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## **IFRS 17 *Insurance Contracts* draft comment letter Cover Note**

### **Objective**

- 1 In preparation of the Draft Comment Letter (DCL) on the forthcoming exposure draft (ED) of the IASB's intended changes to IFRS 17 *Insurance Contracts*, the objective of this session is to illustrate to the EFRAG Board the results of the technical discussions of the IAWG and of TEG, collect comments and orientations where appropriate from EFRAG Board members and have a joint discussion of EFRAG TEG and EFRAG Board.

### **Background**

- 2 The EFRAG Board agreed at its April meeting that the EFRAG DCL would address all aspects addressed by the IASB as well as any issues from its September 2018 letter to the IASB that will not be addressed by the ED.
- 3 The EFRAG six topics were:
  - (a) Annual cohort (cost-benefit trade-off, including for VFA contracts);
  - (b) Transition (extent of relief offered by modified retrospective approach and challenges in applying fair value approach);
  - (c) Reinsurance (onerous underlying contracts that are profitable after reinsurance, contract boundary for reinsurance contracts where underlying contracts are not yet issued);
  - (d) CSM amortisation (impact on contracts that include investment services);
  - (e) Balance sheet presentation (cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position and non-separation of receivables and/or payables); and
  - (f) Acquisition costs (for costs incurred in expectation of contract renewals).
- 4 These issues have been discussed by EFRAG IAWG and EFRAG TEG and this meeting is for the technical discussion between EFRAG Board and EFRAG TEG and conclude on the approach to be taken in the DCL.
- 5 Topics considered by EFRAG IAWG in January 2019 and EFRAG TEG in February 2019:
  - (a) Presentation of insurance contracts on the statement of financial position;
  - (b) Discount rates, risk adjustment and other comprehensive income ('OCI') option;
  - (c) Variable fee approach;
  - (d) Business combinations;

- (e) Future Cash flows in the measurement of reinsurance contracts held; and
  - (f) The treatment of accounting estimates in interim financial statements.
- 6 At EFRAG TEG's February 2019 meeting, EIOPA presented its views on IFRS 17.
- 7 At its February 2019 meeting, EFRAG IAWG discussed:
- (a) The questions from EFRAG TEG relating to:
    - (i) Presentation of insurance contracts on the statement of financial position;
    - (ii) Discount rates;
    - (iii) Future cash flows in the measurement of reinsurance contract held; and
    - (iv) Variable fee approach: Risk mitigation exception.
  - (b) The IASB's tentative decisions from its January 2019 meeting on the following topics:
    - (i) Acquisition cash flows for renewals outside the contract boundary;
    - (ii) Contractual service margin: coverage units in the general model;
    - (iii) Variable fee approach: limited applicability of the risk mitigation exception;
    - (iv) Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous; and
    - (v) Reinsurance contracts: ineligibility for the variable fee approach.
- 8 These were considered by EFRAG TEG at its March 2019 meeting as well as the following:
- (a) The presentation by the CFO Forum;
  - (b) Hedging of insurance liabilities (input received in 2014); and
  - (c) ASAF preparation in respect of IFRS 17.
- 9 EFRAG IAWG discussed the following at its March 2019 meeting:
- (a) IBOR reform and its effects on financial reporting;
  - (b) The IASB Transition Resource Group issues for the meeting of 4 April 2019;
    - (i) Investment components within an insurance contract;
    - (ii) Reporting on other questions submitted;
  - (c) The IASB's tentative decisions on the following topics:
    - (i) Transition: optionality and comparative information;
    - (ii) Transition: loans that transfer significant insurance risk;
    - (iii) Transition: modified retrospective approach;
    - (iv) Transition: risk mitigation option and OCI; and
    - (v) Loans that transfer significant insurance risk.
- 10 EFRAG TEG at its April meeting considered:
- (a) The views from the March EFRAG IAWG meeting; and
  - (b) Its preliminary views as input into the draft comment letter on the forthcoming Exposure Draft on IFRS 17 Insurance Contracts relating to the six topics that were identified in the EFRAG letter to the IASB of 3 September 2018.

- 11 At its May 2019 meeting EFRAG IAWG considered the six topics in the EFRAG letter to the IASB:
  - (a) Annual cohort (cost-benefit trade-off, including for VFA contracts);
  - (b) Transition (extent of relief offered by modified retrospective approach and challenges in applying fair value approach);
  - (c) Reinsurance (onerous underlying contracts that are profitable after reinsurance, contract boundary for reinsurance contracts where underlying contracts are not yet issued);
  - (d) CSM amortisation (impact on contracts that include investment services);
  - (e) Balance sheet presentation (cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position and nonseparation of receivables and/or payables); and
  - (f) Acquisition costs (for costs incurred in expectation of contract renewals).
- 12 The same topics were considered by EFRAG TEG at its May 2019 meeting.
- 13 Questions are in the relevant agenda papers.
- 14 With the aim of facilitating the decision process of EFRAG TEG and EFRAG Board, the EFRAG Secretariat has developed different views on each issue. These views are developed in each of the separate papers.
- 15 These views do not pre-empt the decision of the EFRAG Board taken in September 2018 to ask the IASB to further consider the topics raised.
- 16 TEG members have expressed in the May meeting their preliminary views on the basis of the wording of the tentative decisions and of the IASB Staff papers. As such these views are subject to be updated once the final wording is released.
- 17 For some of the issues, members of the EFRAG IAWG and TEG indicated their tentative support for asking to the IASB to further consider the remaining concerns, adding relevant clarification to the standard or considering standard-setting solutions.

### **Agenda Papers**

- 18 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 06-02: Summarised Technical discussion;
  - (b) Agenda paper 06-03 – Annual cohorts;
  - (c) Agenda paper 06-04 – Transition: Modified Retrospective Approach;
  - (d) Agenda paper 06-05 – Transition: Fair Value Approach;
  - (e) Agenda paper 06-06 –Reinsurance: Onerous Contracts;
  - (f) Agenda paper 06-07 –Reinsurance: Contract Boundary;
  - (g) Agenda paper 06-08 – CSM amortisation;
  - (h) Agenda paper 06-09 – Balance sheet presentation: Asset/Liability;
  - (i) Agenda paper 06-10 – Balance sheet presentation: Premium receivables and claims payable;
  - (j) Agenda paper 06-11 – Acquisition costs; and
  - (k) Agenda paper 06-12– Project plan update.
- 19 For further information, please see the following:

- (a) The CFO Forum presentation to EFRAG TEG (March 2019):  
<http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F1902201018475037%2F06-01%20CFOF%20EFRAG%20Presentation.pdf>
  - (b) The updated papers from the ANC (May 2019):  
<http://www.anc.gouv.fr/cms/news/lanc-soumet-a-liasb-et-a-efrag-une-mise-a-jour-de-ses-projets-danalyse-2>
- 20 The following Reports of the IAWG Chairman to EFRAG TEG are provided as background information:
- (a) Background paper 06-13 – January;
  - (b) Background paper 06-14 – February;
  - (c) Background paper 06-15 – March; and
  - (d) Background paper 06-16 – May.