ED/2013/7 Insurance Contracts

Feedback to constituents – EFRAG Final Comment Letter

January 2014

Table of contents

Introduction 3
Objective of this feedback statement 3
Background to the Exposure Draft 3
EFRAG's draft comment letter 3
Comments received from constituents 3
Field-test..4
EFRAG's final comment letter..5
Adjusting the contractual service margin 7
Measurement and presentation exception – 'Mirroring' approach..9
Presentation of revenue and expenses 11
Interest expense in profit or loss..12
Effective date and Transition 15
Costs and Benefits 16
Clarity of the drafting 17
Other topics..18
Appendix – List of comment letters..20

Introduction

Objective of this feedback statement

This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG's Technical Expert Group (EFRAG TEG) in its technical discussions on its final comment letter.

Background to the Exposure Draft

On 20 June 2013, the IASB published a revised Exposure Draft ('ED') of proposals on the accounting for insurance contracts. The ED builds on the proposals published in the 2010 ED, and reflects feedback received during the extensive public consultation period that followed the publication of those proposals.

The revised proposals aimed to provide a consistent basis for accounting for insurance contracts and to make it easier for users of financial statements to understand how insurance contracts affect an entity's financial position, financial performance and cash flows. The revised proposals introduced enhancements to the presentation and measurement of insurance contracts while seeking to minimise artificial accounting volatility. Further details are available on the EFRAG website.

EFRAG's draft comment letter

EFRAG published a draft comment letter on the proposals on 5 August 2013. EFRAG's tentative view was that the contractual service margin represented the unearned profit in an insurance contract and should also be adjusted to reflect changes in the estimates of the risk adjustment that is associated with future coverage. EFRAG agreed with adjusting the contractual service margin as differences between the current and previous estimates of cash flows that relate to future coverage and services.

EFRAG supported 'mirroring' as a principle, although EFRAG expressed a number of concerns. EFRAG commented that its response on the presentation of revenue and expenses was to be completed based on field test results and recommendations from constituents.

EFRAG agreed with the IASB's proposal to report the effects of a change in interest rate on the measurement of the insurance liability in other comprehensive income ('OCI'). However, EFRAG was concerned that the IASB's ED proposals in combination with the classification and measurement requirements in other standards was not helpful in eliminating accounting mismatches and would result in reporting the insurance performance split between profit or loss and OCI.

EFRAG agreed with the proposed modified retrospective approach for transition. EFRAG agreed that if the effective dates of IFRS 9 *Financial Instruments* and IFRS 4 *Insurance Contracts* were not aligned, early application should be permitted and full redesignation and reclassification of the investment portfolios should be permitted if there was no early application. EFRAG further recommended a three-year implementation period from the date of publication of the new insurance contracts standard.

Comments received from constituents

Twenty-eight comment letters were received from constituents and considered by EFRAG TEG in its discussions. These comment letters are available on the EFRAG website.

The comment letters received came from national standard setters, business associations, professional organisations, preparers, auditors and regulators. The respondents to EFRAG's draft comment letter are listed in the appendix.

The following table provides an overview of the respondents by type and country:

Table 1: Total respondents by country and by type			
Respondent by country:		***Respondent by type:***	
Belgium	1	National Standard Setters	9
Canada	1	Associations/Organisations	11
Denmark	2	Preparers	5
Finland	1	Regulators	2
France	4	Auditors	1
Germany	7		**28**
Italy	1		
Netherlands	1		
Norway	1		
Poland	1		
Sweden	2		
UK	6		
	28		

Constituents supported the proposals on the contractual service margin, but believed they were not sufficiently developed for contracts with dependency on the asset returns. Therefore, they believed the contractual service margin should represent the unearned profit at all times and consider changes in asset returns as well.

Constituents did not support the 'mirroring' approach proposed by the IASB. Instead, constituents supported the key principles of an alternative approach, which had been developed by the European insurance industry.

Constituents did not support the mandatory use of other comprehensive income to report the effects of a change in discount rate on the measurement of the insurance liability. Constituents expressed different views on recognising interest expense in profit or loss and/or OCI.

Constituents did not support the IASB's presentation proposals when the simplified approach is not used. Some constituents were supportive of the summarised margin approach with volume information disclosed in the notes to the financial statements.

Constituents supported the proposed retrospective application of the future standard. Most constituents considered the alignment of the effective dates of IFRS 9 and the new standard on insurance contracts was necessary. Full redesignation and reclassification of the investment portfolios should be allowed if this alignment would be rejected.

Field-test

In June 2013, EFRAG and National Standard Setters (ANC, ASCG, FRC and the OIC) launched, in coordination with the IASB staff. a joint field test on whether the new requirements were operational, what their impact would be and the costs and benefits associated with introducing them. The response deadline was by 11 October 2013. In total, thirteen questionnaires were received.
The following table provides an overview of the participants by country:

Table 2: Participants by country	
France	3
Germany	4
Italy	3
Spain	1
UK	2
	13

The majority of participants considered the unlocking of the contractual service margin to be technically feasible. However, participants were split on whether changes in the risk adjustment which relate to future coverage could be separated from changes in risk that relate to incurred claims without significant costs or operational complexity.

Most participants reported that the contractual service margin had not been fully developed for participating contracts. Most of the participants also expressed concerns relating to a more granular level than the portfolio level for calculating the contractual service margin.

Almost all participants reported experiencing operational difficulties in applying the 'mirroring approach' proposals. Most participants were considering an alternative industry proposal, for participating contracts, being developed by the European insurance industry.

Many participants were not able to test the revenue proposals for life insurance because of its complexity and they did not support the earned premium approach. Some of them supported a summarised margin approach.

All participants agreed that the ED proposals on interest expense create an accounting mismatch and they objected to a requirement for mandatory OCI.

A majority of the participants requested alignment of the effective dates of IFRS 9 and the new standard on insurance contracts, with early adoption possibilities for both standards, and full redesignation and reclassification of the investment portfolios should this alignment be rejected.

Participants expected significant costs to be incurred and expected that the costs were likely to outweigh the benefits in implementation of the ED proposals. These costs relate to the mirroring approach, presentation of revenue and expenses and interest expense in profit or loss.

EFRAG's final comment letter

EFRAG published a final comment letter on the Exposure Draft *Insurance Contracts* on 18 November 2013. EFRAG Insurance Accounting Working Group (IAWG) supported EFRAG TEG members in the preparation of EFRAG's Draft Comment Letter and EFRAG's Final Comment Letter. EFRAG IAWG members attended EFRAG TEG discussions to help EFRAG TEG understanding better the specifics of the insurance contracts accounting proposals.

In the final comment letter, EFRAG maintained its comment relating to adjusting the contractual service margin and in addition, expressed concerns on the treatment of options and guarantees, the treatment of favourable changes for onerous contracts and the unit of account.

In its final comment letter, EFRAG did not support the 'mirroring' approach proposed by the IASB. Instead, EFRAG recommended that the IASB develop an approach starting with the principles set by the European insurance industry in its response to the ED.

For life insurance, EFRAG did not support the earned premium approach but recommended summarised margin presentation with volume information disclosed in the notes to the financial statements. For entities applying the simplified approach, EFRAG believed that the proposed earned premium approach was suitable.

EFRAG concluded that it did not support the mandatory use of other comprehensive income to report the effects of a change in the discount rate on the measurement of the insurance liability. EFRAG recommended the IASB to identify a third 'liability-driven' long-term investment business model. On that basis, entities would need to make an accounting policy choice at an entity level whether to report the impact of changes in the discount rate of the insurance liabilities in the statement of profit or loss or the statement of other comprehensive income. However, if an entity would elect the latter, it should be eligible, for portfolios managed on a fair value through profit or loss basis, to report the impact in profit or loss.

EFRAG maintained its comment relating to the effective date and transition proposals. In addition, EFRAG reported that sufficient time should be given to perform extensive testing before finalisation of IFRS 9 and the new insurance contracts standard.

Adjusting the contractual service margin

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed with adjusting the contractual service margin as differences between the current and previous estimates of cash flows that relate to future coverage or services. EFRAG believed that the contractual service margin should represent the unearned profit in an insurance contract. In addition, the contractual service margin should also be adjusted for changes in estimates of the risk adjustment related to future coverage.

Constituents' comments

Most of the constituents supported the IASB proposal to adjust the contractual service margin for differences between the current and previous estimates of cash flows that relate to future coverage or services.

Most of the constituents agreed with EFRAG that the contractual service margin should be adjusted for changes in the risk adjustment that relate to future services.

Some constituents asked for clarification of the treatment of options and guarantees embedded in insurance contracts.

Some constituents believed that the contractual service margin should be released over the coverage and settlement period rather than over just the coverage period as, in their view, the obligation is satisfied during both the coverage and claims handling periods. Many others were however satisfied that the contractual service margin would be released over the coverage period only because the profit-making activity was in their view limited to providing insurance coverage.

EFRAG's response to constituents' comments

EFRAG acknowledged that its preliminary views were supported by a majority of constituents and therefore maintained them in its final comment letter.

EFRAG considered additional comments of the constituents and included the following in its final comment letter:

- The treatment of changes in the value of options and guarantees was unclear in the ED. EFRAG understood that changes in the intrinsic and time value of options and guarantees would be recognised:
  - in profit or loss as changes in cash flows, provided that the options and guarantees do not relate to future coverage or other future services; and
  - in other comprehensive income to reflect the effect of changes in the discount rate in the intrinsic and time value of these options and guarantees.
- EFRAG believes that favourable changes after the contractual service margin is exhausted should be treated by first recognising a reversal of past losses in profit or loss until all prior losses have been fully offset. After this, a contractual service margin should be re-established at its equivalent historical value.
- EFRAG supported the consistent use of the portfolio as the unit of account, also for the release of the contractual service margin.

Adjusting the contractual service margin (continued)

EFRAG's tentative views and constituents' comments (continued)	EFRAG's response to constituents' comments (continued)
Constituents' comments (continued) Some constituents believed that favourable developments subsequent to an exhausted contractual service margin should be recognised in profit or loss until all prior losses have been fully offset. After this, a contractual service margin should be re-established. Several constituents believed that if the unit of account would be lower than portfolio-level; this could result in considerable operational complexity that increases costs without clear benefits.	

Measurement and presentation exception – 'Mirroring' approach

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG tentatively supported 'mirroring' as a principle, although EFRAG expressed the following concerns:

- The proposed measurement and presentation exception would only apply to limited types of contracts;
- 'Mirroring' should start from the liabilities side and not from the assets side;
- Part of the insurance liability would be measured on a basis different from the present value of the fulfilment cash flows; and
- The approach would make financial statements difficult to understand and would impair comparability of contracts with similar economic features.

EFRAG supported the proposal that the discount rate used to measure asset dependent cash flows should reflect the extent of that dependence.

EFRAG acknowledged the alternative approach to the proposed 'mirroring' that the European insurance industry had been developing and explained its key elements and main differences with the IASB's proposals in an appendix to its draft comment letter. EFRAG did not express a tentative view on the alternative approach, but noted it would consider whether it could, wholly or partly, address the concerns expressed on the IASB's 'mirroring approach'.

Constituents' comments

A majority of constituents welcomed the introduction of the 'mirroring' concept to reflect the asset dependency for participating contracts but they did not support the ED's mirroring approach. A majority of

EFRAG's response to constituents' comments

EFRAG considered the feedback received. There was a lack of support on the IASB's 'mirroring' approach.

In its final comment letter, EFRAG appreciated the IASB's efforts to address the accounting mismatch issue for contracts with asset dependent cash flows. However, EFRAG did not support the proposed 'mirroring approach' for the same reasons as expressed in its draft comment letter, which were supported by feedback from constituents.

In addition, EFRAG noted that the IASB's proposals for the contractual service margin allowed only for a limited unlocking, which was contradictory to the definition of the contractual service margin as the unearned profit. EFRAG noted that for participating contracts, an intrinsic element of the unearned profit was the investment return arising from the contracts; EFRAG believed it was appropriate to account for the effect of changes in investment returns in the contractual service margin.

In its due process, EFRAG considered the key principles and mechanics of the European insurance industry alternative approach. EFRAG supported the key principles of the alternative approach in its final comment letter, because it considered that it would address some of the concerns which EFRAG expressed in respect of the IASB's 'mirroring approach'. EFRAG acknowledged there were still some aspects in the alternative approach that need to be further developed. However, the same applied for the IASB's approach, although some aspects might be different.

Measurement and presentation exception – 'Mirroring' approach (continued)

EFRAG's tentative views and constituents' comments (continued)

Constituents' comments (continued)

constituents expressed concerns about the narrow scope of the measurement and presentation exception, the complexity arising from the arbitrary decomposition of the cash flows, and the reduced comparability because of the difference with the general fulfilment cash flow model (building blocks model) that applies to all other insurance contracts. A key concern was also that the proposals for the contractual service margin were not sufficiently developed for contracts with a dependency on the asset returns and allowed only for a limited unlocking of the contractual service margin, which was contradictory to the definition of the contractual service margin as the unearned profit.

Furthermore, a majority of constituents commented that the ED did not sufficiently explain how the IASB mirroring approach should be applied in practice.

A majority of constituents expressed support for the key principles of the alternative approach under development by the European insurance industry. Some constituents recommended that the IASB allow sufficient time for testing any alternative proposal to ensure that the application mechanisms work appropriately for various products under different economic scenarios.

EFRAG's response to constituents' comments (continued)

EFRAG recommended to the IASB to allow sufficient time for testing any alternative proposal to ensure that the application mechanisms work appropriately for various products under different economic scenarios.

Presentation of revenue and expenses

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG did not express a view about the ED proposals and stated that its response would be finalised once the results of the field test were available.

Constituents' comments

Life insurance

A majority of constituents did not support the earned premium approach as proposed by the ED, which recognises revenue as services are provided. Disaggregating non-distinct investment components from the earned premium revenue number would be very complex and unduly costly to implement as the data required were not readily available and difficult to obtain.

A minority of constituents supported the earned premium approach as it would enable users to understand the underlying movements and it would be more comparable with other industries.

Some constituents mentioned that the summarised margin approach would be more appropriate.

Some constituents noted that users preferred volume information (e.g. gross written premiums and new business premiums), as these were key performance indicators for the life insurance industry.

Non-life insurance

Some constituents agreed with the application of the earned premium approach to non-life insurance activities.

EFRAG's response to constituents' comments

Life insurance

Based on its field test findings and comments from constituents, EFRAG believed that the costs of applying the earned premium approach would outweigh the benefits. Also, disaggregating the investment component would be very complex. Therefore, in its final comment letter, EFRAG reported that the earned premium approach was not an indicator currently used and the costs of implementing such an approach might outweigh the benefits. EFRAG did not support the proposed disaggregation of investment components.

EFRAG also commented that it was supportive of a summarised margin presentation with volume information as suggested by some constituents. EFRAG recommended volume information disclosed in the notes to the financial statements.

Non-life insurance

Reflecting the comments from the constituents, EFRAG commented in its final comment letter that for entities applying the simplified approach on non-life insurance, the earned premium approach was suitable as traditional numbers would continue to be disclosed.

Interest expense in profit or loss

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed with the IASB's proposal to segregate the effects of changes in the discount rate in the insurance contracts liabilities in OCI. However, EFRAG was are concerned that the IASB's proposals in combination with the classification and measurement requirements in other standards would not eliminate accounting mismatches and would result in reporting the insurance performance split across profit or loss and OCI.

EFRAG tentatively believed that the IASB should acknowledge the 'liability-driven' long-term investment business model as supporting the measurement of assets at fair value and recognising in OCI the effects of revaluation other than impairment, with recycling of realised gains and losses. EFRAG believed the use of fair value through OCI should cover all assets involved in the asset-liability management when it aims at matching stable liabilities and would therefore include debt instruments that do not meet the contractual cash flow characteristics, equity shares and property.

EFRAG aimed to consider in its own due process, if and how the asset-liability management practices could bring the necessary objective evidence of a 'liability-driven' business model.

Constituents' comments

A majority of the constituents supported the introduction of OCI to reflect the effect of discount rate changes on the insurance liability. However, a majority of constituents also expressed concern about making the use of OCI mandatory, as they believed this was raising additional accounting mismatches or because this did not faithfully represent their business model.

EFRAG's response to constituents' comments

In its final comment letter, EFRAG did not support the mandatory use of other comprehensive income to report the effects of a change in the discount rate on the measurement of the insurance liability. Its due process revealed indeed that some portfolios of insurance contracts were managed on a fair value through P/L basis. However EFRAG maintained its view that avoiding accounting mismatches called for alignment of measurement of assets that are backing insurance liabilities.

Based on the feedback received and also putting those in the context of the limited amendments to IFRS 9 and EFRAG's long-term investing activities business model consultation, EFRAG recommended the IASB to identify a third 'liability-driven' long-term investment business model in IFRS 9. EFRAG expressed the view that under a liability-driven long-term investment business model, the accounting requirements should not ignore the interaction between the liabilities and related assets when selecting measurement bases and defining performance requirements. A symmetrical treatment of the changes in assets and liabilities is necessary to faithfully represent the financial position and performance of a long-term investor, including an insurance company. Accounting mismatches should be eliminated or reduced as much as possible.

EFRAG did not agree with the criticism expressed by constituents that EFRAG's suggested approach would lead to an industry standard. EFRAG considers, based on the findings of its consultation on financial reporting for long-term investing activities business models, that the suggested approach is valid for all 'liability-driven' long-term investment activities (i.e. when investments are managed to match stable liabilities). In addition, the suggested approach would not require determining whether the reporting entity is, or is not, an insurance company.

Interest expense in profit or loss (continued)

EFRAG's tentative views and constituents' comments (continued)

Constituents' comments (continued)

Constituents expressed different views on recognising interest expense in profit or loss and/or OCI.

Seven constituents suggested that entities should be able to make an irrevocable choice at portfolio level whether changes in discount rates in measuring insurance contract liabilities should be recognised within the interest margin in profit or loss or in OCI.

Three constituents recommended that insurance liabilities be classified as FV-PL with an option to recognise and present them in OCI based on the business model and nature of the liability or to reduce accounting mismatches.

Three constituents believed that the effects of the interest rate risk on the fair value of assets and the present value of the fulfilment cash flows for insurance contracts should be both recognised in the profit or loss account. One of them also recommended a profit or loss option, if the IASB does not accept the profit or loss accounting.

Five constituents believed that the standard should contain an option to present effects from changes in discount rate for insurance liabilities directly in profit or loss.

Four constituents were supportive of the mandatory use of OCI as proposed in the ED.

Many constituents believed that the approach proposed by EFRAG in its draft comment letter (i.e. extended use of OCI for all assets subject to asset-liability management) would avoid certain accounting mismatches and noted that the use of OCI for liabilities was a very important component of an accounting approach for the long-term business model.

EFRAG's response to constituents' comments (continued)

EFRAG was also not supportive of fair value through other comprehensive income measurement to be introduced as an unrestricted option for all types of entities, as it would impair comparability. In addition, EFRAG believed if fair value through other comprehensive income measurement was to be introduced as an option to eliminate or reduce accounting mismatches, it would require significant changes in the current approach in IFRS 9. It would be necessary to define explicitly the business model underlying fair value through profit or loss measurement. In addition, EFRAG did not agree with the concerns expressed by some constituents that EFRAG's approach would lead to a delay in the future insurance standard and IFRS 9. EFRAG observed that the discussion on the "third" business model is an active discussion at IASB level, and EFRAG's recommendations have been already shared with the IASB. EFRAG, in its final comment letter, stated that EFRAG was fully supportive of the objective that the Board is attempting to fulfil the project in the near term.

On that basis, EFRAG's preferred approach was that entities would need to make an accounting policy choice on an entity level whether to report the impact of changes in the discount rate of the insurance liabilities in the statement of profit or loss or the statement of other comprehensive income. However, if an entity would elect the latter, it should be eligible, for portfolios managed on a fair value through profit or loss basis, to report the impact in profit or loss.

However, if EFRAG's preferred approach as stated in the previous paragraph is not adopted by the IASB, EFRAG recommends that insurers should have the option to make an accounting policy choice at portfolio level to report the impact of changes in the discount rate of the

Interest expense in profit or loss (continued)

EFRAG's tentative views and constituents' comments (continued)

EFRAG's tentative position (continued)

Nevertheless, they did not believe that EFRAG's approach to prescribe a mandatory OCI for all kinds of insurance assets was the best solution for avoiding accounting mismatches because:

(a) measuring all assets that cover insurance liabilities at fair value through other comprehensive income would create an industry specific standard, which implies a fundamental break with the general principles of the IFRSs.

(b) the use of OCI is not meaningful in all situations. Some contracts, for example unit-linked contracts or variable annuities, are managed on a fair value through profit of loss basis. In those cases where recognition of the effect of a change in the discount rate on the insurance liability in OCI is not appropriate, the entity should have the option to recognise these changes in profit or loss in order to depict the asset dependence adequately.

(c) identifying the asset backing insurance contracts will be very difficult in practice as often, no ring-fenced assets exist which back insurance liabilities.

(d) given the advanced stage of the IFRS 9 project and the IFRS 4 phase II project, the realisation of EFRAG's proposal would cause significant delays which should be avoided.

In addition, constituents believed that solutions needed to be developed via the macro hedging project in the case of derivatives that are used to match insurance liabilities (i.e. to reflect the asset-liability management of investors in a long-term business model).

EFRAG's response to constituents' comments (continued)

insurance liabilities in the statement of profit or loss or the statement of other comprehensive income. Without such flexibility EFRAG believed that insurers would not be able to eliminate accounting mismatches to an acceptable extent.

In addition, EFRAG believed that macro hedging should enable insurers to reflect asset-liability management and asset portfolio hedging strategies. EFRAG, therefore, did not recommend that the fair value through OCI measurement be extended to hedging derivatives. Rather EFRAG recommended to the IASB to include insurance liabilities in the scope of the macro hedging project to address accounting mismatches that may result from measuring at fair value through profit or loss derivatives held as part of hedging strategies when the fair value through other comprehensive income would be selected. This means that some accounting mismatches will not be eliminated when IFRS 4 and IFRS 9 are first implemented.

Effective date and Transition

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG supported the proposed modified retrospective approach for transition as entities would be able to reasonably estimate the remaining contractual service margin.

If IASB were to require different effective dates for IFRS 4 and IFRS 9, EFRAG recommended for all entities where insurance formed a significant part of the entities' activities:

- The effective date of IFRS 9 should be deferred until the effective date of the new insurance contracts standard.
- Entities should be permitted to consider designations and classifications if investment portfolios were classified under IFRS 9.

EFRAG recommended a three year implementation period once the new insurance contracts standard was published.

Constituents' comments

A majority of the constituents supported the proposed retrospective application.

Most of the constituents reported that alignment of effective dates for IFRS 4 and IFRS 9 was necessary. However, nearly half of the constituents noted that if there were two different effective dates between IFRS 4 and IFRS 9, as a minimum, reclassifications and redesignations should be allowed.

Some constituents mentioned that a transition period of at least three years would be adequate after the final release of the standard. However, some of them required sufficient time to perform extensive testing, prior to the finalisation of IFRS 4 and IFRS 9.

EFRAG's response to constituents' comments

Based on the feedback received from the constituents, EFRAG decided to maintain its previous position in its final comment letter. In addition, EFRAG reported that sufficient time should be given to perform extensive testing prior to the finalisation of IFRS 9 and the future insurance contracts standard.

Costs and Benefits

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG mentioned that their response would be based on the field testing activities and the feedback that EFRAG would receive from constituents.

Constituents' comments

There was agreement amongst constituents that the proposals would result in significant costs. Some constituents questioned whether the benefits of increased transparency and comparability would be worth the additional costs and thought further development was required.

Certain requirements were specifically noted as having high costs that may not result in a corresponding benefit:

- The bifurcation of cash flows and disaggregation of investment components;
- The requirements for participating contracts;
- The mandatory use of OCI;
- The requirements to present revenue in profit or loss;
- A more granular level than portfolio level for unlocking the contractual service margin;
- The use of a locked-in discount rate for the accretion of interest in the simplified approach; and
- The disclosure requirements in general, including reconciliation of received premiums into insurance contract revenue and confidence interval disclosures.

EFRAG's response to constituents' comments

Taking constituents' feedback and the field test into consideration, EFRAG believed that costs of implementing the proposals would be significant and the IASB needed to ensure that the benefits were sufficient to justify the costs.

EFRAG mentioned in its comment letter particular areas that the constituents identified as being costly to implement.

Clarity of the drafting

EFRAG's tentative views and constituents' comments	EFRAG's response to constituents' comments
EFRAG's tentative position EFRAG provided some suggestions as an appendix to the draft comment letter to clarify the drafting of the ED. *Constituents' comments* Constituents provided additional suggestions to clarify the drafting of the ED.	EFRAG considered the comments received from constituents and decided to provide these to the IASB staff separately.

Other topics

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

- EFRAG recommended that a change from a top-down approach to a bottom-up approach or vice versa, to determine the discount rate, should be treated as a change in an accounting estimate rather than a change in accounting policy.
- EFRAG disagreed with the IASB to retain the confidence interval disclosure.
- EFRAG recommended that under the simplified approach, the liability for incurred claims should be discounted using the discount rate when the claim was discovered rather than using the discount rate at inception of the contract.
- EFRAG mentioned that it would not be prudent to recognise a 'day one' gain when buying reinsurance coverage but it should be recognised over the coverage period.
- EFRAG recommended that the requirement for disclosure of the minimum capital requirements be deleted in the final standard. EFRAG believed that IAS 1 *Presentation of Financial Statements* already covered the issue of disclosures of externally imposed capital requirements.

Constituents' comments

- Constituents were divided on the possibility to use either a top-down or a bottom-up approach for determining the discount rate. Overall, preparers welcomed the possibility to use either one or the other method, while regulators and national standard setters were concerned that this would lead to a reduction in comparability of financial information.

EFRAG's response to constituents' comments

- Taking the constituents' views into consideration, EFRAG maintained its view relating to a change from a top-down approach to a bottom-up approach or vice versa.
- EFRAG maintained its view relating to the liability for incurred claims under the simplified approach as the majority of the constituents supported this view.
- EFRAG considered the views provided by constituents on the accounting treatment for reinsurance contracts held and recommended to the IASB to explore the issues raised.
- EFRAG maintained its view on the disclosure of the minimum capital requirements.
- Based on feedback from some constituents, EFRAG also urged the IASB to consider the specifics of mutual entities, as some aspects of the 'mirroring approach' as proposed by the IASB were supported by mutual entities.

Other topics (continued)

EFRAG's tentative views and constituents' comments (continued)

Constituents' comments (continued)

- A majority of the constituents did not agree with the IASB's proposal to disclose the confidence interval.
- One constituent did not agree with EFRAG's recommendation relating to the liability for incurred claims under the simplified approach, as it was not clearly identified how such a proposal could be applied in the 'incurred but not reported' portfolio. Another constituent recommended the IASB to loosen the requirements around the 'lock-in' of the discount rate for the liability for incurred claims under the simplified approach in order to avoid unnecessary complexity.
- Several constituents disagreed with EFRAG's view on the accounting for reinsurance contracts held and suggested an immediate recognition in profit or loss of day one gains or losses on buying reinsurance on individual loss basis to avoid misleading presentation in the balance sheet. Others recognised that there were supporting arguments, both for recognising gains and losses over the coverage period and for recognising these gains or losses immediately in profit or loss.
- Some constituents agreed with EFRAG's recommendation to delete in the final standard the requirement to disclose minimum capital requirements.
- Some constituents noted that the 'mirroring approach' was needed for mutual entities but further deliberations were required.

EFRAG's response to constituents' comments (continued)

Appendix – List of comment letters

National Standard Setters

Accounting Standards Committee of Germany (ASCG)
Autorité des normes comptables (ANC)
Dutch Accounting Standards Board (DASB)
Danske Revisorer (FSR)
Financial Reporting Council (FRC)
Norwegian Accounting Standards Board (NASB)
Organismo Italiano di Contabilità (OIC)
Polish Accounting Standards Committee
The Swedish Financial Reporting Board

Associations / Organisations

Association of British Insurers
Danish Insurance Association
European Federation of Financial Analysts Societies
European Insurance/CFO Forum
Federation of European Accountants (FEE)
Federation of Finnish Financial Services
French Federation of Insurance Companies
German Actuarial Association
German Insurance Association
Insurance Sweden
International Actuarial Association

Preparers

Allianz
CNP Assurances
DZ Bank
HSBC
Munich RE

Regulators

European Banking Authority (EBA)
European Securities and Markets Authority (ESMA)

Auditors

Deloitte