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## **IFRS 17 Insurance Contracts Project Update**

### **Introduction and objective**

- 1 The objective of this session is to:
  - (a) seek comments from EFRAG Board on the work plan for IFRS 17 endorsement ('DEA'); and
  - (b) provide the EFRAG Board with an update on the IASB re-deliberations including discussions at the recent meetings of EFRAG TEG.

### **Workplan for DEA of IFRS 17**

- 2 Several working assumptions continue to be made as follows.

#### *Monitoring of the key assumptions*

- 3 We do not expect to cover in the DEA new topics, in addition to the letter by the EC and the EP Motion.

#### *IASB process*

- 4 As per the January 2020 IASB Staff papers/meeting, the topics that will be discussed in February are as follows:
  - (a) Contractual service margin attributable to investment services for the general model;
  - (b) Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss;
  - (c) Extension of the IFRS 9 temporary exemption in IFRS 4;
  - (d) Minor amendments;
  - (e) Level of aggregation—annual cohorts for some specific insurance contracts; and
  - (f) Additional specific transition modifications and reliefs.
- 5 In addition, as per the January 2020 IASB meeting, the effective date of IFRS 17 will be discussed at the March 2020 IASB meeting.
- 6 As per the January 2020 IASB Staff papers/meeting, the IASB is on track to finalise the Amendments in mid-2020.
- 7 We assume that the IASB will issue a separate due process document for the amendments to IFRS 4 *Insurance Contracts* relating to the optional deferral of IFRS 9.

#### *Scope of work and timing of EFRAG activity*

- 8 Solvency 2: In January 2020, EFRAG TEG and the EFRAG Board approved the document subject to additional wording changes.

- 9 Appendix 3 will include an assessment of contracts that can be accounted for either in accordance with IFRS 17 or IFRS 15 and whether the split between the two standards is appropriate. The document was approved by EFRAG TEG and EFRAG Board in January 2020.
- 10 In January, EFRAG TEG and EFRAG IAWG have discussed certain parts on Appendix 2 and 3 of the forthcoming IFRS 17 draft endorsement advice (except topics that are being discussed by the IASB). They will continue to discuss various parts of Appendix 2 and 3 (following the developments at the IASB) which will be incorporated in the IFRS 17 draft endorsement advice.
- 11 At the same time, the EFRAG Secretariat is continuing the analysis of Hedge Accounting, including interactions with IFRS 9, seeking specific fact patterns from the industry.
- 12 The consultants are in the process of updating the Economic study for end of March 2020.
- 13 On 28 January, EFRAG published a news item to call for expressions of interest from European insurance companies in participating in its limited update of the case studies ('LUCS') relating to IFRS 17. The deadline for this is 28 February. A revised version of the questionnaire (LUCS) will be issued after the completion of the IASB's re-deliberations.

*Target timeline*

- 14 We expect that the endorsement activities for the separate document dealing with the deferral of IFRS 9 will have to follow a fast-track procedure in order for the deferral to be available for entities before 1 January 2021. The preparatory activities for the endorsement of the deferral of IFRS 9 will be performed having March 2020 as targeted date for discussion of the DEA at EFRAG TEG;
- 15 Consistent with the recommendation included in the final comment letter issued on 24 September 2019, the plan will assume that the effective date will be 1 January 2023. In order to allow entities to be able to voluntarily early apply in January 2022, the endorsement process will have to be completed by the end of 2021;
- 16 As the IASB is on track to finalise the Amendments in mid-2022, we continue to assume IFRS 17 final standard is issued no later than August 2020. Therefore, the timing left to the end of 2021 to complete the whole process would be a maximum of 16 Months.

*IASB re-deliberations*

- 17 In December 2019, the IASB made tentative decisions on the accounting for acquisition cash flows and reinsurance contracts held. The IASB also confirmed to finalise the following amendments to IFRS 17 as proposed in the Exposure Draft:
  - (a) a scope exclusion for loans;
  - (b) the contractual service margin attributable to investment services—coverage units for insurance contracts with direct participation features;
  - (c) presentation in the statement of financial position - by portfolio instead of group level;
  - (d) the applicability of the risk mitigation option - for reinsurance contracts held;
  - (e) transition reliefs for business combinations; and
  - (f) transition reliefs for the risk mitigation option - the application from the transition date and the option to apply the fair value approach.
- 18 At its January 2020 meeting, the IASB confirmed the IASB staff's recommendations for:

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- (a) scope exclusion from IFRS 17 for some credit card contracts;
- (b) transition - the prohibition from applying the risk mitigation option;
- (c) business combinations - contracts acquired in their settlement;
- (d) interim financial statements; and
- (e) asset for insurance acquisition cash flows—transition and business combinations.

*January IASB tentative decisions compared to EFRAG comment letter on the Amendments to IFRS 17 (24 September 2019)*

<b>IASB topic</b>	<b>Extent of alignment with EFRAG comment letter (FCL)</b>
<b>January 2020</b>	
Scope exclusion from IFRS 17 for some credit card contracts	<ul style="list-style-type: none"> <li>• ✓ Scope of credit cards and debit cards to be excluded from IFRS 17</li> <li>• Separation of components not included in EFRAG FCL</li> </ul>
Transition - the prohibition from applying the risk mitigation option	✗ EFRAG proposed retrospective application
Business combinations - contracts acquired in their settlement	Not included in EFRAG FCL
Interim financial statements	✓
Asset for insurance acquisition cash flows—transition and business combinations	Not included in EFRAG FCL
<b>December 2019</b>	
Scope exclusion for loans	✓
Contractual service margin attributable to investment services for the variable fee approach	✓
Presentation in the statement of financial position - by portfolio instead of group level	✓
Applicability of the risk mitigation option - for reinsurance contracts held	✓
Transition reliefs for business combinations	✓
Transition reliefs for the risk mitigation option - the application from the transition date and the option to apply the fair value approach	? Is a step in the right direction but retrospective application preferred. If retrospective application accepted, option to apply fair value approach not necessary
Expected recovery of insurance acquisition cash flows	✓
Reinsurance contracts held – recovery of losses	✓

*EFRAG TEG discussions on the recent IASB re-deliberations*

- 19 EFRAG TEG, in its January 2020 meeting, was provided with an update of the January IASB Staff papers. Members particularly expressed concerns on the following recommendations made by the IASB Staff:
- 20 *Prohibition of the retrospective application of the risk mitigation option* - Members acknowledged that this was not aligned with the final comment letter of EFRAG to

the IASB and noted that the implications of this decision have to be assessed. They acknowledged the IASB Staff concerns about hindsight and noted that the issue should not be compared with the argumentation for hedge accounting within IFRS 9 *Financial Instruments*. Members suggested that materiality should be assessed with regards to this issue;

- 21 *Business combinations: Contracts acquired in their settlement period* – Members raised their concern with the IASB Staff recommendation. They also questioned the coverage period explained in paragraph 42 of the IASB Staff paper which suggested that the claim period could be part of the coverage period. EFRAG’s September 2019 comment letter did not include this topic.

**Planning of discussion**

Activity	Feb. 2020	March 2020	April 2020	May 2020	June 2020	July 2020
IAWG	20 February	19 March	14 April	14 May	25 June	7 July
TEG		4-5 March 26 March	16 April	6-7 May	3-4 June	2 July 8 July
Board		17 March	21 April		16 June	16 July 28 July
Joint TEG/Board				26 May		