

# Amendments to IFRS 17

Preview of the consultation feedback on  
EFRAG draft comment letter

Paper 06-07  
Supporting material  
to update EFRAG TEG members  
16-17 September 2019

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**This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG 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.**

# Purpose of the session and of this document

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- The IASB issued the *ED/2019/4 Amendments to IFRS 17* on 26 June 2019; comments are to be received by the IASB by **25 September**. EFRAG issued its DCL on 15 July with a comment period ending on **2 September**
- The plan for the approval of the final comment letter is the following:
  - ***Input by IAWG to TEG: 11 September***
  - ***TEG discussion: 16/17 September***
  - ***Board discussion: 24 September***
- Purpose of this session is to update the EFRAG Board members on the key feedback from the comment letters received, in preparation of the technical discussion that the members will have next 24 September
- When this document was prepared (**6 September 2019**) EFRAG received 21 Comment Letters, of which one third still in draft. Accordingly contents may still change
- Per each topic, this document presents a first slide, reporting the draft position exposed for comments in the EFRAG DCL and the *Question/s to Constituents*. The following slide/s per each topic present the key messages from the Comment Letters.

# Question 1 – Scope exclusion

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"> <li>Loans that transfer significant insurance risk: EFRAG supports the proposal to permit entities, on portfolio level, to either apply IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract.</li> <li>Credit cards that provide insurance coverage: EFRAG agrees with the exclusion of certain credit cards that provide insurance coverage from the scope of IFRS 17. This is because the exclusion reduces the implementation costs and operational burden for entities that issue credit card contracts for which the entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer. Furthermore, the exclusion is not expected to lead to a significant loss of useful information.</li> <li>However, EFRAG is concerned that the term 'credit card' excludes payment cards which have similar clauses as the credit cards in the scope exclusion.</li> </ul>	<ul style="list-style-type: none"> <li>Paragraph B.4.1.9.E of IFRS 9 allows a regulated interest rate as a proxy for the time value of the money in applying the SPPI test, under certain conditions. EFRAG understands that in some countries the insurance element is not required by the regulation and, as a consequence, the financial instrument could fail the SPPI test and would have to be measured at fair value through profit or loss. How prevalent are these concerns within your jurisdiction?</li> </ul>

# Question 1 – Scope exclusion

## Main messages from the consultation

General feedback	Feedback on questions to Constituents
<ul style="list-style-type: none"><li>• Constituents generally agree with scope exclusions regarding credit cards and loans that transfer significant insurance risk.</li><li>• Concern reported on the wording: the consequential change to IFRS 9 may result in bringing all financial guarantees within the scope of IFRS 9, including purchased financial guarantees</li><li>• Concern reported that the reference to “credit cards” is restricting the application to contracts with the same economic features</li><li>• Mixed inputs about the conditions to extend the scope exclusion to payment cards:<ul style="list-style-type: none"><li>• <u>Preparers</u>: no assessment of insurance risk done when setting price;</li><li>• <u>Auditor</u>: insurance coverage is limited to use of the facility;</li><li>• <u>Standard Setter</u>: when they are financial instruments</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Two constituents shared EFRAG’s comment relating to the insurance element not being required by regulation, hence possibly impacting measurement of the financial instrument as failing the SPPI test, however no evidence that this issue is relevant in practice</li></ul>

# Question 2 - Acquisition cash flows

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG supports the IASB's proposals with regards to the treatment of acquisition cash flows as the resulting financial information will better reflect the economic substance of these transactions.</li><li>• EFRAG supports the allocation of the acquisition cash flows to the contracts to be a mandatory requirement. EFRAG agrees with the proposed recoverability assessment approach.</li></ul>	<ul style="list-style-type: none"><li>• Insurance contract renewals are not a defined term which may lead to diversity in practice when allocating insurance acquisition cash flows. Do you consider that insurance contract renewals should be defined in order to achieve comparability and, if so, how would you define them?</li></ul>

# Question 2 - Acquisition cash flows

## Main messages from the consultation

General feedback	Feedback on questions to Constituents
<ul style="list-style-type: none"> <li>• 17 constituents (preparers, preparer organisations, auditors, NSSs, investor organisations) supported that IASB’s proposed amendments</li> <li>• Some concerns raised by a few constituents:               <ul style="list-style-type: none"> <li>• Separate presentation on the Balance Sheet (2 constituents – NSS, preparer organisation)</li> <li>• Unclear on how transition requirements (full retrospective approach) would apply to the asset (1 constituent - auditor)</li> <li>• Consistency in disclosure of time-bands on expected derecognition of unallocated acquisition cash flows – to be considered in IFRS 17 PIR (1 constituent – NSS)</li> </ul> </li> <li>• Allocation of acquisition cash flows mandatory or not?               <ul style="list-style-type: none"> <li>• Mandatory – 1 constituent (investor organisation)</li> <li>• Optional – 3 constituents (2 preparer organisations, 1NSS)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 13 constituents did not consider that a definition of “insurance contract renewals” was needed (preparers, preparer organisations, NSSs)               <ul style="list-style-type: none"> <li>• Not defined in IFRS 15 (6 constituents)</li> <li>• IFRS 17 should remain principles-based (6 constituents)</li> <li>• No significant divergence in practice (6 constituents)</li> </ul> </li> </ul>

# Question 3 – CSM amortisation

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG supports the IASB's proposals regarding contracts under the general model. Some contracts under the general model include investment activities and the proposal will ensure that the contractual service margin (CSM) that will be allocated to profit or loss will reflect both insurance and investment return services provided to the policyholder.</li><li>• EFRAG also supports the IASB's proposal regarding contracts under the variable fee approach because these contracts are substantially investment-related contracts.</li><li>• EFRAG considers that the disclosure proposals related to CSM amortisation will provide useful information to users of financial statements.</li></ul>	<ul style="list-style-type: none"><li>• Do you have additional examples of investment activities that are not captured by the proposals in the ED?</li><li>• Entities have to provide quantitative disclosures on the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period, in appropriate time bands. Do user constituents agree with this disclosure requirement?</li><li>• Do preparer constituents consider that this information is commercially sensitive? Please explain.</li></ul>



# Question 3 – CSM amortisation

## Main messages from the consultation (1/2)

General feedback	Feedback on questions to Constituents
<p><b>Definition of investment-return services</b></p>	
<p>Messages from Standard Setters:</p> <ul style="list-style-type: none"> <li>• Concern about the practical application of B119B (conditions to demonstrate investment return should be necessary and sufficient)</li> <li>• IASB should reconsider surrender and transferability criteria (BC58): if the economics are very similar transactions should be accounted for alike</li> </ul> <p>Messages from the actuarial profession</p> <ul style="list-style-type: none"> <li>• Amend B119B removing the reference to investment component and withdrawals and replace them with benefits that are expected to depend on investment activities or services specified by the contracts</li> </ul> <p>Messages from the insurance industry</p> <ul style="list-style-type: none"> <li>• Concern that economically similar contracts treated differently; suggest removal of right of withdrawal or transfer as qualifying conditions.</li> <li>• Distinction has measurement consequences (inclusion of related expenses in fulfilment cash flows or not) (one preparer organization)</li> </ul>	<p>Not captured fact patterns</p> <ul style="list-style-type: none"> <li>• French savings contracts with limited rights to withdrawal or transfer</li> <li>• Spanish deferred annuities without payment on death during accumulation and/or pay-out phase</li> </ul>

# Question 3 – CSM amortisation

## Main messages from the consultation (2/2)

General feedback	Feedback on questions to Constituents
<p><b>Disclosure</b></p>	
<p>Messages from Standard Setter</p> <ul style="list-style-type: none"> <li>• 1 standard setter: operationally complex, qualitative information could be sufficient</li> </ul> <p>Messages from users</p> <ul style="list-style-type: none"> <li>• Support the disclosure</li> </ul> <p>Messages from the insurance industry</p> <ul style="list-style-type: none"> <li>• Mixed views: some don't object, some support qualitative information only; industry associations from 2 jurisdictions consider it to be commercially sensitive</li> </ul> <p>Messages from the actuary profession</p> <ul style="list-style-type: none"> <li>• Due to significant volatility of IFRS 17 metrics to market environment, quantitative information would not be considered sufficient to monitor profit pattern and allow comparisons across entities</li> </ul>	

# Question 4 – Reinsurance – recovery of losses

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG welcomes the proposals of the IASB aiming to reduce the accounting mismatches for reinsurance contracts held.</li></ul>	<ul style="list-style-type: none"><li>• For proportionate reinsurance contracts, please provide fact patterns that are not captured by the amendment but for which the solution proposed by the IASB would be relevant.</li><li>• The IASB has not addressed non-proportionate reinsurance contracts. [...] EFRAG understands that any accounting mismatch for non-proportionate contracts may, in practice, be reduced due to the impact on the risk adjustment rather than on the CSM. In your view:</li><li>• Should non-proportionate reinsurance contracts be treated similarly to proportionate reinsurance contracts, i.e. gains in profit or loss when a loss is recognised on underlying contracts? If yes, please provide information about (i) the prevalence of such contracts, including volumes and jurisdictions where the issue arises and (ii) the cash flow pattern of these non-proportionate reinsurance contracts</li><li>• How would an accounting solution for non-proportionate reinsurance work?</li></ul>

# Question 4 – Reinsurance – recovery of losses

## Main messages from the consultation (1/2)

General feedback - “proportionate”	Feedback on questions to Constituents
<ul style="list-style-type: none"> <li>• Agree with the intention, but the definition is too narrow</li> </ul> <p>Messages from the industry</p> <ul style="list-style-type: none"> <li>• Key feature is that the sharing of losses should be contractually pre-determined for each claim</li> </ul> <p>Messages from NSS</p> <ul style="list-style-type: none"> <li>• Scope should be reconsidered for inclusion of other types of reinsurance where the economic outcome not dissimilar to those achieved by quota share reinsurance</li> <li>• The definition ignores contractual terms such as reinsurance commissions/not all losses arise from claims</li> <li>• Offset should be limited to lower of loss on underlying group of contracts and net gain from reinsurance</li> </ul> <p>Other inputs</p> <ul style="list-style-type: none"> <li>• Concern on the use of new terminology “proportionate” VS “proportional”</li> </ul>	<p>Fact patterns of proportionate not captured</p> <ul style="list-style-type: none"> <li>• Surplus reinsurance, where the insurer engagement is limited, stop-loss or excess-loss reinsurance treaties</li> <li>• Loss occurring contracts (the fixed percentage applies to all claims that occur on the underlying portfolio of risks – as opposed to a group of contracts)</li> <li>• Single reinsurance contract covering different underlying groups of insurance contracts</li> <li>• Multiple reinsurance contracts covering a single group of underlying insurance contracts but in different proportions</li> <li>• A proportional reinsurance contract that only reinsures some but not all underlying contracts in a group</li> <li>• A proportional reinsurance contract that only reinsures some but not all risks in a group of underlying contracts</li> </ul>

# Question 4 – Reinsurance – recovery of losses

## Main messages from the consultation (2/2)

General feedback - “non-proportionate”	Feedback on questions to Constituents
<p>Messages from the industry</p> <ul style="list-style-type: none"> <li>The accounting should reflect the fact that the loss net of reinsurance ceded is capped (1 preparer)</li> </ul> <p>Messages from NSS</p> <ul style="list-style-type: none"> <li>Non proportionate business contains additional challenges; if a solution can be found in the re-deliberation phase we don’t oppose (2 NSS)</li> <li>No conceptual differences exist with the proportionate; a solution should not be precluded (1 NSS)</li> <li>Adopt the risk adjustment approach to solve (2 NSS)</li> </ul> <p>Messages from the actuarial profession and from users</p> <ul style="list-style-type: none"> <li>Risk mitigation linked to occurring of exceptional events (not on losses from underlying contracts) and should be captured by risk adjustment of the reinsurance contract held</li> </ul>	<p>Prevalence of the non-proportionate reinsurance</p> <ul style="list-style-type: none"> <li>in Life business, as a protection for clearly identified risks (pandemic risk) or guarantees (Guaranteed Minimum Death Benefit in the unit-linked contracts)</li> <li>in P&amp;C business, for risks with a low frequency and high intensity, or to cap the loss on severe claims.</li> </ul>

# Question 5 – Presentation on the face Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG agrees with the proposed amendments, as they would simplify processes for preparers, decreasing the costs of implementation, without significantly reducing the information available to users.</li></ul>	<ul style="list-style-type: none"><li>• Do Constituents that are Users agree that separate balance sheet presentation (of insurance contracts that are in an asset position from those that are in a liability position) on a portfolio level rather than at group level will not significantly reduce the information available? Please explain.</li></ul>

# Question 5 – Presentation on the face

## Main messages from the consultation

General feedback	Feedback on questions to Constituents
<ul style="list-style-type: none"><li>• 15 constituents (preparers, auditors, standard setters, investors) agreed with the proposed amendment</li><li>• One preparer noted the relief should be at a higher level than portfolio</li></ul>	<ul style="list-style-type: none"><li>• 6 constituents noted there would be no material loss of information</li><li>• Instead, the cost-benefit trade-off was named as main reason for justifying the change</li></ul>

# Question 6 – Risk mitigation option

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG supports the IASB proposals because it addresses an accounting mismatch that arises from using reinsurance held to mitigate financial risks.</li></ul>	<ul style="list-style-type: none"><li>• EFRAG has heard that the extension of the risk mitigation option should be widened, for example, to include non-derivative instruments such as when hedging of interest rate risk is carried out using a combination of swaps, swaptions and fixed interest securities.</li><li>• Please explain the prevalence including volumes and jurisdictions involved, of the risk mitigation strategies identified in the paragraph above.</li></ul>



# Question 6 – Risk mitigation option

## Main messages from the consultation

General feedback	Feedback on questions to Constituents
<ul style="list-style-type: none"> <li>• 15 constituents (preparers, auditor, standard setters, investors) agreed with the proposed amendment</li> </ul> <p>Request to extend risk mitigation option to</p> <ul style="list-style-type: none"> <li>• Non-derivative instruments (4 constituents, incl. 3 NSS); Fin. instruments at FVTPL (2 constituents); Fin. instruments at OCI (1 cons.) and AmCost (1 cons.)</li> <li>• All instruments used in hedging strategies (3 constituents)</li> <li>• Include risks other than financial risks (e.g. climate-related derivatives, 1 constituent)</li> <li>• Reinsurance contracts held or issued should be eligible for VFA provided that they meet eligibility criteria (6 constituents, incl. 3 NSS)</li> </ul> <p>Other proposed extensions:</p> <ul style="list-style-type: none"> <li>• Insurance contracts under GM and GM/VFA combined</li> <li>• Address volatility in OCI</li> <li>• Retrospective application</li> <li>• Products that combine participating and non-participating elements</li> </ul>	<p>Fact patterns reported</p> <ul style="list-style-type: none"> <li>• Natural catastrophe risks hedged by climate derivatives</li> <li>• Non-VFA participating contracts applying OCI option, with minimum guarantees hedged by financial derivatives</li> <li>• Annuities resulting from PPA incurred claims applying the OCI option hedged by financial derivatives (e.g. IRS)</li> </ul>

# Question 7 – Effective date of 17 and 9

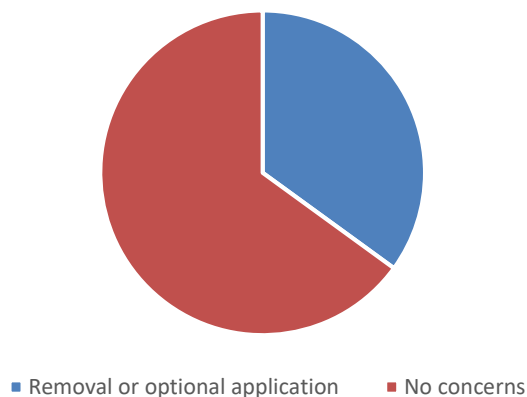
## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG welcomes the IASB's decision to defer the effective date of IFRS 17, but it does not have a view at this stage on the appropriate extension of the effective date of IFRS 17.</li><li>• EFRAG agrees with the IASB that the effective date for IFRS 9 should continue to be aligned with the effective date of IFRS 17.</li><li>• EFRAG considers that the necessary amendments to IFRS 4 Insurance Contracts extending the optional deferral of IFRS 9 need to be published as early as possible and, at the latest, before the end of June 2020 so as to enable timely endorsement within Europe before the current expiry date of 1 January 2021.</li></ul>	<ul style="list-style-type: none"><li>• Do you consider that the proposed deferral of the effective date to 1 January 2022 is sufficient or would you support an additional year (i.e. 1 January 2023)?</li></ul>

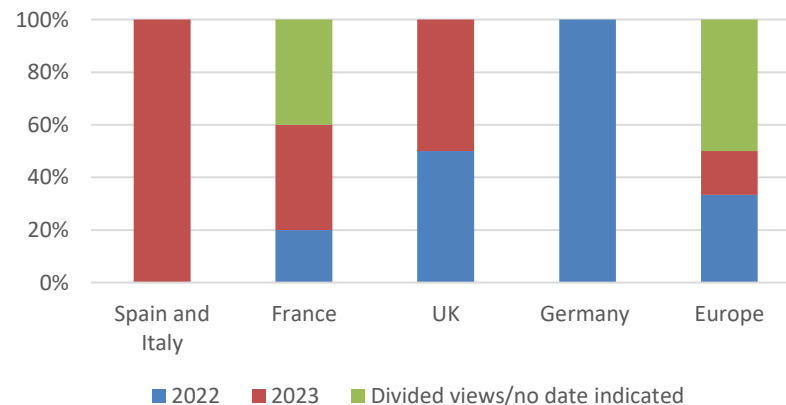
# Question 7 – Effective date of 17 and 9

## Main messages from the consultation

IFRS 17 Comparative information



Preferred effective date by country



- Constituents that did not indicate a date would like issues to be solved before finalization
- Request to make comparative information optional as a way to be ready in 2022
- Preparers that prefer 2022 ask for finalization by 2Q20
- 1 NSS suggests optional IFRS 9 application to “t-1” to instruments derecognised
- Users do not support IFRS 9 delay over 2022, as credit risk increases in search for yield; request additional disclosure on asset quality comparable to IFRS 9, until IFRS 9 is applied

# Question 7 – Effective date of 17 and 9

## Main messages from the consultation

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One constituent - global – mentioned the following:

They are investing significant efforts in implementing IFRS 17 targeting at the currently proposed effective date, i.e. 1 January 2022. However, they are concerned on the IFRS 17 timeline in combination with the endorsement process in Europe as well as the different adoption approaches around the world, which might result in different effective dates in different jurisdictions. They would like to note the importance of a global effective date of the Standard as well as the aligned application of IFRS 17 and IFRS 9. A timely finalisation of the discussions and publication of the revised IFRS is of high importance to provide clarity for the ongoing implementation projects.

System implementation is a significant component of adoption effort and operationalisation of IFRS 17 has been challenging for many preparers as there is yet to be a complete commercially viable IFRS 17 system solution. Some companies have already seen significant delays from vendors in meeting key development milestones. Once available, significant efforts are required from insurers to integrate the solution into their financial reporting environment, perform impact studies, and educate and socialise the potential impacts to stakeholders. In addition, regulatory reporting, capital and taxation requirements are all based on the IFRS reporting in certain jurisdictions and it will take time to align all of these areas with IFRS 17.

# Question 7 – Effective date of 17 and 9

## Arguments from the consultation (1/2)

Arguments in favour of 2022	Arguments in favour of 2023
<p>Entities in our jurisdiction have undertaken huge efforts early on in order to be ready for the current effective date, an additional year [till 2022] is welcome but our community would be highly concerned if the effective date was pushed out beyond that horizon.</p>	<p>One more year is needed to address the annual cohorts</p>
<p>Any additional delay of the effective date would be rather disruptive and costly than helpful. The use of the early application option in IFRS 17 is realisable only if the standard is formally endorsed in the EU in due time.</p>	<p>Priority is to build a good standard – The IASB should thoroughly consider the feedback from the public consultation and address all relevant concerns before finalising the amendments.</p>
<p>There is an urgent need to replace IFRS 4 and the introduction of improved insurance accounting requirements should not be unnecessarily delayed. One-year deferral strikes the right balance between these competing objectives.</p>	<p>Entities that are ready in 2022 can always early adopt</p>
<p>It is preferable that IFRS 9 and IFRS 17 to be adopted together. However, we would not support any further delay of the adoption of IFRS 9 in the event the effective date of IFRS 17 is extended beyond 2022.</p>	<p>2022 is sufficient only when presentation of comparative information becomes optional</p>

# Question 7 – Effective date of 17 and 9

## Arguments from the consultation (2/2)

Arguments in favour of 2022	Arguments in favour of 2023
<p>We have a major concern about further delays to IFRS 17. Investments in credit assets are an increasing risk in the insurance sector particularly where government bonds have registered low interest rates for years and rates remain low as insurers have increased their investments in this asset class.</p>	
<p>The option to adopt IFRS 9 without providing comparatives is not a reason to adopt a similar adoption in IFRS 17. Accounting mismatches can be avoided by applying IFRS 9 in the comparative period. A better solution is to mandate the use of IFRS 9 in the comparative period, provided this can be done without delaying the amendments.</p>	
<p>The IASB is to finalise the Amendments sooner than mid-2020, allowing for timely endorsement .</p>	

# Question 8 – Transition

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"> <li>• Business combinations: EFRAG supports the IASB's proposals [...]</li> <li>• Transition relief for risk mitigation [...] Retrospective application for contracts accounted for under the variable fee approach would provide more relevant information if entities are able to prove, using reasonable and supportable information, that a risk mitigation strategy was in place at the inception of the risk mitigation activity.</li> <li>• The wording in the ED is unclear as to whether retrospective application of the risk mitigation according to paragraph B115 is allowed when using reinsurance for risk mitigation purposes.</li> <li>• Fair value approach: if the IASB accepts EFRAG's suggestion to allow retrospective application of the risk mitigation in paragraph B115, these two options are no longer necessary.</li> </ul>	<ul style="list-style-type: none"> <li>• Do Constituents agree with the approach suggested by EFRAG, i.e. to prefer retrospective application of paragraph B115 instead of supporting the two consequential amendments? Please explain why.</li> <li>• If you expect to apply the risk mitigation retrospectively under the approach proposed by EFRAG, how would you find the required evidence in practice? What would be the starting point for collecting the evidence and what process would you use?</li> </ul>

# Question 8 – Transition

## Main messages from the consultation

General feedback	Feedback on questions to Constituents
<p>Additional modification to the MRA - business combinations</p> <ul style="list-style-type: none"> <li>• Most constituents agreed with the proposed amendment</li> <li>• Several constituents asked for an expansion of the modification to acquisitions after transition (incl. 2 NSS), i.e. push-up liability for incurred claims</li> <li>• Some constituents asked for exception to reassess classification (VFA VS GM) at transition date</li> </ul> <p>Retrospective application of the risk mitigation option</p> <ul style="list-style-type: none"> <li>• Most constituents agreed with the proposed amendment</li> </ul> <p>Retrospective application of the fair value approach for contracts meeting the risk mitigation criteria</p> <ul style="list-style-type: none"> <li>• Constituents generally supports the proposed amendment</li> </ul>	<ul style="list-style-type: none"> <li>• Constituents agreed that the risk mitigation option should be applied retrospectively if the risk mitigation criteria (which includes documentation) have been met as documentation of the risk mitigation practices already exists</li> </ul>



# Question 9 – Minor amendments

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG supports the IASB's proposal.</li></ul>	<ul style="list-style-type: none"><li>• Do Constituents consider that there are any unintended consequences arising from the minor amendments? Please explain.</li><li>• EFRAG has heard two concerns which are described in the DCL (B128 of the amended IFRS 17 and Paragraph 28 of the amendments to IFRS 17 and paragraph 22 of IFRS 17). If you agree with either of the above two issues, please explain why this is an issue for you and the prevalence of the issue, including volumes and jurisdictions where the issue arises?</li></ul>

# Question 9 – Minor amendments

## Main messages from the consultation

General feedback	Feedback on questions to Constituents - list of new issues identified
<ul style="list-style-type: none"> <li>Constituents focussed on the unintended consequences (preparer organisation, regular/NSS, Preparers, auditors, NSSs)</li> <li>1 constituent indicated that only absolutely necessary changes needed at this stage (preparer organisation)</li> </ul>	<ul style="list-style-type: none"> <li>Treatment of changes in underlying items - Paragraph B128/ BC161 of the amendments to IFRS 17 (11 constituents)</li> <li>Recognition of contracts within a group - paragraph 28/BC 150 of amendments to IFRS 17 and paragraphs 22/25 of IFRS 17 (4 constituents)</li> <li>Change to the level at which the variable fee approach eligibility test is performed (B107(b)(ii)) (8 constituents)</li> <li>Consequential amendment to IFRS 9 paragraph 2.1(e)(iii) (3 constituents)</li> <li>Amendment to IFRS 3 Business Combinations (Appendix D of the ED, BC162) (3 constituents)</li> <li>Definition of an investment component (Appendix A of the ED, BC156) (2 constituents)</li> <li>Definition of LIC/LRC definitions (Appendix A of the ED, Defined Terms) (1 constituent)</li> <li>Experience adjustments for premium receipts in P&amp;L vs. CSM – (Paragraphs 106(iv) and B124(d); conflict with B96(a) of the ED?) (1 constituent)</li> <li>Investment contracts with discretionary participation features (paragraph BC149 and 11(b) of ED) (2 constituents)</li> <li>BC148(a): Use of the term “issued” – editorial comment (1 constituent)</li> <li>Excluding changes relating to the time value of money and assumptions that relate to financial risk from changes in the carrying amount of the contractual service margin (paragraph B96 of IFRS 17, BC157) (3 constituents)</li> <li>Mutual entities (3 constituents)</li> </ul>

# Question 10 – Terminology

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG agrees with the IASB making consequential changes in terminology as the CSM allocation now reflects services provided rather than being limited to insurance coverage</li></ul>	<ul style="list-style-type: none"><li>• Do Constituents consider that there may be any unintended consequences arising from the proposed change in terminology? Please explain.</li></ul>

# Question 10 – Terminology

## Main messages from the consultation

General feedback	Feedback on questions to Constituents
<ul style="list-style-type: none"> <li>• 9 constituents provided feedback on unintended consequences (preparer organisations, preparers, regulator/NSS, auditor)</li> <li>• 6 constituents did not answer this question or indicated that they did not have specific comments (preparer organisations, preparer, auditor)</li> <li>• 4 constituents agreed with/welcomed the proposed changes (NSSs, investor, preparer organisation)</li> <li>• 1 constituent did not consider a change was essential (NSS)</li> </ul>	<ul style="list-style-type: none"> <li>• 3 constituents did not identify or were not aware of unintended consequences (regulator/NSS, preparer organisations)</li> <li>• 6 constituents were concerned or not supportive, in general, of the terminology changes (preparer organisations, preparers)               <ul style="list-style-type: none"> <li>• Creates confusion</li> <li>• Implies undue time to update internal documentation</li> <li>• Disruptive to implementation projects</li> </ul> </li> <li>• Specific unintended consequences provided for insurance contract services (2 constituents)</li> </ul>

# Appendix 2 – Annual cohorts

## Draft Position and Questions to Constituents (1/2)

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"> <li>• EFRAG agrees with the IASB's reporting objectives [...], acknowledges that the annual cohort requirement is a trade-off [...]. Nonetheless, EFRAG considers that the requirement leads to unnecessary cost in some fact patterns, in particular for contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts. EFRAG therefore believes that it is worth re-considering whether in certain cases the annual cohorts requirement is justified for such contracts. EFRAG recommends that the IASB consider developing an exception for such contracts, starting from paragraph BC138; the exception should be reflective of the reporting objectives of the level of aggregation requirements in IFRS 17.</li> </ul>	<ul style="list-style-type: none"> <li>• For contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts: EFRAG is suggesting to the IASB to provide an exception to the requirement to restrict the grouping of contracts using the annual cohorts. Would Constituents agree with this proposal?</li> <li>• Provide fact patterns - and their prevalence - for which [...] to apply such an exception. For example: (i) Contracts to which the VFA applies compared to other contracts; (ii) Contracts with full sharing of risks compared to other contracts that only share a substantial or significant part of the risks; (iii) Contracts that share all risks or only particular risk types; and (iv) Contracts with sharing of asset returns of underlying pools compared to other contracts.</li> </ul>

# Appendix 2 – Annual cohorts

## Draft Position and Questions to Constituents (2/2)

### Questions to Constituents

- As reported in paragraph 129, the exception should meet the reporting objectives of IFRS 17 (i.e. depicting profit trends over time, recognising profits of contracts over the duration of those contracts and timely recognising losses onerous contracts). With reference to the pattern of recognition of the CSM, EFRAG in its case study received mixed results as to whether the resulting information would be impacted by the removal of the annual cohorts. In your opinion, how would you ensure that the CSM release pattern would be in line with the IFRS 17 stated objectives? Do you envisage any loss of information as contemplated by the IASB in paragraph BC177 of the ED? If so, how would you address that loss of information?
- Are there other types of contracts in the life insurance business, other than the contracts with cash flows that affect or are affected by cash flows to policyholders, that create similar complexity?
- [...] Disclosure could include: (a) Reconciliations for the CSM of those groups from the opening to the closing balances (according to paragraph 101 of IFRS 17) (b) Disclosure on profitability trends by presenting the CSM effect of new business joining the groups, extracted from (a), as a series of historical data (for example, the last 3 years); (c) Disclosure of the actuarial techniques applied for computing the CSM effect of new business joining the group as well as disclosure about the method used for assessing the profitability referred in (b). Would Constituents consider it appropriate to include these additional disclosures?

# Appendix 2 – Annual cohorts

## Main messages from the consultation (1/2)

General feedback - Exception for mutualised business	Feedback on questions to Constituents Scope of the exception
<p>All 21 respondent commented EFRAG proposal</p> <ul style="list-style-type: none"> <li>• 1 NSS acknowledges issue but agrees with IASB</li> <li>• 1 NSS would support developing an exception provided that the standard is out in 2Q20</li> <li>• All the other respondents (incl. users) request an exception for contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts</li> <li>• In addition, Spanish constituents request an exception for long term contracts managed with ALM matching techniques</li> </ul> <p>Messages from the actuary profession</p> <ul style="list-style-type: none"> <li>• Annual cohorts costly and artificial for some mutualised contracts in France, Germany and Italy; effective only if FCF can be reliably allocated to each cohort; indeed contracts imply that no cohort has contractual right to underlying items</li> </ul>	<ul style="list-style-type: none"> <li>• Most of the respondents supporting EFRAG proposal would limit the scope of the exception to VFA contract</li> <li>• Many specify that the scope should be for contracts with “substantial” mutualisation</li> <li>• Preparers specify that all the business in force shall be exempted by the cohorts requirement at transition</li> <li>• 1 NSS and 1 Audit firm suggest to develop an ex-ante test to replace the ex-post equivalence of accounting outcome in BC138</li> <li>• Suggested approaches include “do not differ significantly” or equivalence of “accounting objective” instead of “outcome”</li> </ul>

# Appendix 2 – Annual cohorts

## Main messages from the consultation (2/2)

General feedback - Additional disclosure when cohorts are not applied	Feedback on questions to Constituents
<ul style="list-style-type: none"><li>• 5 respondents (2NSS, 1 industry association, 2 actuarial association) agrees with additional disclosures along the lines of what EFRAG has proposed in the question to constituents</li><li>• 1 association of actuaries refer to MCEV disclosure</li><li>• 1 industry association believes that disclosure on roll-forward of CSM is sufficient, so no need to additional disclosure</li><li>• 1 NSS believes key information would be whether the real profitability of the pool of assets is enough to cover the guaranteed amounts</li></ul>	



## Appendix 2 – Annual cohorts

Prevalence (based on 4 June 2019 EFRAG Board/TEG meeting)

### From members and observers of EFRAG IAWG:

UK	Business subject to annual cohort issue with risk sharing – 41%	1 preparer
Spain	Life insurance represents almost the half of the total written premiums with a total amount of technical provisions of 191 billion € at Q3 2018.	1 preparer
France, Italy, Ireland and Poland	The present value of new business premiums of France, Italy, Ireland and Poland was £12,625m in 2018. France and Italy are by far the largest components of this number with Italy showing strong growth in sales of participating products (Value of new business growth of 36% in 2018).	1 preparer

# Appendix 2 – Annual cohorts

## Data collected from EIOPA website

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**Based on statistics from EIOPA, the following are liabilities relating to life insurance\***

‘Technical provisions - life (excluding index-linked and unit-linked)’ was selected for France, Germany, Italy, Luxemburg and UK.

This represented 90% of the technical provisions compared to European Economic area total technical provisions - life (excluding index-linked and unit-linked).

[\\* Annual Solo accounts 2016-2017 – by country](#)

# Appendix 2 – MRA and FVA

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• The MRA and FVA approach are two different measurement bases resulting in different outcomes that are not comparable, with the modified retrospective being the approach that aims to approximate the FRA which applies the most useful information. [...]</li><li>• EFRAG recommends that the IASB acknowledges in the main text of the final standard that the use of estimates is allowed, including those needed to approximate the missing information.</li><li>• EFRAG also suggests that the IASB clarify that the 'reasonable and supportable information' criterion is not intended to change the judgement ordinarily required in IAS 8 to make estimates.</li></ul>	<ul style="list-style-type: none"><li>• Please provide specific prevalent fact patterns where the application of the modified retrospective approach is proving particularly challenging in practice. This would assist EFRAG in understanding better the interpretation difficulties arising in obtaining reasonable and supportable information and in estimating missing information that is required to apply the modified retrospective approach.</li></ul>

# Appendix 2 – MRA and FVA

## Draft Position and Questions to Constituents

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### General feedback

Most constituents noted that the MRA should be more principles based as it currently forces entities to apply the FVA.

A majority of constituents noted that the FVA is a helpful practical expedient but it may not provide an appropriate profit recognition pattern or provide a CSM close to zero.

Some constituents raised their concern that reasonable and supportable information could not be available therefore clarification is needed on the use of estimates and asked for the paragraph BC143 of IFRS 17 to be included within the main text of the standard.

# Appendix 2 – Presentation of receivables

## Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG agrees with the decision of the IASB to retain the requirements in IFRS 17 on balance sheet presentation, without a mandatory separate presentation of premiums receivable.</li></ul>	<ul style="list-style-type: none"><li>• Do Constituents support the presentation of separate information about premiums receivable? If so, should information about premiums receivable: (a) be mandatory? (b) be based on a predefined definition of “premium receivables” and , in this case, how should premiums receivable be defined? (c) be provided on the face of the balance sheet or in the notes? (d) be separated by insurance portfolio?</li></ul>

# Appendix 2 – Presentation of receivables

## Main messages from the consultation

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### General feedback

Only approx. half of the respondents addressed the topic

- In favour of separate presentation: 8 constituents (preparers, 3 standard setters – *one of which would nevertheless accept the IASB proposal, users*)
- Against separate presentation: 2 constituents (preparer, standard setter)
- Optional separate presentation: 1 constituent (preparer)
- Separate presentation depending on materiality: 1 constituent (preparer)

Predefined definition: 2 constituents (standard setters)

Premiums and claims to be included on an accrual basis in measurement of insurance liabilities (3 constituents)

# Appendix 2 – Reinsurance contract boundary Draft Position and Questions to Constituents

EFRAG's response	Questions to Constituents
<ul style="list-style-type: none"><li>• EFRAG supports the IASB's tentative decision not to amend IFRS 17 because IFRS 17 appropriately reflects the rights and obligations embedded in the reinsurance contracts held.</li></ul>	<ul style="list-style-type: none"><li>• Do Constituents support the IASB's tentative decision not to amend IFRS 17 for the contract boundary of reinsurance contracts held?</li><li>• Do Constituents that are Users consider that CSM for the reinsurance contracts held which reflects future expected contracts would provide useful information? Please explain.</li><li>• EFRAG understands that there is no material impact on the balance sheet and probably not a significant impact on profit or loss (until certain events occur as explained in paragraph 169 above). Please explain the prevalence of holding reinsurance contracts that relate to underlying contracts that have not yet been issued, including volumes and the jurisdictions where the issue arises.</li></ul>

# Appendix 2 – Reinsurance contract boundary Draft Position and Questions to Constituents

## General feedback

Of those who answered the question, most constituents (including preparers, actuarial associations and users) disagreed that no amendment is made to IFRS 17 as they are of the view that:

- the requirement is operationally complex
- developing IT solutions to execute the requirement would be costly
- as a result of these estimates used to execute the requirement, the information provided on the face of the statement of financial position or profit and loss is questionable
- reflecting potential future insurance contracts in the reinsurance asset does not provide useful information for investors

Some constituents agreed with EFRAG's position that no amendment is made, mainly on a cost/benefit basis.

One constituent indicated that they are still considering a proposal.



# Other topics raised

## General feedback

Constituents raised additional topics during the consultation

Topics that were part of the IASB 25 issues but not part of the EFRAG letter; some recurring topics are:

- Complexity of IAS 34 interim reporting
- Setting OCI to nil at transition
- Contracts changing nature during their life, from VFA to GM
- Topics related to interaction between IFRS 9 and IFRS 17

Topics that are new result from the ongoing implementation projects



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THANK YOU

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