied consistently** and **no further application guidance is necessary**. Some potential differences in methods applied are unavoidable and it might rather affect nuances but would not reflect inconsistent application of the principle-based Standard. They should rather be seen as reflecting the **range of acceptable approaches** that reporting entities are allowed to follow if the principles in the Standard are still met and the objectives behind the principles are achieved.

Finally, we are also concerned that further detailed application guidance via the Interpretations Committee's activity might finally result in rule-based requirements for IFRS 17's adoption that are not appropriate in all circumstance. Hence, it would then significantly disrupt/undermine the implementation activities of the German insurers, without providing any significant added value for investors or other users of financial statements.

II. Our high-level assessment of the current submissions

We would like to share that from our perspective the submission on how to determine the quantity of benefits provided under the group of specific **UK annuity contracts** does not seem to significantly affect the implementation projects regarding the products in the German market. Nevertheless, the general principles for the CSM release in IFRS 17 are the same for all markets and all products in the scope of the Standard. Hence, potential implication in course of future discussions cannot be fully ruled out. In this respect we think it is essential that the final agenda decision explicitly highlights that only the two specific methods as set out in the submission have been considered and explicitly assessed and hence no other approaches have been discussed by the Interpretations Committee. It should be made clear that due to the narrow fact pattern in the submission the outcome of the Interpretations Committee's particular discussion is not applicable to other cases. We support the key observation in the tentative agenda decision that IFRS 17 does not prescribe a specific method for determining the quantity of benefits provided under a contract. Indeed, different methods may be acceptable and might be equivalently applied to achieve the principles of paragraph B119 depending on the specific facts and circumstances. Overall, we fully support the Interpretations Committee's conclusion in the tentative agenda decision that **no standard-setting activity** and **no Interpretation for IFRS 17 is necessary** in this regard.

Contrary to the case above, the recent request submitted to the Interpretations Committee "**Foreign currency considerations on accounting for insurance contracts**" is suitable to critically impact the implementation efforts of the German insurers. It is the case because the issues raised in this recent request refer to the **core elements of the implementation projects** (e.g., level of aggregation). As a matter of fact, the implications of the interaction between both Standards IFRS 17 and IAS 21 *The Effects of Changes in Foreign Exchange Rates* had been already intensively discussed by the German insurers and resolved on a **bilateral basis** in a close cooperation with the responsible auditors, and also considering the entity-specific IT system limitations as different software applications are applied by different insurers. **Any changes** to the respective approach how the foreign currency implications had been adopted and implemented in the IFRS 17 projects, would have **critical consequences**, i.e., it would be fatal at this stage of the implementation process. Any new reading, any perceived new interpretation of IFRS 17 in context of IAS 21, any change in approach regarding the treatment of foreign currency implications might significantly impact the German insurers' implementation projects and effectively undermine their efforts to ensure a consistently applicable accounting policy, also for the hundreds of the subsidiaries often active on a global basis, specifically when considering the remaining timeframe given. Overall, we have the view that an IFRS IC's Interpretation of IFRS 17 is **unnecessary** in this regard.

III. Our recommendation

Overall, our primary preference would be to pause the Interpretations Committee's activities on IFRS 17-related submissions to the greatest possible extent and to **provide an appropriate period of stability**. We understand that neither for the IASB nor for the Interpretations Committee it is feasible to restrict those stakeholders who are interested in achieving an answer to their submissions. Nevertheless, we also believe that the issues raised on the entity-specific application of IFRS 17's principles and its interaction with other IFRS Accounting Standards should be rather collected and dealt with within the future Post-implementation Review (PIR) on IFRS 17, which is intended to be initiated by the IASB in due course anyway.

Should the IASB and the Interpretations Committee continue to deal with the IFRS 17-related submissions in due course as they arrive, we would like to respectfully ask to follow an **even more careful and flexible approach when analysing and deciding on requests submitted**. We acknowledge that the agenda decisions of the Interpretations Committee apply only to the narrow fact and circumstances as laid down in the respective submission. From our perspective it is nevertheless still essential to always clarify explicitly that methods/ approaches not explicitly included in the submission are <u>not</u> impacted by the outcome of the Interpretations Committee's work.

Furthermore, if the Interpretations Committee is not in a position to temporarily abstain from dealing with the interpretation requests submitted regarding IFRS 17, we like to encourage an appropriate **involvement of the TRG for IFRS 17** in the consultation and outreach process, to ensure that the high level of specific insurance accounting expertise and operational experience of the TRG members is sufficiently taken into account when proceeding at the Interpretations Committee's and IASB's level subsequently.

Summing up, any effort should be undertaken to ensure that any upcoming decisions of the Interpretations Committee are not disruptive for the challenging implementation projects being in the very final stage of their finalisation and on the track to meet the IASB's effective date for IFRS 17. Any new (implicit or explicit) requirements beyond IFRS 17's principles must be in any case prevented.

Our conclusion

As a matter of fact, the certain degree of freedom, being inherent to the principle-based IFRS 17, has been very useful when applying the professional judgment and dealing with system limitations arising from the financial reporting software available to entities at this stage of the process.

We would like to respectfully ask the IFRS Interpretations Committee and the IASB to explore potential alternative options to proceed (e.g., collection and deferral of the submissions to be dealt with in the Post-implementation Review on IFRS 17) and to undertake any efforts to safeguard an appropriate **period of stability for the IFRS 17/IFRS 9-projects**. Such a period of calm is indeed essential to allow insurers for a proper, timely and successful finalisation of their intensive, costly, and complex implementation work in line with the effective date of IFRS 17, the 1 January 2023. The German insurers have been committing significant financial and human resources and management effort to the adoption of IFRS 17 and its alignment with IFRS 9 (incl. the parallel run in 2022). Any disruption to the challenging implementation process should be avoided. That's why they need a proper period of calm, specifically ahead of the Standards' entry into force.

We would greatly appreciate if the significant concerns of the German insurers would be considered when taking further decisions on the way forward with the current and potential future requests submitted to the Interpretations Committee in relation to IFRS 17. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)