IFRS 17 *Insurance Contracts*

SUMMARISED TECHNICAL DISCUSSION – EFRAG LETTER TOPICS

Paper 09-05 EFRAG TEG MEETING 22-23 MAY 2019

European Financial Reporting Advisory Group

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PURPOSE AND STATUS OF THIS DOCUMENT

EFRAG TEG MEETING – MAY 2019

- The purpose of this document is to provide a high level summary of the status update of the technical discussions by EFRAG IAWG and EFRAG TEG according to EFRAG's updated project plan on IFRS 17.
- It is intended to be used as a navigation tool to the technical papers discussed in the meetings of the two groups, thus it has to be read in conjunction with those papers.
- It is a living document that will be completed with additional input by EFRAG IAWG and EFRAG TEG in preparation for the forthcoming draft comment letter.

OVERVIEW

EFRAG Letter topics:

- **Transition**
  - Modified retrospective approach – extent of relief
  - Fair value approach – challenges
  - Retrospective application of the risk mitigation approach
  - Setting OCI to nil
- **Reinsurance**
  - Onerous underlying contracts profitable after reinsurance
  - Contract boundary where underlying contracts are not yet issued
- **CSM amortisation**
  - Contracts that include investment services
- **Balance sheet presentation**
  - Separate presentation of asset groups and liability groups
  - Non-separation of receivables and payables
- **Acquisition costs**
  - Costs incurred in expectation of contract renewals
- **Annual cohorts**
  - Cost–benefit trade-off

TRANSITION: MODIFIED RETROSPECTIVE APPROACH

TRANSITION: MODIFIED RETROSPECTIVE APPROACH - EXTENT OF RELIEF (1/4)

IFRS 17 requirements	IFRS 17 is applied retrospectively (FRA) unless impracticable. When impracticable an entity applies either the modified retrospective approach (MRA) or the fair value approach (FVA) . The objective of the MRA is achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. IFRS 17 describes a limited number of permitted modifications when applying the MRA .
IASB deliberation (January 2019)	Stakeholders were concerned that the existence of specified modifications prohibits to make estimates that are necessary to retrospectively apply IFRS 17 to those requirements to which the entity does not apply the specified modifications. The IASB should amend IFRS 17 to permit the use of a principle-based approach that will allow entities to develop their own modifications that they think are consistent with the objective of the modified retrospective approach.
	The IASB largely retained the IFRS 17 requirements as issued, with one exception relating to the settlement of claims incurred before an insurance contracts was acquired. Reasons for not amending IFRS 17: The objective of applying proxies is to achieve what the IASB thinks is the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. If an entity was permitted to apply further unspecified modifications, those additional proxies would move the outcome further away from a full retrospective approach.
Evidence from EFRAG case studies (August 2018 EFRAG TEG meeting)	**Extensive case study –** when comparing the different transition methods, most respondents identified that the full retrospective approach could not be applied because of the lack of availability of historical data due to for example IT migrations. Two respondents explained which requirements of the MRA they were not able to fulfil. The impact on retained earnings came from the elimination of (i) deferred acquisition costs and (ii) day one profit or deferred recognition of profit. **Simplified case study -** views were divided as to whether retained earnings would be impact negatively or positively. Sources of impact were recognition of CSM and risk adjustment, discounting and the recognition of loss components.
EFRAG User outreach (October 2018)	Many specialist and generalist users were uncomfortable with the range of transition approaches offered by IFRS 17 as it would cause comparability concerns and confusion. Specialist users noted the possibility of window dressing, eg double counting of profits at transition.
Suggested modifications	**CFO Forum -** Extend relief available to enable widespread capability to use the MRA and remove requirements to allocate contracts between separate profitability groupings.

TRANSITION: MODIFIED RETROSPECTIVE APPROACH - EXTENT OF RELIEF (2/4)

Suggested modifications	**ANC** - Not restricting the requirements in transition but using them as illustrative examples, for example applying a mixed FRA and FVA approach when sufficient reasonable and supportable information is not available There is no need for detailed guidance on how to apply the principle set in IFRS 17 paragraph C8, but examples may be useful. Also asked for a better explanation within IFRS 17 paragraph C8 that a retrospective approach (either FRA or MRA) does not prohibit from making estimates and further to clarify to which extent an estimates stops and becomes a departure to the retrospective approach. The ANC suggested not restricting the MRA requirements on the transition but instead presenting them as illustrative example of the principle. Consequently, when an entity: • has no reasonable and supportable information available without undue cost or effort to apply the FRA, • but has reasonable and supportable information available without undue cost or effort to modify the FRA in a way that would achieve “the closest outcome to retrospective application possible”, The entity could use such modifications when applying the MRA, provided these additional modifications are duly disclosed in the notes. For instance, applying a mixed approach on transition: full retrospective as long as reasonable and supportable information is available (i.e. for the last 10 years) and a FVA as initial value for the period before, when sufficient reasonable and supportable information is not available. Introducing specific transition provisions (whatever the methodology retained) on the possibility to classify: • groups of acquired contracts (General Model vs. VFA; General Model vs. PAA) as of the date of issuance instead of the date of transfer; • as “liabilities for incurred claims” claims acquired in their settlement period before transition. *Ref: to the ANC draft paper (IFRS 17 issues – Transition), second release May 2019*
1st EFRAG IAWG discussion (March 2019)	EFRAG IAWG members expressed their concern that the modified retrospective approach is difficult to apply. Members noted the complexities in trying to find reasonable and supportable information in order to utilise the different modifications. Members specifically noted that data gaps forces them to use the fair value approach. EFRAG IAWG members assessed that the relief provided for business combinations is useful.

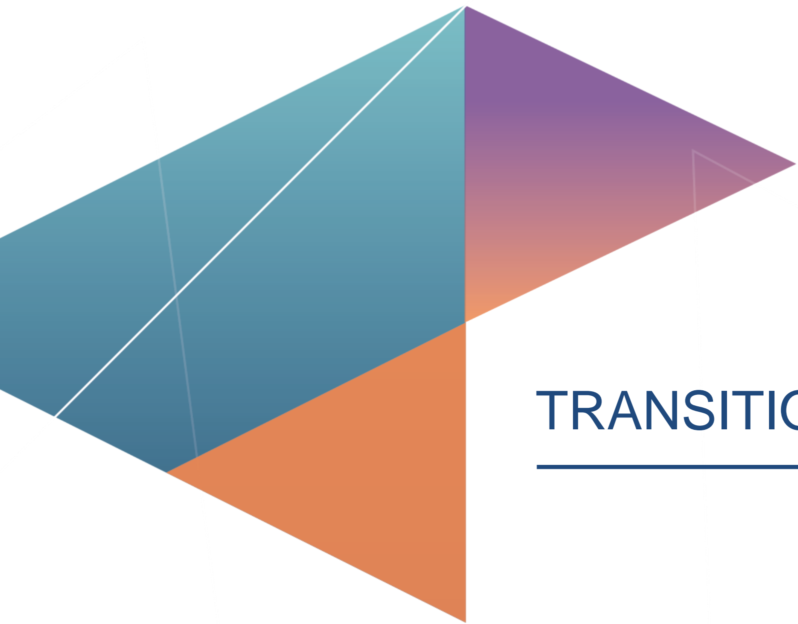
TRANSITION: MODIFIED RETROSPECTIVE APPROACH - EXTENT OF RELIEF (3/4)

EFRAG TEG discussion (April 2019)	• One EFRAG TEG member noted that the two approaches are different in nature and should not be compared with each other. • EFRAG TEG highlighted that different transition approaches could be applied within one portfolio, e.g., applying MRA and FVA to different groups within the same portfolio. • EFRAG TEG considered the solution proposed by the CFO Forum (to extend the relief available under the MRA) and some members considered that this proposal should be debated. One member noted that further modifications would enable preparers to achieve an outcome closer to the Full Retrospective Approach and that without such modifications, preparers would be forced to use a fair value approach, which will reflect a different measurement than the Full Retrospective Approach. • A few members noted the view of the EFRAG IAWG that the available information on Market Consistent Embedded Value (MCEV) could be used as an initial datapoint to estimate CSM at day one (with possible adjustments) and then rolled forward in accordance with IFRS 17, using information sourced from the MCEV analysis of movements (adjusted as necessary). One member considered this as a Full Retrospective Approach (built using estimates sourced from MCEV results) rather than an alternative method. • In conclusion, EFRAG TEG members agreed that a key element of the debate was the interpretation of the “reasonable and supportable information” criterion.
Views from the insurance industry	Implications if issues remain unresolved: (i) increase in operational complexity and cost and (ii) financial reporting impact • This will lead to increased use of fair value therefore impacting the level of comparability between old and new business. • Relevance of fair value is dependent on characteristics of the contract. (Presentation of CFO Forum – March 2019).

TRANSITION: MODIFIED RETROSPECTIVE APPROACH - EXTENT OF RELIEF(4/4)

VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	The relief for the business combinations is useful.
Cons	Limited applicability of MRA.



TRANSITION: FAIR VALUE APPROACH

TRANSITION: FAIR VALUE APPROACH - CHALLENGES (1/4)

IFRS 17 requirements	IFRS 17 is applied retrospectively unless impracticable. When impracticable an entity applies either the modified retrospective approach (MRA) or the fair value approach (FVA) . The FVA must be applied when an entity has no reasonable and supportable information available without undue cost or effort to apply the MRA.
Transition Resource Group (April 2019)	The submission on whether the FVA is to reflect non-performance risk is considered not meeting the submission criteria for the TRG. The issue is only indirectly related to the 'low CSM when applying fair value' issue.
Evidence from EFRAG case studies	**Extensive case study -** 14 of 40 portfolios used the fair value approach on transition for different product types. When asked about the impact on retained earnings on transition the impact was between (830mn) and 1.2bn. Reasons for the impact cited were: different valuation of insurance liabilities, impact of IFRS 9, the fact that netting of insurance contracts and associated reinsurance contracts is not permitted as well as the fact that the previous practice of recognising a day-one profit for individual annuities is no longer permitted. The measurement of the fair value at transition was mentioned as one of the 'other issues' for which time will be needed for industry and auditor consensus to emerge. **Simplified case study -** when asked about the impact on retained earnings on transition, 4 respondents (of which 3 used fair value as a transition method) noted no or non-significant impact. 5 respondents (of which 2 used fair value as a transition method) noted retained earnings would go down. No respondent noted retained earnings would go up.
EFRAG User outreach (October 2018)	N/A
Suggested modifications	**CFO Forum -** N/A **UNESPA** - The application of the FVA will not portray the profitability underlying the current business model in long-term life contracts.

TRANSITION: FAIR VALUE APPROACH – CHALLENGES (2/4)

1st EFRAG IAWG discussion (March 2019)	EFRAG IAWG members were divided on whether the FVA resulted in a lower CSM at transition in all cases. One EFRAG IAWG member thought so and stated that this was demonstrated in the case study, another one thought the CSM could be close to the MRA approach. On the question why under the FVA market participants would accept a lower profitability in all cases compared to an insurer itself, one EFRAG IAWG noted that when defining fair value: • It was determined based on the assumption that the buyer would not be willing to pay for the profit of the insurer; • In most cases, insurance liabilities were not bought in isolation, rather a business which was expected to deliver synergies and expectations of future business to be developed. In earlier discussions, EFRAG IAWG members noted that in many cases insurance liabilities were not bought in isolation, but with the corresponding assets.
EFRAG TEG discussion	**To be discussed in May 2019 EFRAG TEG meeting**
Views from the insurance industry	While the fair value approach is a useful expedient in some cases, it may not always provide an appropriate profit recognition pattern. Testing indicates that this approach results in a lower CSM on transition than a retrospective approach (for onerous contracts it may result in a higher CSM). • Application of fair value can present challenges (Presentation of CFO Forum – March 2019).

TRANSITION: FAIR VALUE APPROACH – CHALLENGES (3/4)

VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	No positive impact identified for non-onerous contracts.
Cons	For non-onerous contracts, lower CSM compared to applying MRA or full retrospective approach .

TRANSITION: FAIR VALUE APPROACH – CHALLENGES (4/4)

QUESTIONS TO EFRAG TEG

Impact of the IASB tentative decisions	
Pros	**[To be discussed in May 2019 EFRAG TEG meeting]**
Cons	**[To be discussed in May 2019 EFRAG TEG meeting]**

TRANSITION: RETROSPECTIVE APPLICATION OF THE RISK MITIGATION APPROACH

TRANSITION: RETROSPECTIVE APPLICATION OF THE RISK MITIGATION APPROACH (1/4)

IFRS 17 requirements	The risk mitigation option in IFRS 17 cannot be applied retrospectively. The option is only available if derivatives and reinsurance contracts are used as hedging instruments.
IASB re-deliberation (March 2019)	Some stakeholders were concerned that the risk mitigation exception in IFRS 17 can only be used prospectively even though risk mitigation activities may have been in place before the date of initial application of IFRS 17. Given that the contractual service margin (CSM) will be allocated to profit or loss in future periods, those stakeholders are concerned a CSM that does not reflect risk mitigation activities from previous periods may distort equity on transition and revenue recognised in future periods.
	The IASB tentatively decided to permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date, provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date. Permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participating features to use the fair value transition approach for the group if certain conditions are met.
Evidence from EFRAG case studies	**Extensive case study –** One respondent made an estimate of the impact of IFRS 17's prohibition on retrospective application of the optional risk mitigation solution for VFA contracts. However, as the respondent did not provide estimates for the size of its portfolios, it is difficult to assess whether the impact is material.
Suggested modifications	**CFO Forum –** The risk mitigation option should be applied before the date of initial application of IFRS 17 if entities can demonstrate that the necessary documentation were in place and that such application can be done without the use of hindsight..
	ANC – Delete paragraph C3(b) of IFRS 17 to apply for the retrospective application of the risk mitigation option. *Ref. to the ANC draft paper (IFRS 17 issues – Transition), second release May 2019*
	Alternative proposed solution – The risk mitigation option should be applied retrospectively even before the date of transition if the necessary documentation is in place and the entity can apply the risk mitigation without the use of hindsight. Extend the option to contracts not under the VFA and circumstances where risk mitigation tools other than derivatives are used.

TRANSITION: RETROSPECTIVE APPLICATION OF THE RISK MITIGATION APPROACH (2/4)

EFRAG IAWG discussion (March 2019)	With regards to the risk mitigation option, although members agreed that the IASB tentative decision to allow retrospective application of the risk mitigation option as from transition date is a step in the right direction. Members considered that the risk mitigation option should be applied fully retrospectively in all cases where risk documentation is available. Members noted that the outcome will work but that it does not conceptually solve the problem .
EFRAG TEG discussion (April 2019)	• Some EFRAG TEG members did not agree with the tentative decision of the IASB not to allow retrospective application of the risk mitigation option at transition. They considered that it would impair comparability between existing and future risk mitigation strategies; • Some EFRAG TEG members questioned whether insurance contracts would in practice be eligible for IFRS 9 hedge accounting and, particularly for fact patterns not addressed by the risk mitigation option offered by IFRS 17. Some members also raised their concern that IFRS 9 Financial Instruments was not an appropriate solution for hedge accounting • Regarding the risk mitigation option and OCI and more generally, on hedge accounting, some EFRAG TEG members noted that additional input from EFRAG IAWG would be appropriate; an ad hoc questionnaire on hedge accounting will be published. The IASB tentatively decided to permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date (i.e. one year before the IFRS 17 effective date of 1 January 2022)
Views from the insurance industry	Not being able to apply the hedging adjustment to non-VFA contracts results in a number of financial reporting issues, which gives rise to accounting mismatches. The inability to apply the hedging adjustment retrospectively for VFA business on the date of initial application could lead to significant impacts on the measurement of the CSM on transition and distort future results. (Presentation of CFO Forum – March 2019).

TRANSITION: RETROSPECTIVE APPLICATION OF THE RISK MITIGATION APPROACH (3/4)

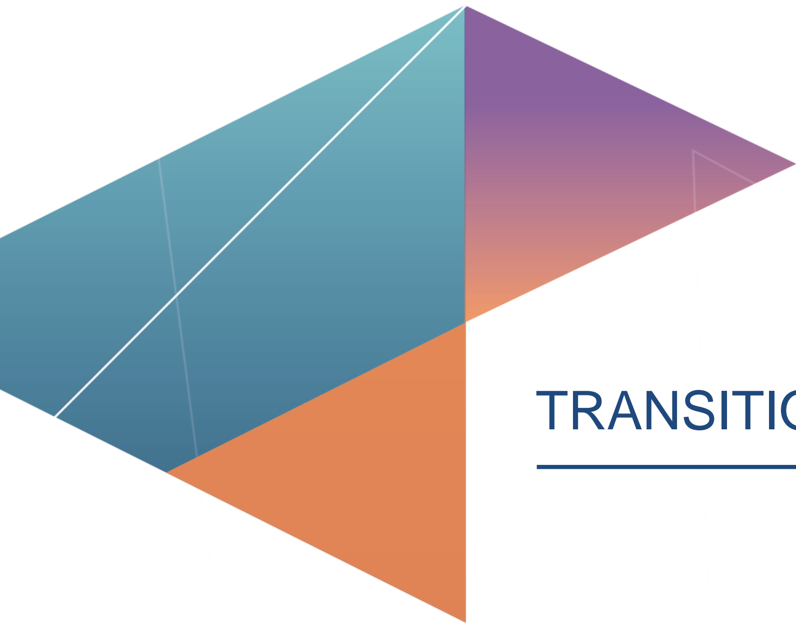
VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	The tentative decision made by the IASB is a step in the right direction.
Cons	It does not conceptually solve the problem.

TRANSITION: RETROSPECTIVE APPLICATION OF THE RISK MITIGATION APPROACH (4/4)

VIEWS FROM EFRAG TEG

Impact of the IASB tentative decisions	
Pros	**[To be discussed in May 2019 EFRAG TEG meeting]**
Cons	**[To be discussed in May 2019 EFRAG TEG meeting]**



TRANSITION: SETTING OCI TO NIL

TRANSITION: SETTING OCI TO NIL (1/4)

IFRS 17 requirements	IFRS 17 allows entities an option on transition to set the cumulative amount of OCI to nil.
IASB re-deliberation (February 2019)	The option to set OCI to nil is not available to assets accounted at fair value through OCI. Setting OCI on the liabilities to nil at transition, whilst maintaining the historical OCI on related assets will distort equity at transition and results going forward significantly.
	The IASB tentatively decided to retain the transition requirements in IFRS 17 relating to the cumulative amounts included in OCI.
Evidence from EFRAG case studies	**Extensive case study –** Only two portfolios tested indicated that they will set the OCI to nil. Other respondents indicated that . OCI will be equal to the cumulative amount recognised in OCI from the underlying items or did not provide information on the treatment of OCI at transition.
Suggested modifications	**CFO Forum –** Extend the ability to set cumulative OCI on liabilities on transition equal to the cumulative OCI balance on the underlying assets to all insurance contracts, rather than just those measured using the VFA.
	ANC – In order to determine the amount in OCI for liabilities, fulfilment cash flows could be discounted at the rate the entity is expecting to be committed to against its policyholders (the “crediting rate”). Accordingly, accretion of the liability would reflect the returns transferred to policyholders. From an economic standpoint, the difference between that rate (estimated at transition date) and the current date on. transition could be a proxy of what would have been put in OCI, be IFRS 17 applied from inception. *Ref. to the ANC draft paper (IFRS 17 issues – Transition), second release May 2019*

TRANSITION: SETTING OCI TO NIL (2/4)

EFRAG IAWG discussion (March 2019)	With regards to the determination of the cumulative amount of insurance finance income or expenses recognised in OCI on transition, EFRAG IAWG members noted that this is a conceptual issue in both the fair value approach and the modified retrospective approach. However, members noted that the use of OCI is an option. Members noted that in future, this provided the positive effects of the OCI option on the asset side, without offsetting adjustments on the liabilities side. They also pointed out that the OCI did not fully belong to the policyholder. Instead, there should be an assessment of what would be paid to the shareholders. This could, for example, be based on the credited rate provided to the policyholder. EFRAG IAWG members also noted that the general rule was to put OCI to zero when the liabilities were measured at transition. If there was a different discount rate for the assets and the liability, then a new OCI would be created, and it would never reach zero, leading to a permanent mismatch in OCI.
EFRAG TEG discussion (April 2019)	One EFRAG TEG member considered that setting the cumulative amount of insurance finance income or expenses recognised in OCI at nil on transition would not reflect the way assets and liabilities are managed in practice and the impact of this would last for several years after transition.
Views from the insurance industry	The absence of the ability to set the OCI to as the cumulative OCI balance on the underlying assets for contracts that are measured under the General Model will distort financial information on transition and impact future financial reporting. (Presentation of CFO Forum – March 2019).

TRANSITION: SETTING OCI TO NIL (3/4)

VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	None.
Cons	Conceptual issue in both the fair value approach and the modified retrospective approach.

TRANSITION: SETTING OCI TO NIL (4/4)

EFRAG TEG PRELIMINARY VIEWS

Impact of the IASB tentative decisions	
Pros	None.
Cons	Setting the OCI at nil on transition would not reflect the way assets and liabilities are managed in practice and the impact of this would last for several years after transition.

REINSURANCE – ONEROUS UNDERLYING CONTRACTS PROFITABLE AFTER REINSURANCE

REINSURANCE – ONEROUS UNDERLYING CONTRACTS PROFITABLE AFTER REINSURANCE (1/4)

IFRS 17 requirements	Onerous contracts issued by the cedant are immediately recognised as a loss in profit or loss, whereas for the reinsurance contract held by the cedant, any net cost or gain is recognised over the coverage period.
IASB re-deliberation (January 2019)	The IASB discussed the issue because of the following concern of preparers**:** This IFRS 17 requirement gives rise to accounting mismatches. The IASB tentatively decided to amend the requirements in IFRS 17 so that an entity can recognise a gain for reinsurance contracts held in profit or loss when the entity recognises losses on onerous underlying insurance contracts to the extent those losses are covered on a proportionate basis.
Evidence from EFRAG case studies (August 2018 EFRAG TEG meeting)	**Extensive case study** – Two respondents provided an example relating to protection business that is onerous but becomes profitable after considering external reinsurance. These respondents explained that direct protection was written in collaboration with reinsurance partners for that reason. One of these respondents noted a loss of 165 to 210 mio Euro per annum recognised on day 1, with the offsetting profit, reflecting the risk transferred at reporting date, was deferred. Some respondents mentioned the accounting mismatch and raised concerns about the effect of intragroup reinsurance. **Simplified case study** - Of the respondents providing information, six limited themselves to identifying the accounting mismatch, and one of these identified it only for proportionate reinsurance contracts held.
EFRAG User outreach (October 2018)	Concerns were raised by some specialist users regarding: - the mismatch for a primary insurer who obtains reinsurance, how that will work and whether users would be able to understand; - the mismatch between reinsurance and insurance not considered helpful and the net position would be preferred. Reinsurance and insurance are not considered separate businesses: the net effect is considered.
Suggested modifications	**CFO Forum** – For onerous contracts at inception, recognise a gain on proportionate reinsurance to the extent reinsurance covers the loss. **ANC** - Immediate recognition of the gain on reinsurance. The recognition of reinsurance contracts held and their related CSM is closely related to the recognition of the underlying contracts. There is no reason for differentiating proportional from non-proportional reinsurance held even if the measurement of the latter may prove more complex. *Ref. to the ANC draft paper (IFRS 17 issues – Reinsurance), second release May 2019*

REINSURANCE – ONEROUS UNDERLYING CONTRACTS PROFITABLE AFTER REINSURANCE (2/4)

1st EFRAG IAWG discussion (February 2019)	EFRAG IAWG members were generally positive about the tentative decisions taken. Practice would have to determine what proportional reinsurance meant. The situation where direct insurance was reinsured through both proportional and non-proportional reinsurance would have to be analysed. Further accounting solutions were to be developed for non-proportional reinsurance.
EFRAG TEG discussion (March 2019)	The majority of EFRAG TEG members assessed that the IASB tentative decision is a step in the right direction, but some EFRAG TEG members wanted further information on the use of non-proportional reinsurance. One EFRAG TEG member noted that a first loss reinsurance treaty was not common. For excess loss reinsurance treaties, once the limit was reached it implied the insurer made a loss on the contracts and the recognition of an onerous contract was necessary.
2nd EFRAG IAWG meeting March 2019	One member at the March 2019 EFRAG IAWG meeting indicated that the impact of reinsurance when determining the risk adjustment is especially helpful in the case of non-proportionate reinsurance. Therefore, in most cases, where the primary insurance contract is onerous, having a non-proportionate reinsurance contract in place will resolve the issue.

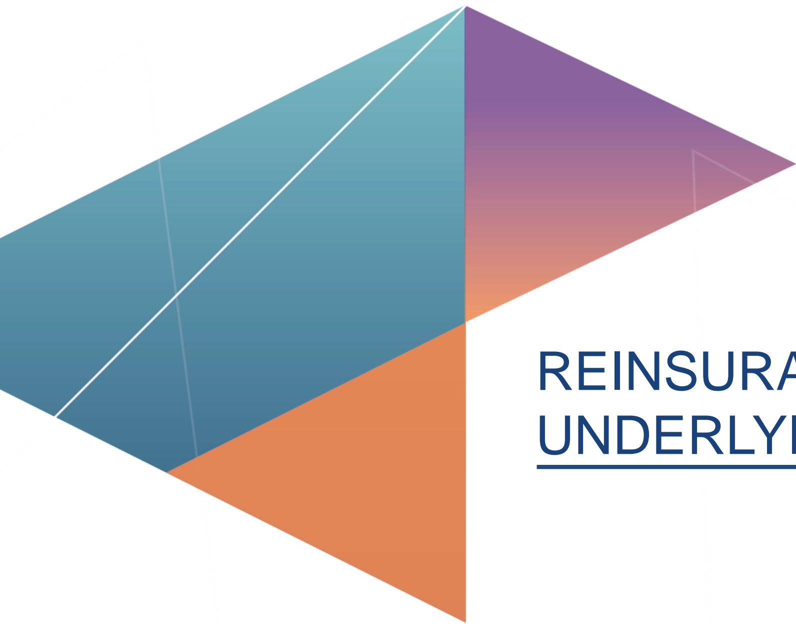
REINSURANCE – ONEROUS UNDERLYING CONTRACTS PROFITABLE AFTER REINSURANCE (3/4)

EFRAG TEG discussion (April 2019)	EFRAG TEG: • Considered the input of EFRAG IAWG that further accounting solutions would be needed for non-proportional reinsurance. • Questioned why the accounting treatment is different for proportional and non-proportional reinsurance. • Noted the complexity of finding a possible accounting standard solution for aligning the accounting treatment of proportional and non-proportional reinsurance due to the difference in economic substance. • Noted that non-proportional reinsurance would require a different and more aggregated unit of account than proportional reinsurance. • Considered the view of EFRAG IAWG that the impact of reinsurance could be captured by a risk adjustment for the underlying business. Some members noted that this approach would result in a form of synthetic accounting. • Noted that it was necessary to assess the final wording of the Exposure Draft and the definition of proportional and non-proportional reinsurance before reaching a conclusion.
Views from the insurance industry	The change is expected to solve the issue for proportional reinsurance. (Presentation of CFO Forum – March 2019).

REINSURANCE – ONEROUS UNDERLYING CONTRACTS PROFITABLE AFTER REINSURANCE (4/4)

VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	Eliminates accounting mismatches for proportional reinsurance.
Cons	Further accounting solutions needed for non-proportional reinsurance. Noticed that the accounting treatment is different for proportional and non-proportional reinsurance therefore it is necessary to assess the final wording of the ED before reaching a conclusion. To investigate whether the clarification on the impact of reinsurance on the risk adjustment for the underlying business provide a solution to a certain degree for non-proportionate business.



REINSURANCE - CONTRACT BOUNDARY WHERE UNDERLYING CONTRACTS ARE NOT YET ISSUED

REINSURANCE - CONTRACT BOUNDARY WHERE UNDERLYING CONTRACTS ARE NOT YET ISSUED (1/4)

IFRS 17 requirements	Contract boundaries for reinsurance are inconsistent with those of the underlying insurance contracts, meaning that the reinsurance accounting requires including an estimate of underlying insurance business that is not yet written/recognised.
IASB re-deliberation (December 2018)	Some stakeholders are concerned that the requirement is unduly complex, will create a gross up for reinsurance coverage when the direct contracts have not yet been recognised, creating a mismatch, and they think the CSM will be recognised in an inconsistent manner as compared to the direct contract CSM. The IASB tentatively decided not to amend the requirements in IFRS 17 as this would not fully reflect the substantive right to receive services from the reinsurer and the amendments would add complexity to the contract boundary requirements.
Evidence from EFRAG case studies	Some participants reported that the accounting mismatch due to the difference in contract boundaries means that IFRS 17 would not reflect the business model or risk management processes. (August 2018 EFRAG TEG meeting)
EFRAG User outreach (October 2018)	This concern was not specifically raised by constituents.
Suggested modifications	**CFO Forum -** Proportional reinsurance to include cash flows in respect of recognised underlying contracts. **ANC -** suggested that the recognition principles for reinsurance contracts are changed so that they are recognised only to the extent that the underlying contracts are recognised. *Ref. to the ANC draft paper (IFRS 17 issues – Reinsurance), second release May 2019*

REINSURANCE - CONTRACT BOUNDARY WHERE UNDERLYING CONTRACTS ARE NOT YET ISSUED (2/4)

1st EFRAG IAWG discussion (January 2019)	• The IASB staff example was simplistic and in more complex situations mismatches would arise. Examples of mismatches were differences in measurement model (PAA vs General Model), discount rates (and so changes to these would lead to differences in the measurement) and the risk adjustment. • EFRAG IAWG noted that the estimation uncertainty relating to the outcome of an insurance contract and the volume, mix and size of future insurance contracts to be sold, differs significantly. It may also result in undue disclosure of commercially sensitive information. • IASB approach is considered to be inconsistent to risk mitigation with derivatives (where matching is allowed even if the derivative is an independent contract to the insurance contract). • EFRAG IAWG considered that the requirements did not lead to reliable and relevant information.
EFRAG TEG discussion (February 2019)	Some EFRAG TEG members agreed with consistency in IFRS 17 for reinsurance contracts held and the underlying contracts therefore supporting the IASB's reasoning . However, others shared the EFRAG IAWG's concerns on the relevance of the IFRS 17 requirements.
2nd EFRAG IAWG discussion (February 2019)	EFRAG TEG asked EFRAG IAWG to provide further information on possible risk adjustment mismatch between underlying contracts and reinsurance contracts held. • Several factors may impact the risk adjustment amount including: – that different risks (or only some of the risks) may be reinsured, – differing contract boundaries (but may be immaterial) and – uncertainty as to whether risk adjustment includes the risk of non-performance of reinsurer or not. Also the inclusion of cashflows on business not written yet, leads to accounting mismatches when discount rates change.
Views from the insurance industry	Implications if issues remain unresolved would result in an increase in operational complexity and cost; and financial reporting impact (Presentation of CFO Forum – March 2019). • Differences in measurement between reinsurance contracts held and the underlying contracts reduces transparency • Accounting mismatches when discount rates change over time.

REINSURANCE - CONTRACT BOUNDARY WHERE UNDERLYING CONTRACTS ARE NOT YET ISSUED (3/4)

VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	N/A
Cons	Does not provide relevant or reliable information.

REINSURANCE - CONTRACT BOUNDARY WHERE UNDERLYING CONTRACTS ARE NOT YET ISSUED (4/4)

VIEWS FROM EFRAG TEG

Impact of the IASB tentative decisions	
Pros	**[To be discussed in May 2019 EFRAG TEG meeting]**
Cons	**[To be discussed in May 2019 EFRAG TEG meeting]**

CSM AMORTISATION

CSM AMORTISATION – CONTRACTS THAT INCLUDE INVESTMENT SERVICES (1/4)

IFRS 17 requirements	Under the General Model, CSM is amortised to profit or loss over the period during which the entity provides coverage for insured events based on insurance coverage only.
IASB deliberation (January 2019)	The IASB discussed the issue because of the following concern of preparers: IFRS 17 requirements are only appropriate for certain types of contracts. CSM cannot be amortised over the period in which investment services are provided. The IASB tentatively decided to amend the requirements in IFRS 17 so that in the General Model, the CSM is amortised in profit or loss based on both insurance coverage and investment return service (only if an investment component exists).
Evidence from EFRAG case studies **(August 2018 EFRAG TEG meeting)**	**Extensive case study -** For ten of the twenty-six portfolios tested under the General Model, concerns were raised that investment services should be considered in CSM amortisation by seven respondents. One respondent calculated the CSM release based on insurance coverage of annuities and more than 60% of the CSM was released over years 25-30 of a 30-year annuity contract. **Simplified case study -** Two respondents indicated that not including the investment services in the coverage units would bring profit recognition forward.

CSM AMORTISATION – CONTRACTS THAT INCLUDE INVESTMENT SERVICES (2/4)

EFRAG User outreach (October 2018)	Nine specialist users noted that profit earned based on services provided was useful information to them. One user thought it was too early to tell. Of the ones that thought it was useful, the profit recognition pattern was considered more intuitive and made more sense than under current practices.	
Suggested modifications	**CFO Forum** - CSM amortisation should reflect insurance and investment activity, including related activities performed to deliver the insurance benefits.	**ANC** - Extending the definition of the coverage period and the amount of CSM to be recognised in profit or loss in order to take into consideration investment-return services. Proposed to define investment return services as the service providing the policyholder with access to an investment return that would not otherwise be available to the policyholder because of the amounts invested, liquidity, complexity and expertise. *Ref. to the ANC draft paper (IFRS 17 issues – CSM allocation to investment services), second release May 2019*
1st EFRAG IAWG discussion (February 2019)	EFRAG IAWG members indicated that the IASB was moving in the right direction but further work needed to make the amended requirements work in practice. Some EFRAG IAWG members indicated that there are situations where there is an investment-related service but no investment component or vice-versa. With reference to some specific fact patterns such as certain UK Annuities, it was questioned what service is being provided to the policyholder. Some members considered that profits should be recognised in the accumulation phase and not only during the insurance coverage period.	

CSM AMORTISATION – CONTRACTS THAT INCLUDE INVESTMENT SERVICES (3/4)

EFRAG TEG discussion (March 2019)	EFRAG TEG members generally assessed that the IASB tentative decision is a step in the right direction. EFRAG TEG members had no remarks on the comments of EFRAG IAWG members.
EFRAG TEG discussion (April 2019)	EFRAG TEG members discussed different types of annuity contracts and considered the presence of an investment service component in such contracts. EFRAG TEG members were of view that, although the tentative decision of the IASB is a step in the right direction, the identification of investment services could be complex and requires judgement. Some members noted the importance of understanding the driver of CSM recognition. Some members assessed that for certain deferred annuities, even though annuity payments only commence after a certain accumulation phase, there are merits to consider some form of profit allocation during the accumulation phase.
Views from the insurance industry	Implications if issue unresolved – financial reporting impact and decrease in comparability amongst reporting entities. (Presentation of CFO Forum – March 2019). • Current solution does not address the issue for all contract types, e.g., deferred annuities • For contracts with significant related activities but no investment component, the pattern of profit recognition will not reflect the provision of services • Comparability – economically similar contracts treated differently • Increased use of APMs

CSM AMORTISATION – CONTRACTS THAT INCLUDE INVESTMENT SERVICES (4/4)

VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	• The IASB was moving in the right direction but further work needed to be done to make the amended requirements work in practice. • For some contracts, the amendment provides relevant information about the services.
Cons	• There are fact patterns for which the concern around the lack of useful information remains.

SEPARATE PRESENTATION OF ASSET GROUPS AND LIABILITY GROUPS

SEPARATE PRESENTATION OF ASSET GROUPS AND LIABILITY GROUPS (1/4)

IFRS 17 requirements	IFRS 17 requires separate presentation of groups of insurance contracts in an asset position and those in a liability position and prohibits the offsetting of groups of insurance contracts in an asset position with groups of insurance contracts in a liability position.
IASB re-deliberation (December 2018)	Preparers were concerned that the presentation requirement in IFRS 17 would significantly increase implementation costs. Furthermore, users indicated that providing the same information on a portfolio basis would not significantly reduce the usefulness of the information. The IASB tentatively decided to amend the requirements in IFRS 17 so that the presentation of insurance contract assets and liabilities in the statement of financial position is determined using portfolios of insurance contracts rather than groups of insurance contracts.
Evidence from EFRAG case studies	Three respondents considered this requirement to be one of the significant cost drivers; Two respondents indicated that the complexity of IFRS 17 in this area cannot be justified by a reduction in the costs of application; Scenarios where groups may be temporarily in asset position: claims have been incurred, but still a period of receiving premiums and claims have been paid, but recoveries such as subrogation are still outstanding.
EFRAG User outreach (October 2018)	One specialist user considered that separate presentation of groups of contracts in asset and liability positions could be useful but not necessarily essential. One generalist user noted that it is useful to limit the netting of groups of contracts that are in an asset position and groups of contracts that are in a liability position as netting can obscure important information.
Suggested modifications	**CFO Forum -** remove the requirement and require separate disclosure for liability for remaining coverage and incurred claims as well as the related amounts for reinsurance held. **ANC –** Delete reference to groups *Ref. to the ANC draft paper (IFRS 17 issues – Balance sheet presentation), second release May 2019*

SEPARATE PRESENTATION OF ASSET GROUPS AND LIABILITY GROUPS (2/4)

1st EFRAG IAWG discussion (January 2019)	Some EFRAG IAWG members stated that the proposed amendments were feasible by using simplifications. It was noted that groups of insurance contracts are static as they are created from inception, however portfolios can change over time. EFRAG IAWG members agreed with the IASB's tentative decision as an improvement over IFRS 17, however, they do not consider that the information on portfolio level adds value or are useful for users.
EFRAG TEG discussion (February 2019)	EFRAG TEG assessed that the IASB's tentative decision is a step in the right direction.
2nd EFRAG IAWG discussion (February 2019)	N/A
Views from the insurance industry	The IASB proposal to present these a portfolio rather than "group" basis for this requirement went some way to addressing the issue although operational challenges still remain.(Presentation of CFO Forum – March 2019).

SEPARATE PRESENTATION OF ASSET GROUPS AND LIABILITY GROUPS (3/4)

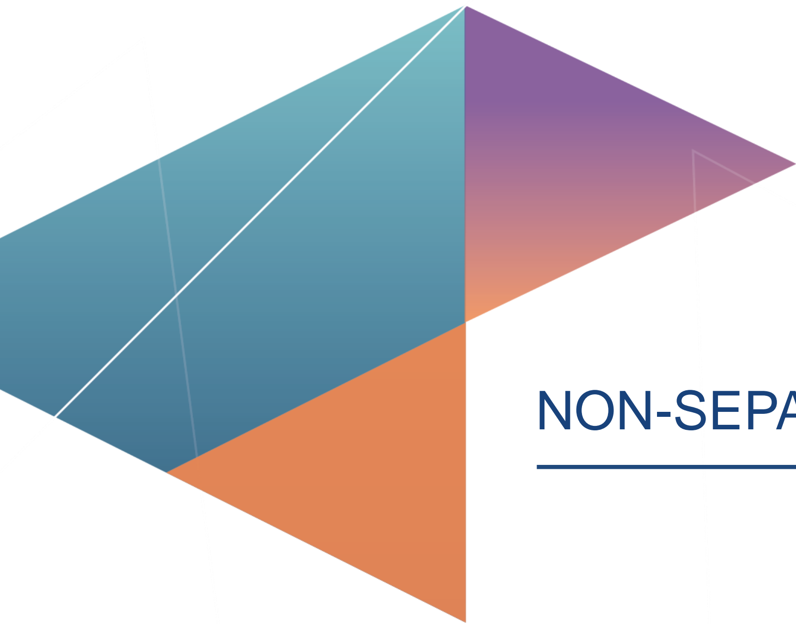
VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	Useful simplification.
Cons	N/A

SEPARATE PRESENTATION OF ASSET GROUPS AND LIABILITY GROUPS (4/4)

VIEW FROM EFRAG TEG

Impact of the IASB tentative decisions	
Pros	The relief to allow separate presentation of portfolios in an asset and liability position is helpful.
Cons	None identified.



NON-SEPARATION OF RECEIVABLES AND PAYABLES

NON-SEPARATION OF RECEIVABLES AND PAYABLES (1/5)

IFRS 17 requirements	IFRS 17 will require separate presentation of portfolios of insurance contracts in an asset and liability position. This is on the basis of all the cash flows expected to arise from fulfilling the contracts in the portfolio, including premiums receivable and claims payable. IAS 1 permits disaggregation where this provides useful information.
IASB re-deliberation (December 2018)	Insurers are concerned about the loss of information as the IFRS 17 requirements will remove items currently commonly presented on the face of the balance sheet such as premium receivables, policy loans and reinsurance collateral (funds withheld) as well as claims payable. The IASB tentatively decided not to amend the requirements in IFRS 17 consistently with the fundamental measurement principle i.e. a current estimate of all expected cash flows within the contract boundary. The balance sheet reflects the combination of rights and obligations created by the contract as a whole.
Evidence from EFRAG case studies (August 2018 EFRAG TEG meeting)	(a) One respondent assessed with evidence of one portfolio that there would be a lack of transparency and undue cost; (b) Four respondents indicated that this was an issue and highlighted the following practical considerations: (i) Meeting reporting deadlines given the lack of granular interaction between modelling and cash systems. (ii) Due to the lack of granular information about receivables at contract level in the reporting systems, an allocation method would have to be defined. The weighting of a group of contracts and its allocations would change over time and allocations could lead to a systematic underestimation of receivables and payables for new annual cohorts.
EFRAG User outreach (October 2018)	No specific input received.
Suggested modifications	**CFO Forum -** require separate disclosure for liability for remaining coverage and incurred claims as well as the related amounts for reinsurance held. **ANC -** Present separately premium receivables, liabilities for remaining coverage, contractual service margin, liabilities for incurred claims and collateral in the B/S rather than the notes. *Ref. to the ANC draft paper IFRS 17 issues – Balance sheet presentation), second release May 2019*

NON-SEPARATION OF RECEIVABLES AND PAYABLES (2/5)

1st IAWG discussion (January 2019)	• The lack of granular mapping between actuarial and accounting at a group level is a significant challenge. Member generally considered the cost of IFRS 17 presentation requirements to be greater than the benefits. One member mentioned a cost of 20 million euros to reflect cash amounts required for the roll-forward disclosures. • Prefers current accounting practice even if terminology for premiums receivable is inconsistent. These are currently separate units of account unlike IFRS 17. One member thought IFRS 9 impairment should apply to premium receivables. One member stated that IFRS 17 reduces relevance as different components have different levels of uncertainty. • One member mentioned that IAS 1 may allow disaggregation of line items and users would want a harmonised approach which would require standard-setting (requirement versus optionality). • One member reported that for reinsurance business (but not only this) IFRS 17 requirements would require arbitrary allocations due to netting arrangements.
1st TEG discussion (February 2019)	• Some EFRAG TEG members considered that including premiums receivable and claims payable in the insurance contract asset/liability is consistent with the bundle of rights and obligations associated with an insurance contract as a whole. • Other EFRAG TEG members disagreed and suggested to further consider the costs and benefits, relevance and whether it is only a presentation or also a measurement issue. • Certain questions were posed to the EFRAG IAWG – see next slide for the rest of the discussions.
Views from the insurance industry	The CFO Forum considered this has financial reporting impact as the removal of insurance receivables from the balance sheet reduces the value of information presented in respect of both life and general insurers. There would also be increased complexity and cost. (Presentation of CFO Forum – March 2019).

NON-SEPARATION OF RECEIVABLES AND PAYABLES (3/5)

2nd IAWG discussion (February 2019)	PREMIUMS RECEIVABLE: • In practice, definitions differ such as: (a) An unconditional right to receive premiums due including premiums due over more than one reporting period (as per Accounting Directive); (b) Any overdue premium as per the contract; and (c) The next contractually due premium including future instalments of an annual premium • Credit risk for life premiums are minimal, but could be higher for general insurers given the use of intermediaries, although this is mitigated by the short duration. CLAIMS PAYABLE: • The operational complexity is similar to that of premiums receivable. REINSURANCE PRESENTATION CONCERNS: • Similar operational complexity concerns as premiums receivable, with netting and funds withheld as a complicating factors.
2nd TEG discussion (March 2019)	• EFRAG TEG agreed separate presentation would require a definition • EFRAG TEG acknowledged operational problems relating to the lack of systems integration. • The EFRAG Secretariat noted that receivables are omitted from current IFRS 7 credit risk disclosures. Given EFRAG IAWG concerns about materiality, some EFRAG TEG members questioned the purpose of the separate presentation. • Different views as to whether further clarification from EFRAG IAWG is required. • Different views about the conceptual merits of having separate presentation.

NON-SEPARATION OF RECEIVABLES AND PAYABLES (4/5)

VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	N/A
Cons	• The cost of IFRS 17 presentation requirements would be greater than the benefits • Impact on measurement were questioned.

NON-SEPARATION OF RECEIVABLES AND PAYABLES (5/5)

PRELIMINARY VIEWS OF EFRAG TEG

Impact of the IASB tentative decisions	
Pros	• Consistent with IFRS 17 unit of account • Given EFRAG IAWG concerns about materiality, the purpose of separate presentation is questionable.
Cons	• Obscuring information about the different nature of items. • Operational complexities and cost.

ACQUISITION COSTS

ACQUISITION COSTS – EXPECTATION OF CONTRACT RENEWALS (1/3)

IFRS 17 requirements	Acquisition cash flows are directly attributable to the portfolio of insurance contracts to which the group belongs and they are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period. However, depending on specific facts and circumstances and the related assessment of substantive rights and obligations, some contract renewals may be within the contract boundary of a newly issued contract and other contract renewals may not.
IASB deliberation (January 2019)	The IASB discussed the issue because of the following concern of preparers**:** Acquisition cash flows on new business that is expected to renew cannot be allocated to future periods. This results in incorrect matching of income and expenses over time and contracts being onerous in accounting (but not in economic reality). The IASB tentatively decided to amend IFRS 17 to capitalise insurance acquisition cash flows directly attributable to expected contract renewals and recognise them until the renewed contracts are recognised. Assess the recoverability of any asset recognised applying paragraph 27 of IFRS 17 and recognise any unrecoverable amount or reversal of impairment in profit or loss.
Evidence from EFRAG case studies	Respondents noted that attributing acquisition costs to new clients only can lead to more onerous contracts and overstated future earnings. Another shared that immediate expensing can indirectly impact pricing which reflects expected renewals. (August 2018 EFRAG TEG meeting)
EFRAG User outreach (October 2018)	The specific matter was not raised as a discussion point in the individual user interviews.
Suggested modifications	**CFO Forum -** amend the wording to permit acquisition costs to be amortised over the expected economic benefit period (initial contract and expected renewals), in combination with an impairment test.

ACQUISITION COSTS – EXPECTATION OF CONTRACT RENEWALS (2/3)

Suggested modifications	**ANC** An interpretation does not appear sufficient to properly address the issue. Amending IFRS 17.27 in order to separately recognise as an asset acquisition costs that (i) actually relate to the creation of a new customer relationship, (ii) are expected to generate benefits for the initial period and subsequent periods, (iii) provided that an impairment test is performed and (iv) disregarding the date of payment. A suggested alternative solution is to assess whether contract renewals are likely to happen as expected and where they did not, the associated not yet allocated acquisition costs being then released to profit or loss immediately. If a full impairment test is preferred (as already expressed by IASB in its tentative decisions in January 2019), in our view, an onerous test should be performed only if the change in the renewal pattern introduces a significant risk of group of contracts becoming onerous. *Ref. to the ANC draft paper (IFRS 17 issues-acquisition cash flows), second release May 2019*
1st EFRAG IAWG discussion (February 2019)	All EFRAG IAWG members present agreed with the IASB's tentative decisions.
EFRAG TEG discussion (March 2019)	EFRAG TEG members assessed that the IASB tentative decision is a step in the right direction. An observer raised the question how the recoverability of acquisition cash flows would be assessed. It was currently not clear whether this could be done based on future renewals of existing contracts or also future new contracts and needs to reassessed once the Exposure Draft is available.
Views from the insurance industry	The IASB proposed amendment is expected to resolve the issue (Presentation of CFO Forum – March 2019).

ACQUISITION COSTS – EXPECTATION OF CONTRACT RENEWALS (3/3)

VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	Better reflects the economic substance of the transactions.
Cons	N/A

ANNUAL COHORTS

ANNUAL COHORTS - COST-BENEFIT TRADE-OFF (1/5)

IFRS 17 requirements	Insurers have to identify portfolios of contracts that are subject to similar risks and that are managed together. The portfolios are then divided into three groups: (a) onerous contracts, if any, (b) contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any and (c) other contracts, if any. A group of contracts cannot include contracts issued more than one year apart.
IASB re-deliberation (December 2018)	Some stakeholders were concerned about the requirements as they consider that: (a) the requirements will not provide users of financial statements with useful information; (b) implementing the requirements is a major challenge and the benefits do not outweigh the costs; and (c) the requirements are unnecessary because an entity can achieve the same outcome without applying those requirements.
	The IASB tentatively decided not to amend the requirements in IFRS 17 as it considers that the requirements provide fundamental information about trends in an insurer's profits over time; prevent onerous insurance contracts from being offset against profitable ones; and ensure that profits associated with insurance contracts are fully recognised in profit or loss over the coverage period of those contracts.
Evidence from EFRAG case studies (August 2018 EFRAG TEG meeting)	Some of the respondents did not find material differences for selected portfolios between the pattern of CSM release using annual cohorts and the equivalent pattern using only coverage units whilst others demonstrated or acknowledged that the use of annual cohorts does or at least could change the pattern of CSM release. The tested portfolios included a mutualised portfolio, where material differences were found between using annual cohorts or coverage units. Four respondents quantified the costs specifically associated with applying the disaggregation into subgroups and annual cohorts as follows: the one-off costs were 4-23% of total IFRS 17 implementation costs and the ongoing costs amounted to 10-75% of total IFRS 17 implementation costs.
EFRAG User outreach (October 2018)	This was not discussed by users.

ANNUAL COHORTS - COST-BENEFIT TRADE-OFF (2/5)

Suggested modifications

CFO Forum

- Remove the requirement to group contracts by annual cohorts, under the condition that contracts issued in different years would be in the same profitability group.

ANC

- Exempt portfolios from the annual cohort requirement where insurance and financial risks are ‘fully shared’ among different generations of policyholders.
- ***Definition***: “risks are fully shared among policyholders when policyholders are related to the same pool of underlying items, disregarding the date of underwriting and disregarding the insurer’s remaining share in the underlying items”.
- Notes that where risks are fully shared a contract or group may not become onerous until the whole portfolio is onerous.
- Suggest amending paragraph 17 in order to ensure that profitability of contracts do not need to be assessed on a contract by contract basis.
- Suggest a change to paragraph 19 (determining whether contracts have no significant possibility of becoming onerous) so that the insurer does not need to consider internal reporting about the effect of changes in assumptions on different contracts, but could rather only consider the terms and conditions of the insurance coverage.

Ref. to the ANC draft paper (IFRS 17 issues – Level of aggregation), second release May 2019

Ref. to the ANC draft paper (IFRS 17 issues – Example of level of aggregation), second release May 2019

ANNUAL COHORTS - COST-BENEFIT TRADE-OFF (3/5)

EFRAG IAWG discussions	**[To be discussed in May 2019 EFRAG IAWG meeting]**
EFRAG TEG discussion	**[To be discussed in May 2019 EFRAG TEG meeting]**
Views from the insurance industry	The CFO Forum indicated that this issue relates to increased operational complexity and cost. • Prohibition to aggregate contracts issued more than one year apart results in groupings that are inconsistent with the way insurers manage their business • It will require the capture of cash flow and other data at annual cohort level and subsequent annual updating of output at each reporting date. (Presentation of CFO Forum – March 2019)

ANNUAL COHORTS - COST-BENEFIT TRADE-OFF (4/5)

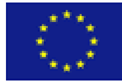
PRELIMINARY VIEWS FROM EFRAG IAWG

Impact of the IASB tentative decisions	
Pros	**[To be discussed in May 2019 EFRAG IAWG meeting]**
Cons	**[To be discussed in May 2019 EFRAG IAWG meeting]**

ANNUAL COHORTS - COST-BENEFIT TRADE-OFF (5/5)

PRELIMINARY VIEWS OF EFRAG TEG

Impact of the IASB tentative decisions	
Pros	**[To be discussed in May 2019 EFRAG TEG meeting]**
Cons	**[To be discussed in May 2019 EFRAG TEG meeting]**



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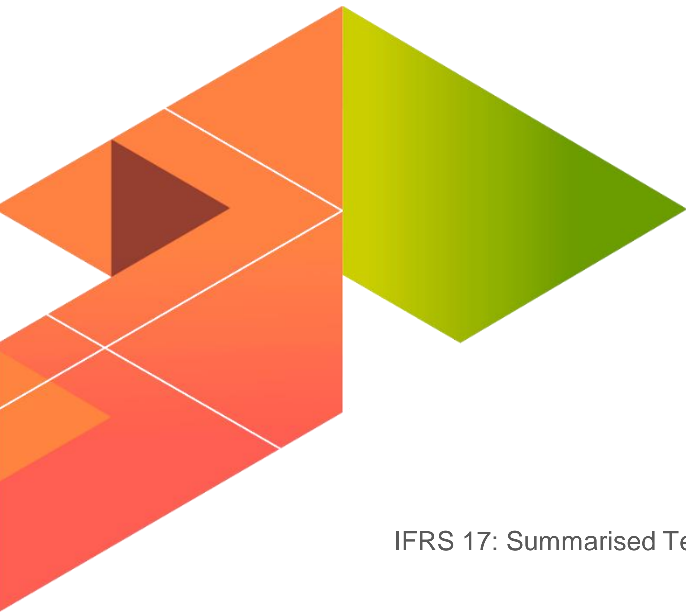

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