EFRAG
European Financial Reporting Advisory Group

EFRAG TEG meeting
5 March 2020
Paper 05-08
EFRAG Secretariat: Insurance team

IFRS 17 Insurance Contracts
Status of the IASB deliberations and February 2020 IASB staff recommendations

Introduction and Objective

1 The objective of this session is to provide EFRAG TEG with an overall summary of on the IASB deliberations, including decisions taken to date and decisions still to be taken. A special focus (see the **Appendix**) is dedicated to the February IASB staff recommendations to the IASB.

2 The IASB staff papers can be found on the IASB website.

The IASB process

December 2019 and January IASB meeting

3 The table below shows the comparison between the contents of the IASB decisions and the EFRAG comment letter.

IASB topic	Extent of alignment with EFRAG comment letter (FCL)
January 2020	
Scope exclusion from IFRS 17 for some credit card contracts	• ✔ Scope of credit cards and debit cards to be excluded from IFRS 17 • Separation of components not included in EFRAG FCL
Transition - the prohibition from applying the risk mitigation option	X 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
December 2019	
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	✔

IASB topic	**Extent of alignment with EFRAG comment letter (FCL)**
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	✔

4 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:

(a) 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;

(b) 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.

February IASB meeting

5 Refer to the Appendix below.

March IASB meeting and completion of the project

6 The effective date of IFRS 17 will be discussed at the March 2020 IASB meeting. The IASB is on track to finalise the Amendments in mid-2020.

Information for EFRAG TEG

7 The Appendix provides an overview of EFRAG's position in its comment letter on the Amendments to IFRS 17, the IASB staff's reasoning for recommending a change or not recommending a change to the standard and an EFRAG Secretariat assessment of the remaining concerns.

Questions for EFRAG TEG

8 Does EFRAG TEG have any comments on the February IASB staff papers?

9 Does EFRAG TEG have any comments on the overall deliberation process?

Appendix: February IASB staff recommendations to the IASB

Topic	**EFRAG comment letter**	**IASB reasoning**	**EFRAG Secretariat assessment of remaining concerns**	**Reference to IASB staff papers**
Contractual service margin attributable to investment services	EFRAG suggested IASB reconsiders the definition of investment return service in light of input received from constituents.	*Some changes proposed.* Contracts that provide a right for the policyholder to benefit from an investment return are economically dissimilar from contracts without such a right. 'Positive' removed from 'positive investment return' to avoid unnecessary complexity and potential confusion. Regarding including costs related to investment activities in the contract boundary, the IASB staff stated that any associated investment activity costs would also relate directly to the fulfilment of that contract.	With some adaptations to terms and conditions in contracts, we do not see any significant concerns on these proposals. The EFRAG IAWG members agreed with these proposals.	IASB staff paper 2A
Risk mitigation option - non-derivative financial instruments at fair value through profit	EFRAG considered that non-derivative financial instruments at fair value through profit or loss should also be eligible for the risk mitigation option.	*Change proposed.* The IASB staff acknowledged that there would be an accounting mismatch, for entities that use non-derivative financial instruments at fair value through profit or loss, similar to that between derivatives and VFA contracts (for which the IASB introduced the risk mitigation option).	The EFRAG IAWG members considered that the benefits from this decision are partially limited from the fact that the retrospective application is not allowed. No remaining concerns (see separate issue of retrospective application	IASB staff paper 2C

or loss			from the January decisions).	
Minor amendments	EFRAG informed the IASB about issues received from constituents. EFRAG had not formed a view, at that stage, on those issues.	*The IASB staff recommended several minor amendments.* Regarding paragraph B107 of IFRS 17 - applying the criteria for the scope of the variable fee approach at the level of an individual contract – the IASB staff mentioned that IFRS 17 as issued was incorrect because: • A group of insurance contracts cannot at inception include a mix of insurance contracts with direct participation features and insurance contracts without direct participation features. • Paragraph B101, B102, B103 and B107 of IFRS 17 refer to 'policyholder' and to 'contract'.	Under IFRS 17 as issued, the VFA criteria were applied at the level of group of insurance contracts. The EFRAG Secretariat acknowledges that several paragraphs in IFRS 17 refer to the policyholder or to the contract. EFRAG IAWG members indicated that for those contracts impacted, the granularity of the assessment needed for the eligibility under the VFA is now at a lower level than what previously understood. There would be implications on their implementation activities.	IASB staff paper 2D
Transition - additional reliefs	(a) EFRAG recommended that the IASB acknowledge in the main text of the standard that the use of estimates is allowed, including those needed to approximate missing numbers. EFRAG suggested for IASB to clarify that the 'reasonable and supportable information' criterion is not intended to change the judgement ordinarily required in IAS 8 to make estimates.	*Some changes proposed.* (a) The IASB noted that paragraph 51 of IAS 8 specifically acknowledges the need for estimates in retrospective application and that this paragraph applies to entities applying IFRS 17 for the first time just as it does to entities applying other IFRS Standards for the first time. In addition, the IASB explained in the Basis for Conclusions on the ED	The remaining concern, based on EFRAG's comment letter, relates to (b) regarding no relief for the accumulated OCI applying the fair value approach on transition. EFRAG IAWG members thought the amendments are small steps in the right direction, but that the resulting	IASB staff paper 2E

	(b) Additional relief requested for the fair value approach where there is an option to set the accumulated OCI balance on insurance liabilities to nil on transition.	that it expects that estimates will often be needed when applying a specified modification in the modified retrospective approach. (b) No relief recommended because it would involve subjectivity and the risk of the use of hindsight in determining which assets relate to the insurance contracts. Therefore, it could result in a significant loss of useful information and reduce comparability.	application of the MRA will not be very practicable.	
Annual cohorts	EFRAG agrees with the IASB's reporting objectives of the level of aggregation requirements in IFRS 17 and acknowledges that the annual cohort requirement has been identified as a practical simplification. Nonetheless, EFRAG considers that this requirement leads to unnecessary costs in some fact patterns. Feedback from EFRAG's constituents confirms that the issue relates to contracts with the characteristics described in paragraphs B67 - B71 that have 'substantial' risk sharing. 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 for which cash flow matching techniques	The IASB staff recommended the IASB Board to retain, unchanged, the annual cohort requirement.	Implications to be assessed.	

	are applied across generations. EFRAG recommends 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. The letter included, as well, a proposal for additional disclosure.			
Other topics	Not included	*Treatment of specific cash flows in the variable fee approach – no changes proposed:* The IASB staff observed that different respondents favoured different suggested ways of amending IFRS 17. For some suggestions, the IASB staff thought that there could be unintended consequences, could reduce comparability and increase complexity. Also, any further application guidance or educational material could be disruptive to IFRS 17 implementation.	No remaining concerns.	IASB staff paper 2F