This paper has been prepared by the EFRAG Secretariat for discussion at a joint public meeting of EFRAG Board and TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

EFRAG IAWG Report to EFRAG TEG – May 2019

Contents

1 The purpose of this discussion is to provide EFRAG IAWG inputs on the topics for which the IASB did not amend IFRS 17 in the re-deliberations from December to May 2019, in preparation of the Draft Comment Letter on the forthcoming Exposure Draft.

2 The discussion focused on the 6 topics in EFRAG letter to the IASB. Due to timing constraints on some topics written input has been requested and EFRAG TEG members will receive an update during its meeting.

Topic	EFRAG IAWG discussion	EFRAG TEG issues paper
Annual cohorts	§ 4 to § 22	See paper 09-03
Deferral of timeline	§ 23 to § 29	-
Acquisition costs	Written input requested by 21 May. Oral update will be provided during EFRAG TEG meeting.	See paper 09-10; § 113 to § 125
CSM amortisation	§ 30 to § 31	See paper 09-10; § 79 to § 97
Reinsurance	§ 32 to § 57	See paper 09-10; § 45 to § 78
Transition	§ 58 to § 75 Written input requested by 21 May on (i) retrospective application of risk mitigation and (ii) setting OCI to nil at transition. Oral update will be provided during EFRAG TEG meeting.	See paper 09-10; § 8 to § 44
Balance sheet presentation	§ 76 to 81 Additional written input requested by 21 May. Oral update will be provided during EFRAG TEG meeting.	See paper 09-10; § 98 to § 112

IBOR reform

3 EFRAG IAWG did not have any comments on the drafting of the draft comment letter provided on IASB ED 2019/1 *Interest Rate Benchmark Reform*.

Annual cohorts

Preparers were asked how they would determine profitability for B67-products[1]

4 Members indicated that for internal and regulatory purposes, profitability may be assessed on a ‘stand-alone’ basis, i.e. as if the contract has been issued without ‘wealth sharing’. This was done as a first step, before proceeding with the mutualisation, which was a managerial and discretional process performed according the relevant French legal and contractual framework. This then can be compared to the profit on a risk sharing basis.

5 Members reported that there are various ways of determining the profitability of the mutualised contracts, i.e. similar to MCEV or net present value calculations. The calculation would include the time and intrinsic value of options and guarantees.

6 Where payments need to be made under the guarantees, the unallocated reserve or unrealised capital gains would be used. If there are insufficient funds, the shareholders would fund this.

7 Members from other jurisdictions (Italy and Germany) confirmed that the approach was similar to that applied in France. In some jurisdictions there is no sharing of the technical risk, but the financial risk would be shared between policy holders.

8 For UK products, the allocation to policyholders are done on the fair value of the underlying assets rather than the realised returns as done on the continent. The products would include significant discretion around the timing of the payments to the policyholders. Pricing would calculate the expected profitability and in adverse scenarios the cost of guarantees etc would be taken from the free surplus.

9 A Spanish example discussed related to deferred annuities where the technical and financial risk is shared by the policyholders. The insurer’s fee is based on the expected return of the assets less what has been promised to the policyholder. This calculation could be done on a contract-by-contract basis.

10 For German contracts the allocation to policyholders is also done on a realised basis.

Do you agree with the objectives of the IASB of the level of aggregation requirements?

11 One member discussed that the objectives are not necessarily disputed, but that you do not need the requirements as the ‘profitability buckets’[2] would solve the onerous contracts issue. The EFRAG Secretariat pointed out that this would not solve the issue of contracts becoming onerous, however the member considers that the category that deal with contracts that may become onerous would deal with this. The member did not consider that the examples used in the recent debate are realistic that the annual cohorts may make a difference over time (as these examples are often based only on two or a few contracts).

12 For profitability trends, the member argued that the most important aspect would be the profitability of new business which is visible due to the required reconciliation of

[1] As mutualisation is often defined in very different ways, the discussion related to ‘those contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts’ as described in paragraph B67 of IFRS 17.

[2] This refers to the requirement in paragraph 16 to classify contracts into three categories based on their likelihood to becoming onerous or whether they are onerous at inception.

CSM amounts. The member also pointed to their experience in the EFRAG Case Study where the use of annual cohorts did not make a significant difference to the calculated CSM release.

13 The EFRAG Secretariat pointed out that there may be situations where the profitability changes significantly (i.e. 'turning points' and the member thought that where you have significant changes which may indicate significant changes to risks may also result in different "paragraph 16" categories or portfolios.

14 Another member had the same experience in the case study and agreed that the objective can be achieved by coverage units. With intergenerational mutualisation, the complexity increases, and this is not clear from the IASB example with two groups. The member thought that the allocation of CSM to Groups for accounting purposes will become mechanical and iterative (to resolve any 'onerous' groups as reflecting the nature of the process of progressive mutualisation pursued, no group will be onerous until the whole population is onerous) and not lead to useful information.

15 An auditor IAWG member indicated that complying with the annual cohorts for the B67 type of contracts is very burdensome. The member indicated that whilst the concern around onerous contracts is resolved by the nature of the contracts, the interaction with coverage units is still unclear and how the CSM calculation would work in practice given if there is no annual cohort requirement. Others thought that as the coverage units consider the services provided, the size of the contract as well as the duration) the new CSM and coverage units would simply be added to the calculation which admittedly would result in re-averaging of the CSM over time, but in the context is not seen as a significant concern.

16 One auditor was concerned about the risk that aggregating at a too high level would limit the possibility to clearly disclose if, with new business, the entity was increasing or decreasing the value.

17 EFRAG IAWG members agreed that it is very important to show the profitability trend of new business from a strategic perspective but did not consider it necessary to continue tracking it post-issuance.

Can the issue be solved without changes to IFRS 17, e.g. by applying of BC 138[3]

18 The first discussion centred on whether one would need to arrive at exactly the same amounts as the literal wording of the paragraph. The EFRAG Secretariat pointed out that all the requirements of IFRS is in the context of materiality, i.e. if the answer does not differ materially, it does not matter.

19 Another member pointed out that the IASB staff indicated that BC 138 only works in the context where there is no CSM, i.e. for mutual societies only and therefore, not applicable to the contracts where policyholders share in 80 to 90% of the returns as is the case in Europe.

20 Others pointed out that proving that the difference is not material will in most cases involve having to do a calculation using annual cohorts which means that the systems have to be updated to be able to do the calculation.

21 Other members questioned why this is only in the basis for conclusions rather than the standard. Another member questioned why mutual societies have to provide a profit and loss.

[3] Extract from the paragraph: "Nonetheless, the Board noted that the requirements specify the amounts to be reported, not the methodology to be used to arrive at those amounts. Therefore, it may not be necessary for an entity to restrict groups in this way to achieve the same accounting outcome in some circumstances."

Other comments

22 As the surplus allocation described for French and other jurisdictions in continental Europe is performed at contract level, it was discussed whether applying IFRS 17 at contract level would be less or more costly of applying the annual cohort requirement. IAWG members observed that at contract level it would be even more onerous.

IFRS 17 – deferral of timeline

23 EFRAG IAWG members highlighted the following challenges in meeting the timeline of 1 January 2022 as proposed by the IASB:

(a) Personnel shortages;

(b) Lack of software solutions;

(c) Time for big players in the market to complete the development of an appropriate system solution and time for them to build their internal data model and integrate the solution into their systems;

(d) Fundamental changes to the IFRS 17 are still being made;

(e) Ongoing issues with IFRS 17 in its current state, more specifically with regards to:

(i) Unit of account;

(ii) Transition; and

(iii) Other interpretation areas currently discussed between members within the industry.

(f) Skill shortages especially for European groups with subsidiaries in other jurisdictions; and

(g) The requirement to prepare both financial statements under IFRS and under local GAAP.

24 One EFRAG IAWG member noted that there was a strong view for a further delay of one year, i.e. till 1 January 2023. This member noted that adding another year will provide them with more time to clear interpretative issues with their auditor. However, another EFRAG IAWG member noted that adding another year will lead to additional costs being incurred.

25 EFRAG IAWG members noted that in order to provide meaningful information to users, comparative information under IFRS 9 *Financial Instruments* should also be presented but this could lead to an additional burden of meeting the timeline provided under IFRS 17. More specifically EFRAG IAWG members noted the following factors:

(a) difference between the two Standards with regards to comparative information;

(b) the derecognition requirement under IFRS 9 (i.e. not to recognise items already derecognised); and

(c) the extensive disclosure requirements under both Standards.

26 However, some EFRAG IAWG members indicated that the assessment for applying IFRS 9 together with IFRS 17 is still ongoing.

27 Some EFRAG IAWG members proposed that IFRS 9 comparative information could be prepared by using alternative methods such as methods based on performance to calculate a proxy of an instruments fair value.

28 EFRAG IAWG members also noted that while implementation is underway,

updating of systems for amendments to IFRS 17 is not an easy exercise.

29 It was noted that larger entities are in a more advanced position as opposed to the smaller entities.

CSM amortisation

Description of the remaining concerns

30 On the basis of the IASB tentative decisions in January 2019 for some contracts, such as deferred annuities, CSM could not be amortised over the period in which investment services are provided. On the basis of the IASB tentative decision in May those EFRAG IAWG members who had this issue have indicated that, subject to the wording of the upcoming Exposure Draft, the issue has been resolved.

31 Some EFRAG IAWG members questioned the meaning of certain criteria[4] in assessing whether an investment return service exists:

(a) What was meant by a positive investment return; and

(b) What was meant by a right to withdraw an amount.

Reinsurance

Onerous underlying contacts that are profitable after reinsurance

Description of the remaining concerns

32 Prior to the IASB tentative decisions, onerous contracts issued by the cedant were immediately recognised as a loss in profit or loss, whereas for the reinsurance contract held by the cedant, any net cost or gain was recognised over the coverage period. Preparers have indicated that this IFRS 17 requirement gives rise to accounting mismatches.

33 A concern remains regarding the application of IFRS 17 to non-proportionate reinsurance.

Prevalence of the remaining concerns

34 For one EFRAG IAWG member the non-proportional reinsurance represented 80% of their reinsurance contracts held.

35 In the past EFRAG IAWG members indicated that the occurrence of non-proportional reinsurance was as prevalent as proportional reinsurance.

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[4] The IASB staff proposed that an investment-return service exists if, and only if:

(a) there is an investment component, or the policyholder has a right to withdraw an amount;

(b) the investment component or amount the policyholder has a right to withdraw is expected to include a positive investment return; and

(c) the entity expects to perform investment activity to generate that positive investment return.

Nature of the remaining issue

36 One member expressed that in practice risk mitigation strategies use proportional and non-proportional reinsurance treaties without necessarily making this distinction. One EFRAG IAWG member noted that the current IFRS 17 accounting treatment would not allow to reflect in P&L the offsetting of the two components, which was the business objective to have both types of reinsurance: non-proportional reinsurance was used to protect profit or loss at a certain level.

Can the issue be solved without amendments to the standard?

37 Yes, calculation of the risk adjustment considering the existence of non-proportional reinsurance.

Preparers supporting View 1 or View 2

38 Two preparers support a change to the standard on non-proportional reinsurance. Other IAWG members did not support a change to the standard.

Definition of non-proportionate VS non-proportional

39 It was unclear whether the word 'proportionate' used in IFRS 17 meant the same as the word 'proportional' used by the industry. In absence of a definition, preparers were uncertain whether the standard allowed them to apply the IASB's tentative decision to some non-proportional reinsurance contracts. One EFRAG IAWG member understood that the word 'proportionate' was much broader than the word 'proportional'. For example, a group excess of loss contract was considered proportionate but not proportional.

40 One EFRAG IAWG member noted that non-proportional reinsurance contracts also shared in all the risks of the underlying contracts. However, when commissions were being added (based on bonus-malus structures which were an incentive to the direct insurer only to transfer good quality of risks), the same non-proportional reinsurance contract would not share in all the risks of the underlying contracts.

41 The EFRAG IAWG member noted that the reinsurer looks at the entire business of the direct insurer in reinsuring (and setting commissions for doing so) and also about the future relationship. The reinsurer does not think in underlying groups or portfolios but rather at the total bundle of business.

42 One EFRAG IAWG member (reaction via email) noted that from their perspective IFRS 17.BC304 can be seen defining proportionate reinsurance. He read proportionate as covering losses of separate underlying contracts compared to a non-proportionate reinsurance, where the cover relates to the collective loss of a portfolio/group of underlying contracts. This definition is different from proportional reinsurance, where each underlying contract of a reinsurance cover is to be covered on a proportional basis, and non-proportional reinsurance, where the coverage either of each contract or the portfolio/group is not proportional.

43 Proportional reinsurance covers are quota share reinsurance or surplus reinsurance, whereas Stop Loss, Catastrophe Excess of Loss and Per Risk Excess of Loss /Working Excess of Loss are regarded as non-proportional reinsurance.

44 The difference between proportionate and proportional reinsurance is in their view that e.g. the Per Risk Excess of Loss /Working Excess of Loss covers are included as proportionate covers, as they cover losses of separate underlying contracts whereas they are classified as non-proportional reinsurance covers. Thus, the definition proportionate is broader than proportional.

45 The following example shows a Per Risk Excess of Loss contract (also called Working Excess of Loss or Working Cover):

(a) Per underlying contract, the cedant's insurance contract limits are greater than the reinsurance retention. The reinsurer pays the losses in excess of the

retention. The insurance company will insure contracts with limits up to $10 million, and then buy Per Risk Excess of Loss reinsurance with a retention of $5 million. In this case a loss of $6 million on an underlying contract will result in the recovery of $1 million from the reinsurer. A $ 8 million loss would result in a $ 3 million recovery, whereas the primary insurer will be left with a loss of 5 million on each contract. Would 6 or 8 individual underlying contracts of the underlying portfolio have each a loss of $ 1 million, the reinsurance cover would not lead to any recovery from the reinsurer, since the losses are below the $ 5 million retention.

(b) So, the recovery from the reinsurer may not be proportional to the net loss the primary insurer under a Per Risk Excess of Loss. Still, this form of reinsurance does also not cover aggregate losses from a group of underlying contracts. Thus, it is proportionate in the sense of BC304.

Other comments

46 One observer noted that in some circumstances reinsured onerous insurance contracts are underwritten before the start of the coverage period of the reinsurance contract. In those cases, an accounting mismatch could arise if the recognition dates of reinsurance contracts and insurance contracts were not aligned (IFRS 17.62 (a) versus IFRS 17.25 (c)). The observer noted that the tentative decision of the IASB only referred to a change of paragraph IFRS 17.66 (c) about measurement but did not provide a solution for recognition.

Contract boundary for reinsurance contracts where underlying contracts are not yet issued

Description of the remaining concerns

47 There is a concern that the reinsurance contract held will include cash flows relating to those future underlying contracts. However, cash flows within the boundary of the underlying contract issued do not include these contracts expected to be issued in the future.

48 Some EFRAG IAWG members have indicated that this issue impacts the quality of information, i.e. relevance, for e.g., there would be an impact in P&L and CSM would be blown up on the Balance Sheet. They indicated as well that the resulting accounting would be diverging from Solvency II and managerial reporting, thus adding complexity to derive from the systems the required accounting figures.

49 One member (auditor) highlighted that the entity should look at the substantive rights and obligations related to the contracts. However, other members disagreed and indicated that the reinsurance contract only exists because of the underlying contracts. One member stated that in the application of hedge accounting, even though there is no contractual link, mirroring was achieved. This is not the case with this issue under IFRS 17 and found the accounting outcome to be counterintuitive.

50 Another member indicated that reinsurance could be seen more like outsourcing specific aspects rather than comparing to derivatives.

51 One observer indicated that the issue he heard related more to costs being more than the benefits.

52 Some EFRAG IAWG members indicated that this issue is not a top priority one.

Can the issue be solved without amendments to the standard?

53 Some EFRAG IAWG members indicated that the industry is trying to cope with this IASB requirement.

54 One member indicated that the issue cannot be solved with a marginal change to the standard.

Preparers supporting View 1 or View 2

55 6 preparers supported a change being made to the standard while one did not support a change to the standard.

Other (non-preparers) members supporting View 1 or View 2

56 Two members did not support a change to the standard.

Other comments

57 One EFRAG IAWG member indicated that, in the reinsurance treaty, there is an option to cancel the treaty within a 90-day period.

Transition

Modified retrospective approach

Description of the remaining concerns

58 EFRAG IAWG members expressed their concern that the modified retrospective approach is difficult to apply. Members noted the complexities in trying to find reasonable and supportable information in order to utilise the different modifications. Members specifically noted that data gaps force them to use the fair value approach.

59 One EFRAG IAWG member noted that bringing no changes to the MRA would affect comparability between current and new business over time, as the use of FVA at transition will result in a different measurement attribute than FRA for the CSM to be reported going forward for the groups measured at FV at transition.

60 In addition, because a lot of insurers would be forced to a FVA at transition comparability would be lost between those applying the MRA approach and those that apply the FVA.

61 The issue in practice does not relate only to the freedom to make estimates, but also to approximate the inputs needed in case of data gaps, using proxies. One EFRAG IAWG member added the issue was not only about estimates but as data gaps existed, they wanted the possibility to apply the full or modified retrospective approach using approximations or proxies to fill for example the 5% of lacking data.

Can the issue be solved without amendments to the standard?

62 Most EFRAG IAWG members were of the view this is not possible.

63 The following comments were provided:

(a) There is a need to clarify the requirements in order to have more freedom in making estimates. For example, when historical information on experience adjustments or cash flows in general are only available at a very high level; clarification is necessary how allocations down to the unit of account are possible under IAS 8. One auditor noted that until now the issue was being thought of as applying hindsight, but it was now understood it was partly different from that;

(b) There is a need to modify the requirements for MRA so as to have a principles-based objective to achieve the closest outcome to the full retrospective approach compared to making limited modifications that are available now in the standard;

(c) The changes that are available in the standard for the general model at transition should be made available for insurance contracts under the variable fee approach as well

Supporting View 1 or View 2

64 8 IAWG members composed of both preparers and auditors expressed the view to support View 2, i.e. changing the standard.

65 An observer considered that this issue could be solved through implementation and practice. It was fair to rely on reasonable and supportable information. While it was expected this would result in negotiations between an entity and its auditor, there was a fear that the most strict interpretation would be retained. It would be helpful to provide a direction reducing the risk of an interpretation that is considered to be too strict.

Other comments

66 One EFRAG IAWG member noted that the MRA was not easier to apply than the full retrospective approach. There were a lot of practical challenges that occurred because of the lack of data or data not being available at the right level of granularity. It would result in a higher use of the fair value approach, which would result in inconsistent information and not allow for comparability between new and old business.

67 One user was in favour of a change to the standard in order to have more comparable information.

Fair value approach

Description of the remaining concerns

68 When applying the fair value approach at transition, there is concern that the CSM is low or lower than compared to the full or modified retrospective approach.

69 It is expected that many portfolios at transition will have to apply the fair value approach.

70 Concerns were expressed about the level of judgement of measuring at FV insurance liabilities in the absence of a substantial market activity in order to observe fair values.

71 Some preparers agreed that the fair value calculation resulted in a broader range of profitabilities.

72 Some members observed that the FVA and FRA are two different concepts and mentioned the acquisition costs as one example of difference in the two approaches.

Other comments

73 Auditors disagreed with the calculations put forward in the paper. It was noted that:

(a) A fair value approach gives room for adjustments when duly justified, currently preparers are too strict in their application of fair value;

(b) The profitability in a fair value approach should be the profitability of new business;

(c) Current fair value calculations rely too much on actuarial and Solvency II calculations;

74 A preparer noted that paragraph C20 of IFRS 17 was too strict in explaining what fair value implies. In accordance with paragraph C20 fair value (sic) is seen as the difference of the fair value of insurance contracts at transition date and the fulfilment value of insurance contracts at that date. They were looking purely at the insurance liability, no associated assets. As a result, there is no value in force (Solvency II) as only the liability was being looked, not the assets.

75 One user noted that goodwill should not be included in the fair value calculation. It was as well considered that the unit of account in IFRS 13 is the contract liability, i.e. not the business nor the assets.

Balance sheet presentation – receivables/payables

Description of the remaining concern

76 Currently, amounts such as premiums due or reinsurance amounts are disclosed separately as part of assets on the balance sheet. Under IFRS 17, these amounts form part of the liability for insurance contracts.

77 Some are concerned about the loss of information while others indicate that there would be significant costs required to their systems in order to meet the presentation requirements of IFRS 17.

78 This impacts all entities.

79 Current actuarial systems only include those expected amounts that not yet considered to be due[5]. Therefore, in order to solve the cost concern, the following would need to happen:

(a) A definition for receivables/amounts due would need to be developed;

(b) IFRS 17 would have to then deal with the remaining future cash flows.

Can the issue be solved without amendments to the standard?

80 Preparers indicated that they may be able to solve the concern by proxies or short cuts such as including the amounts receivable in the insurance liability.

Other comments

81 EFRAG Secretariat observed that it would take considerable time and effort to develop a definition for premium receivables; in addition for some, their current definition would then inevitably differ from the 'new' definition, resulting in costs and new concerns.

[5] Experience shows that this differ according to custom and local GAAP and for this reason why the IASB has declined to define 'premium receivables'.

Appendix - Summary of written input from EFRAG IAWG – May 2019

1 EFRAG IAWG, at its May 2019 meeting, was requested to provide written input to specific questions which were not covered at the meeting due to lack of time including the following issues relating to transition - retrospective application of risk mitigation approach and setting OCI to nil at transition.

Transition - retrospective application of risk mitigation approach and setting OCI to nil at transition

Question 4 (a) - How prevalent is this unaddressed topic (does it relate to a specific jurisdiction/contract type/business line, is it a widespread issue)?

Retrospective application of risk mitigation

2 Three preparers in France, UK and Spain indicated that the retrospective application of the risk mitigation approach is a widespread issue. Two auditors/advisors in France agreed with one more specifically on reinsurance contracts held. One auditor did not regard this as a widespread issue.

3 One preparer indicated that the inability to apply hedge adjustment retrospectively is a widespread issue for two large portfolios under the VFA in IFRS 17. An established and well documented hedge programme has been in place for many years for these portfolios. If risk mitigation is not applied retrospectively, the impact of changes in financial risk on hedged items (the variable fee or the cost of options and guarantees) will be taken to CSM while changes in the fair value of hedging instruments will be taken to retained earnings. This results in a material distortion to shareholder equity at the date of transition and to ongoing profit emergence

4 One preparer indicated that they do not anticipate significant use of the risk mitigation option as the hedging activity being undertaken often does not qualify for the risk mitigation option (as not using derivatives or reinsurance) or may be difficult to allocate between contracts in scope of IFRS 17 or contracts in scope of IFRS 9. Currently, this preparer experiences income statement volatility from hedging under IFRS and will continue to use APMs as currently.

5 One auditor indicated that reinsurance contracts held with the characteristics of a direct participating contract do not qualify for the VFA, in the absence of a retrospective approach, accounting mismatches may occur even though there is a clear contractual link between underlying direct contracts and reinsurance. The proposed IASB solution to apply fair value approach needs to be assessed but will probably lead to residual mismatches.

Setting OCI to nil at transition

6 Setting OCI to nil at transition is considered to be a widespread issue in Spain. As it only impacts indirect participating contracts under the general model it was not regarded as so significant in the other territories.

Question 4 (b) - Is the remaining issue impacting the quality of the financial information (relevance, reliability, understandability, comparability) or is it impacting the operational complexity and costs? Please explain?

7 Preparers consider this an issue of relevance of the financial information as well as operational complexity and cost.

8 Two preparers were concerned that the use of fair value on transition will provide very different information to the information under the FRA or MRA with a resulting impact on equity and the results going forward. Comparability between contracts at transition and contracts issued afterwards is also considered to be negatively affected. This may mean that the IASB change to allow entities that can apply

IFRS 17 retrospectively to use the fair value option may not be attractive as it would require increased use of a fair value option.

9 One auditor considered that the prohibition on retrospective application for reinsurance contracts held for risk mitigation would hinder the relevance and understandability of financial statements. The optional nature of risk mitigation accounting hinders the comparability of the approach even on a prospective basis.

Question 4 (c) - How would you assess the complexity of defining an appropriate accounting solution to the issue considering the current status of the standard setting, the time needed to develop the solution and the ongoing implementation efforts?

10 Relating to retrospective application on risk mitigation, one preparer referred to the CFO Forum solution[6] whilst another said that given the IASB's concerns around the use of hindsight and cherry picking it would appear difficult to define an appropriate accounting solution. The Spanish proposal is similar the treatment for VFA contracts, i.e. recognise an amount equal to the cumulative OCI for the underlying assets.

11 One auditor considered that for reinsurance contracts held the best option would be to require the mandatory application for reinsurance held on both a retrospective and prospective basis with respect to risk mitigation.

Question 4 (d) - Assuming that the final version of the standard remains unchanged and does not address this topic (i.e. View 2 is impracticable), would you consider it possible to develop a solution through interpretation or implementation activity?

12 The respondents did not consider that interpretation or implementation activity could lead to a solution given the unequivocal wording in the standard. One preparer also said that the IASB's tentative decision to allow a fair value approach in certain circumstances would not be helpful for business subject to equity risk. In this case, the equity growth in recent years would result in a sizeable CSM when determined on a retrospective basis but a substantially lower CSM on a fair value basis.

Question 4 (e) - Question to EFRAG IAWG (Preparers): Do EFRAG IAWG (Preparers) support view 1 or 2? Please explain why.

Question 4 (f) - Question to EFRAG IAWG (Other members): Do EFRAG IAWG (Other members) support view 1 or 2? Please explain why.

Retrospective application of risk mitigation

	Number of preparers	Number of auditors	Independent	Total
View 1: No changes to the standard are required		1		1
View 2: Amendment needed to the standard	3	1	1	5

13 The reason provided for View 1 is that it seems to be a relatively small issue (1 auditor).

14 Apart from responses mentioned for Questions 4(a) to 4(c), the reasons provided for View 2 are as follows:

[6] The CFO Forum proposed solution is to enable retrospective hedging adjustment as part of transition.

(a) To solve the reinsurance held issues (refer to Question 4(a)) (1 auditor);

(b) For reasons presented by the ANC[7] (1 independent);

(c) 1 preparer who supported View 2 did not want to make the application of the risk mitigation approach mandatory.

Setting OCI to nil at transition

	Number of preparers	Number of auditors	Independent	Total
View 1: No changes to the standard are required				0
View 2: Amendment needed to the standard	2		1	3
No preference	1			1
No response/No answer to the question		2		2

15 1 preparer provided the following reasons supporting View 2:

(a) The IFRS 17 requirement does not reflect how assets and liabilities are managed for long term insurance contracts under cash flow matching.

(b) Maintaining the historical OCI on related assets will distort equity at transition and distort future performance of contracts in stock in transition and impair comparability in profit recognition between long-term life contracts in stock and new contracts.

(c) The proposed solution of a cumulative OCI balance on insurance liabilities equal to the OCI from the underlying assets is a practical solution for which the benefits (better portraying the business model and avoiding the OCI mismatch) outweigh the cost that introduces the simplification in the determination of the amount in OCI.

[7] Regarding risk mitigation on transition, the ANC mention that not allowing retrospective application on transition could distort the historical CSM and significantly impact the insurance result for years.

Regarding OCI at transition, the ANC mention that not considering any impact of OCI carried forward on the liabilities could significantly impact the result of future periods and then undermine the credibility of the transition.