

IASB ED/2019/4 Amendments to IFRS 17

Feedback to constituents – EFRAG Final Comment Letter

December 2019

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Summary of contents

Introduction2

 Objective of this feedback statement2

 Background to the ED2

 EFRAG’s draft comment letter2

 Comments received from constituents3

 EFRAG’s final comment letter4

Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter.....5

 Q1 - Scope exclusions – credit card contract and loan contracts that meet the definition of an insurance contract.....5

 Q2 - Expected recovery of insurance acquisition cash flows7

 Q3 - Contractual service margin attributable to investment-return service and investment-related service8

 Q4 - Reinsurance contracts held – recovery of losses on underlying insurance contracts.....10

 Q5 - Presentation in the statement of financial position12

 Q6 - Applicability of the risk mitigation option.....13

 Q7 - Effective date of IFRS 17 and the temporary exemption in IFRS 414

 Q8 - Transition modifications and relief.....16

 Q9 - Minor amendments.....19

 Q10 - Terminology.....20

 Topic 1 - Annual cohorts21

 Topic 2 – Transition: Modified retrospective approach and fair value approach24

 Topic 3 – Balance sheet presentation: Non-separation of receivables26

 Topic 4 – Reinsurance contracts: contract boundary27

Appendix 1: List of constituents28

Appendix 2: Summary - constituents by country and by type29

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft *Amendments to IFRS 17* (‘the ED’) on 24 September 2019. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter. This document presents the outcome of analysis and discussions up to the 24 September, when the comment letter has been issued.

Background to the ED

The ED proposes targeted amendments to IFRS 17 *Insurance Contracts* (which was issued in May 2017) to respond to concerns and challenges raised by stakeholders as IFRS 17 is being implemented.

Further details are available on the IASB [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 15 July 2019. In the draft comment letter EFRAG commended the IASB for

the thorough process to capture and analyse all the concerns and criticisms received and was broadly supportive of the changes proposed. EFRAG expressed its appreciation for the consideration of the topics identified in its letter of 3 September 2018, however highlighted the following issues:

- EFRAG agreed with the IASB's reporting objectives of the level of aggregation requirements in IFRS 17: depicting profit trends over time, recognising profits of contracts over the duration of those contracts and timely recognising losses from onerous contracts. EFRAG considered that the annual cohort 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 recommended 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. EFRAG remained concerned about implementation challenges faced by preparers when applying the modified retrospective approach and encourages the IASB to confirm in the main text of the final standard that the use of estimates is allowed, including those needed to approximate the missing information. EFRAG was of the view that the retrospective application of the risk mitigation option on transition is worthy of further attention.

The letter included several questions to constituents. The feedback obtained from these questions has been assessed when preparing final letter, in particular with reference to remaining concerns for specific fact patterns.

Comments received from constituents

At the time of finalising the comment letter analysis, EFRAG has received and considered twenty-one comment letters from constituents (sixteen final comment letters and five draft comment letters). The final comment letters are available on the EFRAG [website](#).

Appendix 1 lists the constituents and Appendix 2 categorises the constituents by country and by type.

The comment letters received came from national standard-setters, preparers/preparer organisations, auditor/audit organisations, actuarial organisations and an investor organisation.

Most of/In general the **constituents agreed with/supported the IASB’s proposed amendments** for scope exclusions; expected recovery of insurance acquisition cash flows; recovery of losses on underlying insurance contracts when using reinsurance contracts held; separate presentation in the statement of financial position of the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities; and extending the risk mitigation option to reinsurance contracts held.

Constituents had concerns on the proposed amendments relating to contractual service margin attributable to investment-return service and investment-related service for contracts without investment components under the general model; the proposed definition of “proportionate reinsurance” being too narrow and restrictive; the scope of the risk mitigation option; not being able to apply the risk mitigation option retrospectively; and some unintended consequences arising from the minor amendments and proposed changes to terminology.

Nine constituents preferred an effective date of IFRS 17 as 1 January 2022 while seven constituents preferred 1 January 2023.

Annual cohorts: Constituents generally supported the qualitative objectives of the IASB and at the same time expressed significant support for the IASB to reconsider the position for mutualised portfolios (generally seen as those under paragraphs B67 to B71) under the VFA.

Transition: Modified retrospective approach (‘MRA’) and fair value approach (‘FVA’) - seven constituents noted that the modified retrospective approach is too restrictive, unduly complex and rules-based and as a result, it currently forces entities to apply the FVA.

Balance sheet presentation: some constituents were in favour of separate presentation of receivables and payables but differed in view whether this should be mandatory or not.

Reinsurance contracts: contract boundary: Ten constituents disagreed with the IASB’s decision not to amend IFRS 17.

EFRAG’s final comment letter

EFRAG issued its final comment letter on 24 September 2019. EFRAG supported many of the amendments in the ED, however had several remaining concerns.

EFRAG disagreed with 1 January 2022 as the effective date. EFRAG considered that 1 January 2023 was a realistic effective date, with early application permitted.

EFRAG expressed concerns about the annual cohort requirements for contracts with the characteristics described in paragraphs B67 - B71 of IFRS 17. The consultation confirmed to EFRAG that most of these contracts that prevail in European jurisdictions are eligible for the variable fee approach. In some jurisdictions the issue relates to

contracts eligible for the general model including contracts without the characteristics described in B67 – B71 of IFRS 17 for which cash flow matching techniques are applied across generations.. EFRAG recommended that the IASB consider developing an appropriate solution for them, reflective of the reporting objectives of the level of aggregation requirements and of their economic characteristics.

Regarding the modified transition approach, EFRAG retained its initial position.

Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

Q1 - Scope exclusions – credit card contract and loan contracts that meet the definition of an insurance contract

Proposals in the ED

Loans that transfer significant insurance risk: The ED proposes to amend paragraph 8A of IFRS 17 so that an entity may choose to apply IFRS 9 *Financial Instruments* instead of IFRS 17 to contracts that meet the definition of an insurance contract but that limit the compensation for insured events to the amount required to settle the policyholder’s obligation created by the contract. The entity would be required to make that irrevocable choice for each portfolio of insurance contracts.

Credit cards that provide insurance coverage: The ED proposes to amend paragraph 7(h) of IFRS 17 with the effect that credit card contracts that meet the definition of an insurance contract are excluded from the scope of IFRS 17 if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

EFRAG’s tentative position

Loans that transfer significant insurance risk: EFRAG supported the proposal permitting to either apply IFRS 17 or IFRS 9.

Credit cards that provide insurance coverage: EFRAG agreed with the exclusion of certain credit cards that provide insurance coverage from the scope of IFRS 17 as it reduces the implementation costs and operational

EFRAG final position

Credit cards were considered as an example of a provision of credit and potentially could be referred to as a loan. Insurance could then be related to the goods and services that had created the loan relationship. It was uncertain whether in all insurance there was always an assessment made of the policyholder risk.

Overall, EFRAG added that both credit cards and payment cards are examples of contracts that should be considered in defining the scope exclusion and that transactions with similar economic characteristics should be treated in a consistent way.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

burden for entities that issue these credit cards. Furthermore, the exclusion is not expected to lead to a significant loss of useful information. However, EFRAG was concerned that the term ‘credit card’ excludes payment cards which have similar clauses as the credit cards in the scope exclusion.

Constituents’ comments

Generally, constituents agreed with EFRAG comments. Some constituents added particular conditions to exclude payment card contracts from the scope of IFRS 17, e.g.

- if and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer;
- if the insurance coverage is limited to indemnities related to the use of the facility;
- When they are financial instruments.

Two constituents shared EFRAG’s concern that there may be unintended consequences in those countries where the insurance element is not required by law or regulation. As the objective of the amendment is to reduce the operational burden for entities issuing these credit card contracts and to achieve the same accounting outcome as prior to IFRS 17 (i.e. no measurement at fair value through profit or loss), it is worth considering how to maintain their current accounting policies independently on whether the entity is obliged or chooses to provide such insurance coverage.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q2 - Expected recovery of insurance acquisition cash flows

Proposals in the ED

The ED proposes an amendment to the definition of insurance acquisition cash flows in Appendix A of IFRS 17 to clarify that insurance acquisition cash flows relate to groups of insurance contracts issued or expected to be issued.

An asset is recognised for insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised. An entity should assess the recoverability of the asset and provide information in the notes to the financial statements.

EFRAG’s tentative position

EFRAG supported the IASB’s proposals with regards to the treatment of acquisition cash flows as the resulting financial information would better reflect the economic substance of these transactions.

EFRAG supported the allocation of the acquisition cash flows to the contracts to be a mandatory requirement. EFRAG agreed with the proposed recoverability assessment approach.

Constituents’ comments

17 constituents supported the IASB’s proposed amendments with two preferring optional application and one constituent agreeing with mandatory application.

13 constituents judged that no definition of contract renewals is needed.

EFRAG’s response to constituents’ comments

EFRAG final position

EFRAG observed that there was strong support from constituents for its tentative position. EFRAG therefore decided to retain its initial position.

Regarding optional or mandatory application of the proposed requirements, EFRAG observed that IAS 8 already provides requirements on not changing policies unless to obtain more relevant and reliable information. Therefore, EFRAG did not comment on mandatory application in its final position.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q3 - Contractual service margin attributable to investment-return service and investment-related service

Proposals in the ED

The Exposure Draft proposes two amendments relating to the identification of coverage units:

The first proposed amendment would require an entity to include the expected period of the investment-return service, if any, to identify coverage units for insurance contracts under the general model.

The second proposed amendment requires an entity to also include the expected period of investment-related service to identify coverage units for insurance contracts with direct participation features.

EFRAG’s tentative position

EFRAG supported 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.

EFRAG also supported the IASB’s proposals regarding contracts under the variable fee approach because these contracts are substantially investment-related contracts.

EFRAG considered that the disclosure proposals related to CSM amortisation would provide useful information to users.

Constituents’ comments

EFRAG’s response to constituents’ comments

EFRAG final position

Considering the responses received from constituents, EFRAG amended its tentative decision to include that the definition of investment-return services, surrender and transferability criteria in paragraph B119B(b), could potentially result in economically similar transactions being treated differently. EFRAG therefore suggested that the IASB reconsiders the necessity of these criteria in the definition, to ensure substance over form prevails.

EFRAG considered that the disclosure proposals related to CSM amortisation will provide useful information to users of financial statements but notes that, given the sensitivity of the CSM under the variable fee approach to market conditions, this will only provide users with a partial picture of the future performance of the entity.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

There were no comments on the requirements for contracts with investment components under the general model. For contracts without investment components under the general model, 11 constituents considered the restrictions in respect of transferal or withdrawal to be inappropriate and asked for these to be removed.

Constituents were supportive of the changes for contracts under the VFA, with two requesting a clarification that these contracts may provide both investment-related and investment-return services.

On disclosure requirements, some considered the quantitative disclosures commercially sensitive and/or could be covered adequately by the qualitative disclosures only, whilst others thought it was unfair compared to that required of other industries. However, others agreed with the requirement and/or indicated that these are not commercially sensitive.

Several constituents expressed concern that the definition of investment return service in the ED is too prescriptive and too narrow as economically similar contracts could result in differing accounting results. Examples of where the amendment is perceived not to work, were provided.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q4 - Reinsurance contracts held – recovery of losses on underlying insurance contracts

Proposals in the ED

The ED proposes that an entity would be required to adjust the contractual service margin of a group of reinsurance contracts held that provide proportionate coverage (that is, coverage for a fixed percentage of all claims from underlying contracts), and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined as equal to the loss recognised on the group of underlying insurance contracts multiplied by the fixed percentage of claims on the group of underlying insurance contracts the entity has a right to recover from the issuer of the reinsurance contract.

EFRAG’s tentative position

EFRAG welcomed the proposals of the IASB aiming to reduce the accounting mismatches for reinsurance contracts held. EFRAG recommended the IASB to clarify the wording of the Amendments as it seemed to exclude surplus reinsurance contracts. EFRAG also asked questions to constituents about fact patterns not captured by the amendment and about non-proportionate reinsurance.

Constituents’ comments

16 constituents agreed with the proposed amendment in paragraph 66A of IFRS 17. These constituents noted that the current definition of “proportionate reinsurance” was too narrow and restrictive and would

EFRAG’s response to constituents’ comments

EFRAG final position

Taking into consideration the support from the constituents, EFRAG did not change its position. Based on the feedback from the constituents, EFRAG included further examples where the constituents believed that there is proportionate reinsurance. EFRAG suggested that the proposed text for the definition of ‘proportionate’ should be revisited for inclusion of other types of reinsurance contracts based on the economic substance of those contracts.

With reference to non-proportionate reinsurance, taking into consideration the constituents’ feedback especially feedback from the actuarial profession indicating that the issue could be addressed by using the risk adjustment of the reinsurance contracts held, EFRAG did not modify its position in the draft comment letter.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

therefore be limited to a small population of contracts which is not very common in practice.

Three constituents provided examples of contracts providing proportionate coverage for which the solution proposed by the IASB would be relevant. Some constituents proposed several different wordings for the definition of proportionate reinsurance.

Seven constituents noted that the amendment should be extended to ‘non-proportionate’ contracts as it would not only improve the consistency between the accounting treatment of proportionate and non-proportionate reinsurance contracts but also increase the relevance of information provided to users on the effects of the reinsurance coverage put in place.

One constituent from (an actuarial profession) observed that the risk mitigation effect provided by non-proportionate reinsurance contracts is more linked to the occurring of exceptional events (and not to the expected losses on the underlying contracts) and should be captured by risk adjustment of the reinsurance contracts held.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q5 - Presentation in the statement of financial position

Proposals in the ED

The proposed amendment would require an entity to present separately in the statement of financial position the carrying amounts of portfolios (instead of groups) of insurance contracts issued that are assets and those that are liabilities and portfolios (instead of groups) of reinsurance contracts held that are assets and those that are liabilities.

EFRAG’s tentative position

EFRAG agreed with the proposed amendments, as they would simplify processes for preparers, decreasing the costs of implementation, without significantly reducing the information available to users.

Constituents’ comments

Most constituents agreed with the proposed amendment.

Few constituents noted that the standard should be amended to include premiums and claims on an accrual basis in the measurement of insurance liabilities, with separate premiums receivable and claims payable balances included separately on the balance sheet (potentially as an option). Benefits of this change include improvements in the quality of financial information presented and reduced implementation costs.

Some constituents noted there would be no (significant) loss of information.

EFRAG’s response to constituents’ comments

EFRAG final position

Considering the comments received, EFRAG kept its original position, only adding the result of the user outreach noting that a majority of the users consulted did not object to a presentation at portfolio level.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q6 - Applicability of the risk mitigation option

Proposals in the ED

The proposed amendment of the ED would extend the risk mitigation option to when an entity mitigates financial risk on insurance contracts with direct participation features using reinsurance contracts held.

EFRAG’s tentative position

EFRAG supported the IASB proposals as it addresses an accounting mismatch arising from using reinsurance held to mitigate financial risks.

Constituents’ comments

Almost all constituents agreed with the proposed amendment. Several constituents noted that non-derivative instruments and financial instruments at fair value through profit or loss should be included in the risk mitigation option. Others wanted to include instruments used for hedging such as a mix of fixed and variable rate instruments together with swaps, options and IRS. Other requests to expand this option include:

- Application to insurance contracts under the general model separately and in combination with contracts under the VFA;
- Accounting for the volatility of hedging instruments in OCI;
- Retrospective application of the risk mitigation option;
- Application to products that have both participating and non-participating components but which meet the criteria for the VFA.

Several constituents noted that the VFA should apply to reinsurance contracts when the underlying insurance contracts qualify for the VFA.

EFRAG’s response to constituents’ comments

EFRAG final position

EFRAG suggested that financial instruments at fair value through profit or loss should also be eligible for the risk mitigation option as there are no conceptual reasons to exclude them.

EFRAG is also in favour of the retrospective application of the risk mitigation option (please refer to the chapter on transition).

EFRAG did not consider extending the risk mitigation option more broadly as this would to more complex accounting which would not be possible to be delivered within as short time.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q7 - Effective date of IFRS 17 and the temporary exemption in IFRS 4

Proposals in the ED

Deferral of effective date of IFRS 17 by one year

The ED proposes to amend paragraph C1 of IFRS 17 to defer the effective date of IFRS 17 by one year so entities would be required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2022.

Deferral of effective date for the temporary exemption of IFRS 9 in IFRS 4

The ED proposes to amend paragraph 20A of IFRS 4 to extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

EFRAG’s tentative position

EFRAG welcomed the IASB’s decision to defer the effective date of IFRS 17, but it did not have a view, at that stage, on the appropriate extension of the effective date of IFRS 17.

EFRAG agreed with the IASB that the effective date for IFRS 9 should continue to be aligned with the effective date of IFRS 17.

EFRAG considered that the necessary amendments to IFRS 4 *Insurance Contracts* extending the optional deferral of IFRS 9 needed 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.

EFRAG’s response to constituents’ comments

EFRAG final position

In the draft comment letter, EFRAG did not propose an effective date. However, in the final comment letter EFRAG disagreed with 1 January 2022 as the effective date. EFRAG considers that 1 January 2023 is a realistic effective date, with early application permitted.

With regards to the alignment of the effective dates for IFRS 9 and IFRS 17, EFRAG did not change its position from the draft comment letter.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Constituents’ comments

Nine constituents indicated that they preferred an effective date of 1 January 2022. However, seven constituents indicated that they preferred an effective date of 1 January 2023. Five constituents either had divided views or did not indicate a preferred effective date. Constituents provided their reasoning for their preferred effective date.

15 constituents agreed with the EFRAG position that the effective date of IFRS 9 should continue to be aligned with the effective date of IFRS 17.

Five constituents are concerned about the timeline for EU endorsement and emphasised the importance of timely endorsement of the extension for the IFRS 4 temporary exemption of IFRS 9.

Three constituents also emphasised the importance of a global effective date as it would lessen a number of operational issues for multinationals.

Comparative information

Three constituents asked that the presentation of comparative information should be optional while two constituents wanted it to be reconsidered.

An NSS suggested that preparers present comparative information under IFRS 9 to avoid accounting mismatches and to enhance comparability between insurers and non-insurers who already apply IFRS 9.

An NSS observed that applying IFRS 9, an entity deciding to restate the comparative year (2021) will have to apply both standards (i) IAS 39 on financial instrument derecognised before transition and (ii) IFRS 9 on financial instrument that have not been derecognised before transition. They suggest offering the option to also retrospectively apply IFRS 9 to financial instrument that have been derecognised before transition.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q8 - Transition modifications and relief

Proposals in the ED

Question 8A - Transition relief for business combinations

The Exposure Draft proposes a modification to the modified retrospective approach that would permit an entity to classify such liabilities for insurance contracts acquired before the transition date as a liability for incurred claims rather than a liability for remaining coverage. Consistent with the other requirements for the modified retrospective approach, an entity would be permitted to apply this modification only to the extent that it does not have reasonable and supportable information to apply a retrospective approach. The Exposure Draft proposes that an entity applying the fair value approach would have an option to classify such a liability as a liability for incurred claims.

Question 8B - Transition relief for risk mitigation – transition date

The ED proposes to permit to apply the risk mitigation option applicable to contracts with direct participation features prospectively from the transition date, rather than the date of initial application. In order to apply this as from the transition date, entities would have to designate risk mitigation relationships at or before the date that the option is applied.

Question 8C – Fair value approach

An entity that applies the full retrospective approach cannot apply the risk mitigation approach retrospectively. Therefore, the ED proposes to permit the application of the fair value approach for entities who use the full retrospective approach to a group of insurance contracts as long as specified criteria relating to risk mitigation are met.

EFRAG’s response to constituents’ comments

EFRAG final position

Considering the feedback received, EFRAG did not change the position in the draft comment letter. The reasons were as follows:

Transition relief for business combinations

Constituents generally supported the view therefore EFRAG did not change its initial response

Transition relief for risk mitigation – transition date

EFRAG did not change its proposed response considering responses received by constituents who supported the view.

Fair value approach

EFRAG did not change its initial view as constituents who answered the question noted that the proposed amendment is a step in the right direction.

Additional relief

EFRAG also noted the concern raised by constituents with regards to setting OCI to nil at transition when applying IFRS 17. EFRAG therefore amended the final comment letter to highlight the fact that no such relief is available to assets measured at fair value through OCI.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s tentative position

Transition relief for business combinations:

EFRAG supported the IASB’s proposals on transition relief for business combinations for both the modified retrospective approach and the fair value approach for practical reasons.

Transition relief for risk mitigation – transition date:

EFRAG assessed that the amendment to IFRS 17 to extend the option in paragraphs B115 to B116 of IFRS 17 was a step in the right direction. However, EFRAG considered that retrospective application of the risk mitigation relief for contracts accounted for under the variable fee approach would provide more relevant information if entities were able to prove, using reasonable and supportable information, that a risk mitigation strategy was in place at the inception of the risk mitigation activity. EFRAG considered that the wording in the ED was unclear as to whether retrospective application of the risk mitigation according to paragraph B115 was allowed when using reinsurance for risk mitigation purposes.

Fair value approach:

EFRAG considered that the possibility to apply the risk mitigation option of paragraph B115 from the transition date and the option to apply the fair value approach when the entity meets the conditions for risk mitigation in paragraph C5A of the ED were a step in the right direction. However, if the IASB were to accept EFRAG’s suggestion to allow retrospective application of the risk mitigation in paragraph B115, these two options were no longer necessary.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Constituents’ comments

Transition relief for business combinations

Ten constituents supported the proposed amendment regarding the transition relief for business combinations. However, they noted that such a relief would also be useful for business combinations:

- which would take place *after transition* because liabilities for incurred claims are usually managed by the entity in the same way whether they have arisen from current activity or have been acquired in a business combination (two constituents);
- *before and after transition date* - similar amendments should be introduced to treat insurance contracts consistently, e.g. whatever the date of the business combination and the transition approach applied (four constituents);
- to entities who apply the full retrospective approach *at transition*.

Transition relief for risk mitigation - transition date

Eleven constituents agreed with EFRAG’s response.

Fair value approach

Five constituents supported the fact that the amendment is a step in the right direction.

Additional relief

Several constituents raised their concern with regards to the asymmetry resulting from the different requirements under IFRS 9 and IFRS 17 which allows for an option to set OCI to nil at transition.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q9 - Minor amendments

Proposals in the ED

The IASB proposes minor amendments to address a number of cases in which the drafting of IFRS 17 does not achieve the IASB’s intended outcome.

The minor amendments are described in the Basis for Conclusions of the ED paragraphs BC147 to BC163.

EFRAG’s tentative position

EFRAG supported the IASB’s proposals.

EFRAG also asked constituents if there were any unintended consequences from the minor amendments.

Constituents’ comments

Constituents provided a number of issues/unintended consequences.

EFRAG’s response to constituents’ comments

EFRAG final position

EFRAG took into consideration the issues raised by constituents. Since EFRAG did not analyse and conclude on these issues, EFRAG decided to inform the IASB of these issues that may potentially need to be addressed. EFRAG also informed the IASB that EFRAG had not formed a view on these issues.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Q10 - Terminology

Proposals in the ED

The ED proposes to add to Appendix A of IFRS 17 the definition ‘insurance contract services’ to be consistent with other proposed amendments in the ED.

The IASB is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’. If that change is made, those terms would become ‘service units’, ‘service period’ and ‘liability for remaining service’, respectively, throughout IFRS 17.

EFRAG’s tentative position

EFRAG agreed with the IASB in making consequential changes in terminology as the CSM allocation now reflected services provided rather than being limited to insurance coverage.

EFRAG also asked constituents if there were any unintended consequences from the minor amendments.

Constituents’ comments

Nine constituents provided feedback on unintended consequences.

Six constituents were concerned or not supportive, in general, of the terminology changes as this would be confusing, would imply undue time for entities to update their internal documentation already prepared, e.g., guidelines, reporting package and chart of accounts and would be disruptive at the late stage of the implementation projects.

EFRAG’s response to constituents’ comments

EFRAG final position

EFRAG took into consideration the issues raised by constituents, namely relating to two terminology changes: insurance contract services and service period.

Since EFRAG did not analyse and conclude on these issues, EFRAG decided to inform the IASB of these issues that may potentially need to be addressed. EFRAG also informed the IASB that EFRAG had not formed a view on these issues.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Topic 1 - Annual cohorts

Proposals in IFRS 17

The IASB did not change the annual cohort requirements. Entities shall not include contracts issued more than one year apart in the same group.

EFRAG’s tentative position

EFRAG agreed with the IASB’s reporting objectives of the level of aggregation requirements in IFRS 17: depicting profit trends over time, recognising profits of contracts over the duration of those contracts and timely recognising losses from onerous contracts.

EFRAG acknowledged that the annual cohort requirement is a trade-off between tracking individual contracts and ensuring the recognition of onerous contracts even where there are contracts with similar risks but different levels of profitability. Nonetheless, EFRAG considered 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 believed that it is worth re-considering whether in certain cases the annual cohort requirement is justified for such contracts. EFRAG recommended 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.

Constituents’ comments

EFRAG’s response to constituents’ comments

EFRAG final position

Feedback from EFRAG’s constituents confirmed that the issue relates to contracts with the characteristics described in paragraphs B67 - B71 of IFRS 17 that have ‘substantial’ risk sharing. Most of these contracts that prevail in European jurisdictions are eligible for the variable fee approach (VFA). In some jurisdictions the issue relates to contracts eligible for the general model including contracts without the characteristics described in B67 – B71 of IFRS 17 for which cash flow matching techniques are applied across generations.

Therefore, EFRAG concluded that it is worth re-considering whether the annual cohorts requirement is justified for such contracts and recommends that the IASB consider developing an appropriate solution for them, reflective of the reporting objectives of the level of aggregation requirements in IFRS 17 and of their economic characteristics.

EFRAG also clarified its position that the requirement should not apply to the remaining contracts affected on transition.

EFRAG opined that the following disclosure would enhance information provided for contracts in the scope of the appropriate solution:

- (a) qualitative disclosure describing the grouping criteria for contracts to which the annual cohort requirement is not applied;
- (b) disclosure on profitability trends by presenting the CSM effect of new business, derived by the quantitative information presented according to paragraph 101 of IFRS 17 for previous years (e.g. 3 in the last 3 years);

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

All 21 respondents commented EFRAG proposal on annual cohorts.

- 1 NSS acknowledges the issue but agrees with the IASB;
- 1 NSS would support developing an exception provided that the standard is out in 2Q20;
- All the other respondents except Spanish constituents request an exception for contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts;
- Spanish constituents request an exception for long term contracts managed with ALM matching techniques.

Constituents generally supported the qualitative objectives of the IASB with 13 constituents agreeing that the justification for the annual cohort requirement should be reconsidered for mutualised portfolios (generally seen as those under paragraphs B67 to B71) using the VFA as set out in the EFRAG DCL. Reasons included:

- Concerns around reliable allocations of fulfilment cash flows to cohorts and costs resulting that the cost-benefit analysis would not be appropriate;
- CSM amortisation may not appropriately reflect the economics or the way contracts are managed and would be of little value to users;
- No one or group of contracts can become onerous until the portfolio as a whole is onerous for mutualised contracts;
- The annual cohort requirement will not correctly reflect the legal obligation of sharing the return between the policyholders whatever the underwriting date;

EFRAG’s response to constituents’ comments

- (c) explanation of the actuarial techniques applied for computing the CSM effect of new business joining the group as well as disclosure on method used for assessing the profitability referred to in (b);
- (d) explanation of the actuarial techniques for measuring the value of the new business and the allocation of the underlying items between existing business and new business.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

- One standard setter would focus any proposed exception on achieving the same accounting objectives rather than the same outcome as currently referred to in BC138; and
- Another considered an alternative desirable but considered the scope proposals in EFRAG draft comment letter as not sufficiently specific to successfully ringfence such treatment. This constituent did not support open portfolios with new contracts indefinitely added as this could mask profitability trends.

A user organisation agreed with EFRAG’s draft position.

Some constituents thought that the annual cohort requirement should be reconsidered for a broader range of contracts including:

- those portfolios in-force at transition due the significant efforts required on transition (five constituents);
- those portfolios using matching adjustment techniques allowed under Solvency 2 as this results in a strong link between assets and liabilities which renders the annual cohort requirement meaningless (three constituent); and
- all contracts under B67 to B71 whether under the VFA or not (one constituent).

Constituents thought that the elimination of the annual cohort requirement would not result in a material loss of information as information about new business forms part of the required CSM reconciliations.

There were mixed views on the need for additional disclosures if an exception the annual cohort requirement is agreed.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Topic 2 – Transition: Modified retrospective approach and fair value approach

Proposals in IFRS 17

If it is impracticable for an entity to apply the full retrospective approach, an entity can apply either the modified retrospective approach or the fair value approach. The modified retrospective approach has been developed with the objective of achieving the closest possible outcome to a retrospective application of the standard, using reasonable and supportable information; and includes a number of specified modifications, each of them available for use to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach. When an entity is missing reasonable and supportable information to apply the modified retrospective approach, it is required to apply the fair value approach.

EFRAG’s tentative position

EFRAG was aware that the modified retrospective approach and the fair value 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 full retrospective approach which applies the most useful information. EFRAG acknowledged the IASB decision not to allow further modifications to the modified retrospective approach, as this would further reduce comparability. However, in order to address the implementation challenges and prevent that a strict interpretation unduly restricts the use of retrospective approaches, EFRAG recommended that the IASB acknowledges in the

EFRAG’s response to constituents’ comments

EFRAG final position

Based on the feedback received and support from constituents on EFRAG’s initial position in the draft comment letter, EFRAG proposed not to amend that position.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

main text of the final standard that the use of estimates is allowed, including those needed to approximate the missing information.

EFRAG also suggested 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.

Constituents’ comments

Seven constituents noted that the modified retrospective approach is too restrictive, unduly complex and rules-based. They proposed possible solutions and provided the following specific challenges one can encounter when applying the MRA in practice.

- One preparer reported that flexibility is all the more needed considering the diverging interpretations currently observed on the level of CSM using the FVA compared to the MRA.
- One industry association also reported a list of challenges with regards to acquisition cash flows broken down by the cohorts, the estimation of cash flows and the risk adjustment, estimating CSM amortisation based on coverage units and the complexity around the recognition of reinsurance contracts.

Three constituents specifically noted that they support the comments made by EFRAG while others did not provide an answer to the question.

EFRAG’s response to constituents’ comments

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Topic 3 – Balance sheet presentation: Non-separation of receivables

Proposals in IFRS 17

Under IFRS 17, receivables are not separately presented on the Balance sheet. The IASB did not propose any changes to this.

EFRAG’s tentative position

EFRAG agreed 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.

Constituents’ comments

Some constituents were in favour of separate presentation of receivables and payables. However, they differed in view whether this should be mandatory or not, should be based on using a predefined definition whether it should be on the balance sheet or not and whether it should be done per portfolio or for the entire entity.

EFRAG’s response to constituents’ comments

EFRAG final position

EFRAG further considered the fact whether from a presentation point of view a separate mentioning should be required by standard setting. EFRAG noted that IAS 1 *Presentation of Financial Statements* sets out that preparers should disaggregate if it was required to present relevant information.

On balance, as EFRAG concluded there was no need to request the IASB to change any of the requirements, the entire section was removed from the comment letter.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Topic 4 – Reinsurance contracts: contract boundary

Proposals in IFRS 17

An entity applies the contract boundary requirements to the insurance contracts issued and the reinsurance contracts held.

Therefore, if an entity has a substantive right to receive services relating to expected future underlying contracts, cash flows within the boundary of 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 future expected contracts.

The IASB decided not to amend this requirement.

EFRAG’s tentative position

EFRAG supported the IASB’s tentative decision not to amend IFRS 17 because IFRS 17 appropriately reflects the rights and obligations in the reinsurance contracts held.

Constituents’ comments

Ten constituents disagreed and one agreed with the IASB’s decision not to amend IFRS 17 and provided their reasons.

One constituent noted that both approaches lead to the same balance sheet and limited differences in profit or loss and disclosures, therefore they recommended considering a cost benefit analysis rather than introducing a conceptual debate at this stage.

EFRAG’s response to constituents’ comments

EFRAG final position

EFRAG considered the constituents’ disagreement with the IASB’s decision. However, EFRAG continued to consider that the IASB’s decision had conceptual merit, i.e., based on substantive rights and obligations of the contracts.

As EFRAG concluded that there was no need to request the IASB to change any of the requirements, the entire section was removed from the comment letter.

Appendix 1: List of constituents

Table 1: List of constituents

Name of constituent ¹	Country	Type / Category
Actuarial Association of Europe	Europe	Actuarial organisation
Spanish Insurance Supervisor and Accounting and Auditing Institute (ICAC)	Spain	Regulator/Standard Setter
Groupement Français des Bancassureurs	France	Preparer organisation
BNP Paribas	France	Preparer
UNESPA – draft	Spain	Preparer organisation
Fédération Française de l’Assurance	France	Preparer organisation
HUB global insurance group	Global	Preparer organisation
Allianz	Germany	Preparer
Institut der Wirtschaftsprüfer	Germany	Auditor organisation
KPMG	Europe	Auditor
Prudential	UK	Preparer
GDV	Germany	Preparer organisation
ANC	France	Standard Setter
CFO Forum and Insurance Europe	Europe	Preparer organisation
AFME-draft	Europe	Preparer organisation
ESBG-draft	Europe	Preparer organisation
DRSC-draft	Germany	Standard Setter
EFFAS	Europe	Investor organisation
FRC - draft	UK	Standard Setter
Institut des Actuaire	France	Actuarial organisation
OIC	Italy	Standard Setter

¹ Constituents taken into consideration in the comment letter analysis.

Appendix 2: Summary - constituents by country and by type**Table 2: Total constituents by country and by type**

Constituents by country:		Constituent by type:	
France	5	National Standard Setters	4
Germany	4	Auditors	2
Italy	1	Preparer Organisations	8
Spain	2	Preparers	3
United Kingdom	2	Investor Organisations	1
European organisations	6	Actuarial Organisations	2
Global organisations	1		
	21		21
	21		21