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## **IFRS 17 Insurance Contracts FEA Cover Note**

### **Objective**

- 1 The objective of this meeting is to:
  - (1) consider comments received in response to EFRAG's Invitation to Comment on its draft endorsement advice ('DEA') on IFRS 17 Insurance Contracts as amended in June 2020; and
  - (2) discuss and agree to recommend to the EFRAG Board Appendix I, Appendix II and Appendix III of the draft final endorsement advice ('FEA').

### **Background**

- 2 The DEA is composed of:
  - (1) the Cover Letter;
  - (2) Annex 1 (observations about the use of annual cohorts to intergenerationally mutualised and cash-flow matched contracts that are relevant for the DEA assessment of topics usually presented in Appendices II and III);
  - (3) Appendix I (description of the requirements in IFRS 17);
  - (4) Appendix II (DEA assessment and conclusion about the qualitative technical characteristics of all the other requirements in IFRS 17); and
  - (5) Appendix III (DEA assessment and conclusion about European Public Good about all the other requirements in IFRS 17).
- 3 The scope of all sessions on IFRS 17 on 3/4 March 2021 excludes the assessment on the Cover Letter and Annex I of EFRAG's endorsement advice. The updates to the Cover Letter and Annex 1 will be discussed at the meeting on 23 March 2021.
- 4 Notwithstanding the above, three questions relating to the cover letter have been included in this session as they pertain to comments received during the consultation.

### **Approval plan**

- 5 IAWG 2 March 2021. To receive inputs from the members on how possible changes to the FEA reflecting the outcome of the consultation.
- 6 TEG 3/4 March 2021. First decision-making session. To discuss comments received. To discuss and approve Appendices I, II and III.
- 7 Board 15 March 2021. First decision-making session. To discuss a debriefing from IAWG and TEG discussions. To validate changes to Appendices I, II and III.
- 8 TEG 23 March 2021. Second and final decision-making session. To discuss and approve changes to the Cover Letter and Annex 1.

- 9 Board 29 March 2021. Second and final decision-making session. To discuss and approve the Cover Letter and Annex 1.

**Summary of proposed changes to Appendix I, Appendix II and Appendix III of the FEA**

- 10 There were no comments received on Appendix I to the FEA and therefore the EFRAG Secretariat proposes no changes.
- 11 The package presented to EFRAG TEG in this session incorporates the following proposed main changes:

Appendix II

- (1) In relation to the relevance criteria for reinsurance contracts held and issued - the EFRAG Secretariat proposes to acknowledge that the risk mitigation option cannot be applied retrospectively, leaving mismatches at transition unaddressed.
- (2) In relation to the relevance criteria for business combinations – the EFRAG Secretariat proposes to include that the accounting treatment for contracts acquired in their settlement period lacks a sound conceptual basis and state that passing the cost-benefit assessment is doubtful. The EFRAG Secretariat also proposes to mention that the cost-benefit assessment for endorsement is not performed per requirement.

Appendix III

- (3) In relation to the interaction of IFRS 17 with IFRS 9 – the EFRAG Secretariat proposes to add that the ‘fair value through profit or loss’-measurement of puttable financial instruments under IFRS 9 may not reflect the way assets are managed in a long-term investment business model, which may limit the relevance of the information.
- (4) In relation to the key features of IFRS 17 – the EFRAG Secretariat proposes to add that the determination of contract boundaries to reinsurance contracts held will result in accounting mismatches due to applying different discount rates, measure differently the contract’s CSM, determine different coverage periods, apply different risk adjustments and retain different release patterns for that risk. The EFRAG Secretariat also proposes to add that the separate assessment of the contract boundaries for reinsurance contracts held will enable reflecting the expected gain or loss from the reinsurance of future underlying contracts not yet issued, but it involves extensive use of judgment and estimates, therefore questioning the cost-benefit.
- (5) In relation to the potential effect of IFRS 17 on small and medium enterprises (SME’s) – the EFRAG Secretariat proposes to add that proportionality measures should be considered in requesting insurance companies to apply IFRS 17, in particular through the application of art. 5 of the IAS Regulation.
- (6) In relation to the Covid-19 pandemic – the EFRAG Secretariat suggests updating the section based on the latest developments around the impact on elevated macro risks, cost of capital and implementation of IFRS 17.
- (7) References to the comment letters of ESMA and EIOPA have also been included.

**Questions for EFRAG TEG**

- 12 Does EFRAG TEG have any comments on the Comment Letter Analysis?
- 13 Does EFRAG TEG have any comments on Appendix I of the FEA?
- 14 Does EFRAG TEG approve and agree to recommend Appendix I of the FEA to EFRAG Board?
- 15 Does EFRAG TEG have any comments on Appendix II of the FEA?
- 16 Does EFRAG TEG approve and agree to recommend Appendix II of the FEA to EFRAG Board?
- 17 Does EFRAG TEG have any comments on Appendix III of the FEA?
- 18 Does EFRAG TEG approve and agree to recommend Appendix III of the FEA to EFRAG Board?
- 19 Two issues that were reported with particular prominence by respondents are (i) the absence of recycling of gains or losses of equity instruments under IFRS 9 and (ii) the need for specific changes in the Capital Requirements Regulation (CRR) for the benefit of financial conglomerates. Does EFRAG TEG consider that these two issues should be addressed in the cover letter? Please explain.
- 20 The consultation resulted in a list of topics that respondents suggest should be considered by the IASB in a timely post-implementation review of IFRS 17. This list is presented in Agenda Paper 01-08. These issues are broadly covered in the assessment of the specific requirements of IFRS 17 presented in the endorsement advice. Does EFRAG TEG consider appropriate to report in the cover letter or elsewhere in the Appendices that respondents would like to these issues assessed in the post implementation review?

**Agenda Papers**

- 21 In addition to this cover note, agenda papers for this session are:
  - (1) Agenda paper 01-02 – IFRS 17 FEA – Issues paper summarising the comment letters received;
  - (2) Agenda paper 01-02A – IFRS 17 FEA – Slide pack summarising the comment letter analysis;
  - (3) Agenda paper 01-03 – IFRS 17 FEA – Appendix I of the FEA;
  - (4) Agenda paper 01-04 – IFRS 17 FEA – Appendix II of the FEA;
  - (5) Agenda paper 01-05 – IFRS 17 FEA – Appendix II of the FEA (tracked changes);
  - (6) Agenda paper 01-06 – IFRS 17 FEA – Appendix III of the FEA; and
  - (7) Agenda paper 01-07 – IFRS 17 FEA – Appendix III of the FEA (tracked changes); and
  - (8) Agenda paper 01-08 – IFRS 17 FEA – Issues paper discussing the concerns for a PIR.