IFRS 17 Insurance Contracts DEA

Preliminary summary of feedback received

3-4 MARCH 2021

Agenda paper 01-02A

EFRAG

European Financial Reporting Advisory Group

Where we are in the EFRAG process

- EFRAG DEA issued for comments on 29 September 2020
- Comment period ended 29 January 2021
- No official EFRAG position on how the DEA will change to address comments
- Discussion and approval process of the FEA planned in March 2021
- Contents in this presentation refer to the comment letters received by EFRAG which are public and can be found on EFRAG website

Overview

- EFRAG DEA
- Overview of respondents
- True and Fair View
- European public good
- Other questions wrt European public good

EFRAG DEA

IFRS 17 consensual advice apart from annual cohorts

EFRAG Board has concluded on a consensus basis that, apart from the requirement to apply annual cohorts to intergenerationally-mutualised (‘IGM’) and cashflow matched contracts (‘CFM’), on balance, all the other requirements of IFRS 17

- meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support ‘economic decisions and the assessment of stewardship
- raise no issues regarding prudent accounting
- do not create any distortion in their interaction with other IFRS Standards and that all necessary disclosures are required
- EFRAG has concluded that all the other requirements of IFRS 17 are not contrary to the true and fair view principle
- all the other requirements of IFRS 17 would improve financial reporting and would reach an acceptable cost-benefit trade-off
- EFRAG assesses that all the other requirements in IFRS 17, on balance, are conducive to the European public good.

Annual cohorts

- Nine EFRAG Board members consider that overcoming in a timely manner the issues of IFRS 4 brings sufficient benefits despite the concerns on annual cohorts. They believe that, in the absence of an alternative principles-based approach to grouping of contracts, on balance the annual cohorts requirement provides an acceptable conventional approach that enables to meet the reporting objectives of the level of aggregation of IFRS 17.
- Seven EFRAG Board members consider that in many cases in Europe the requirement to apply annual cohorts for IGM and CFM contracts will result in information that is neither relevant nor reliable.
  - This is because the requirement does not depict an entity's rights and obligations and results in information that represents neither the economic characteristics of these contracts nor the entity's underlying business model.
  - These EFRAG Board members also consider that this requirement is not conducive to the European public good because it:

    (i) adds complexity and cost and does not bring benefits in terms of the resulting information,

    (ii) may lead to unintended incentives to change the way insurers cover insurance risks and

    (iii) may produce pro-cyclical reporting effects

Contents required by the Commission and Parliament

- Benefits compared to existing situation including consistent and understandable reporting
- Clarity of scope of VFA to provide understandable information
- Pattern of release of CSM (contractual service margin)
- Specificities of the insurance sector
- Potential effects on financial stability, competitiveness and insurance market
- Cost-benefit analysis
- Views from EBA and ESMA
- Presentation of general insurance contracts
- Interaction between IFRS 17 and Solvency II
- Impact on long-term investment in the EU, procyclicality and volatility
- Application of IFRS 15 as well as transitional requirements
- Impact on reinsurance
- Annual cohort requirement

Overview of respondents

Overview of respondents

By country

	No.
Austria	1
Belgium	1
Europe	8
France	7
Germany	5
Global/Europe*	7
Italy	6
Poland	1
Netherlands	1
Spain	2
UK	1
Total	**40**

By type

	No.
Actuarial organisation	4
Government	1
National Standard Setter	5
Preparer	16
Accounting organisations and auditors	9
Regulator	2
User (2 user organisations)	3
Total	**40**

By type of response

	No.
Invitation to comment	24
Letter	16
Total	**40**

* Refers to global organisations with a European presence, e.g., global auditing firms

IFRS 17 DEA - True and fair view

Responses to True and Fair view questions: overview

- **Question 2a:** Do all the other requirements in IFRS 17, apart from the application of annual cohorts to IGM and CFM contracts, meet the technical requirements?
- **Question 2b**: Do the requirements in IFRS 17 relating to the application of annual cohorts to IGM contracts meet the technical requirements?
- **Question 2c:** Do the requirements in IFRS 17 relating to the application of annual cohorts to CFM contracts meet the technical requirements?

	"Yes"	"No"	Both "Yes" and "No"	No answer[1]
Q2a: Criteria met for all other requirements?				
ITC	19 (1 user, 1EUO)	3	2	-
Letter	7	-	-	9 (1 IUO)[2]
	26 (1 user, 1 EUO)	**3**	**2**	**9 (1 IUO)**
Q2b: Criteria met for annual cohorts for IGM?				
ITC	8 (1 user)	15 (1 EUO)	-	4
Letter	5	7	-	1 (1 IUO)
	13 (1 user)	**22 (1 EUO)**	**-**	**5 (1 IUO)**
Q2c: Criteria met for annual cohorts for CFM?				
ITC	7 (1 user)	7 (1 EUO)	-	10
Letter	5	5	-	6 (1 IUO)
	12 (1 user)	**12 (1 EUO)**	**-**	**16 (1 IUO)**

[1] This refers to no response provided (either in ITC or letter) or marked as not applicable. Further details can be found in the annex.
[2] Four of these supported endorsement and five wanted a solution for annual cohorts.

IGM: intergenerationallly-mutualised contracts **CFM**: cashflow-matched contracts

IOU: International user organisation **EUO**: European user organisation

Reasons for NO: requirements apart from cohorts

- Several issues to be addressed in a Post-Implementation Review of IFRS 17
- IFRS 9 and 17 introduce artificial P&L and solvency ratio volatility for financial conglomerates
- The transition requirements do not meet the qualitative characteristics
- Not clear whether EFRAG recommends the adoption of IFRS 17 as a whole or whether IFRS 17 fails to meet the adoption criteria.

Reasons for NO: cohorts (1 of 4)

Intergenerationally-mutualised contracts

- The annual cohort is not the level at which an entity is able to determine profitability
- For contracts for which the entity's management can contractually exercise its discretion, there will be, after their initial recognition, a subjective determination of a cohort's CSM
- Requirement does not faithfully reflect the investment service to the policyholders/ will significantly reduce the usefulness of reported information
- Use of judgement to such an extent that it results in information neither reliable nor comparable
- An entity is unable to perform a rational allocation of FCF – and thus, to determine a CSM at a cohort level – after the initial recognition of a group of contracts
- An entity is unable to rationally allocate the changes in the amount of its share of the fair value of the underlying items between annual cohorts
- The annual cohort requirement has no added value with regard to the contracts that include a financial guarantee which reduces the payments to policyholders in other groups of contracts
- In periods of financial stress, the risk of reflecting a different accounting reality than the economic substance is higher
- In the absence of a proper solution, the increased volatility, relating to investors' invested capital no longer being stable over time

Reasons for NO: cohorts (2 of 4)

Intergenerationally-mutualised contracts (continued)

- Distorted representation of the CSM, impossible to determine objectively the allocation of cash flows to the cohorts – artificial allocation / artificial allocation of assets by contract generation / difficult for auditors to challenge compliance due to arbitrary criteria and judgement
- When the cash flows are contractually or legally determined jointly for all policyholders, there is no reason to track the profitability of contracts at a lower level of granularity. There is no onerous contract until the portfolio as a whole becomes onerous
- Implementation and operational costs will not provide any benefit / No solution will increase significantly the cost of preparing the financial reporting
- Could influence the way insurance coverage system is organised and lead to a change in the pricing and/or in the design of insurance products for sole accounting purposes
- Does not reflect economic reality
- The most commonly shared and relevant unit of account that would lead to comparable and understandable figures is the group of contracts without annual cohorts
- Contracts of a portfolio are contractually or legally sharing the overall returns of the same pool and not granular / all the contracts within the Segregated Funds managed as a single set
- A number of disclosures can be used to replace the annual cohort requirement

Reasons for NO: cohorts (3 of 4)

Cash flow matched contracts

- A reduced number of contracts in the cohort with a different profile composition will generate more variability in the adjustments in the CSM and increase the scope for “onerous” cohorts
- Annual cohorts will not result in information that is either relevant or reliable. The cash flow matched contracts are associated with a pool of assets. The assets are regulated and, managed in a separated way from the rest of the company (specific to Spain)
- The annual cohorts for such contracts will significantly reduce the usefulness of reported information.
- No solution for the issue will increase significantly the cost of preparing the financial reporting and the resulting financial information will not be as useful
- Description of business model:
  - They noted that cash flow matched contracts are associated with a pool of assets. The assets are regulated and managed in a separated way from the rest of the company. These contracts are used to promote the long-term savings of population in Spain in the form of life annuities, both immediate and deferred annuities. Spanish insurers mainly provide a long-term fixed guarantee on interest rate to policyholders that does not change over time even if the market interest rates change. This guaranteed interest rate credited to the policyholder is set by companies based on the observable market yield of the investment portfolio assigned for the expected duration of the benefits (life expectancy in life annuities) when the contract is underwritten. Only under exceptional circumstances, the policyholder will surrender. If this is the case, the amount of surrender will be closely linked with the market value of the underlying portfolio (i.e., insurance companies do not bear the underlying market risk in case of a surrender benefit payment).

Reasons for NO: cohorts (4 of 4)

Cash flow matched contracts

- Considering the above pricing methodology, insurers earn an expected constant financial margin that is the difference between the internal rate of return of financial assets and the guaranteed interest rate credited to the policyholder, while they are exposed to other non-financial risks that would determine the overall margin.
- Under cash flow matching techniques, insurers group contracts issued more than one year apart. The groups are mainly defined considering the aggregation of homogenous insurance and financial risks. The optimisation of the asset and liability management mechanism and the underlying cash flows require that the size of these groups of assets and policies be big enough. The objective of these techniques is to ensure that the expected cash flows to be paid to policyholders match the future cash flows arising from the financial assets held by insurers (mainly fixed-debt instruments), in terms of timing, amount and currency. Calculations are prescribed by regulation and require monitoring the matching of the cash flows in monthly buckets until the extinction of the in-force group of contracts. There are also compulsory quarterly reviews to ensure there is not a mismatch. By applying these techniques, there is an intergenerational risk sharing among policyholders, in particular longevity and financial risks, which is also the basis on which the pricing of these contracts is established and how are built the internal actuarial statistical models used to estimate expected cash flows.
- For these reasons, the respondent considers that allocate a contractual service margin to annual cohorts is going to be artificial and it is not going to result in useful information. That is because the result for these contracts is an expected constant financial margin. The objective of providing useful information about cash flow matched contracts could be reached through other means. For instance, they suggest including additional disclosures.

Comments received to True and Fair view questions

	No. of respondents
No delay to IFRS 17's effective date of 1 January 2023	22
No EU-specific modification	17[1]
In favour of annual cohort solution (total) of which:	23
• In favour for both IGM and CFM contracts	*12*
• In favour for IGM contracts	*10*
• Contracts not specified	*1*[1]
Annual cohort solution should be optional	11
No view on annual cohorts	1

[1] A user organisation provided a majority view (IFRS 17 unchanged) and a minority view (solution for annual cohorts).

IGM: intergenerationallly mutualised contracts **CFM**: cash flow matched contracts
Please see Annex for further information.

Comments received by type of respondent

	Actuaries	Govt.	NSS	Preparer[1]	Acc. org.	Regulator	User	Total
No delay to 2023 effective date	**1**	**-**	**3**	**10**	**6**	**-**	**2**	***22***
No EU-specific modification	**1**	**-**	**2**	**3**	**7**	**2**	**2** [2]	***17***
In favour of annual cohort solution	**3**	**1**	**3**	**12**	**2**	**-**	**2** [2]	***23***
- In favour for both IGM and CFM	*-*	*1*	*2*	*7*	*1*	*-*	*1*	*12*
- Om favour for IGM contracts	*3*	*-*	*1*	*5*	*1*	*-*	*-*	*10*
- Unspecified	*-*	*-*	*-*	*-*	*-*	*-*	*1*[1]	*1*
Annual cohort solution should be optional	**2**	**1**	**-**	**8**	**-**	**-**	**-**	***11***
No view on annual cohort issue	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**

[1] Includes preparer organisations.
[2] A user organisation provided a majority view (IFRS 17 unchanged) and a minority view (solution for annual cohorts).

IGM: intergenerationallly-mutualised contracts **CFM**: cashflow-matched contracts
IOU: International user organisation **EUO**: European user organisation

Please see Annex for further information.

Comments received by country of respondent

	AT	BE	Europe	ES	FR	DE	Global/ Europe	IT	PO	NL	UK	Total
No delay to 2023 effective date	**-**	**1**	**3**	**1**	**5**	**3**	**6**	**2**	**-**	***1***	**-**	***22***
No EU-specific modification	**-**	**1**	**3**	**-**	**-**	**4**	**7**	**1**	**-**	***1***	**-**	***17***
In favour of annual cohort solution	**1**	**-**	**5**	**2**	**7**	**1**	**1**	**5**	**1**	**-**	**-**	***23***
- In favour for both IGM and CFM	*-*	*-*	*4*	*2*	*2*	*1*	*-*	*2*	*1*	*-*	*-*	*12*
- Om favour for IGM contracts	*1*	*-*	*1*	*-*	*5*	*-*	*-*	*3*	*-*	*-*	*-*	*10*
- Unspecified	*-*	*-*	*-*	*-*	*-*	*-*	*1*	*-*	*-*	*-*	*-*	*1*
Annual cohort solution should be optional	**1**	**-**	**5**	**1**	**1**	**1**	**-**	**1**	**1**	**-**	**-**	**11**
No view on annual cohort issue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**

IGM: intergenerationallly-mutualised contracts **CFM**: cashflow-matched contracts
IOU: International user organisation **EUO**: European user organisation

Please see Annex for further information.

IGM: intergenerationallly-mutualised contracts **CFM**: cashflow-matched contracts

Further information provided by respondents

Prevalence of IGM and CFM contracts in Europe

- In **Italy,** IGM contracts amount to 72% of the total life technical provisions as of 30 September 2020.
- In **France**, the annual cohorts requirement is an issue for **all** life and health contracts and investment contracts with discretionary participation features which are not unit-linked.
- Annual cohorts are an issue for 89% for contracts where the matching adjustment is applied in **Spain** (CFM contracts).

Indicating support for early adoption

	Actuaries	Preparer	Total
By respondent type	1	3	***4***

	Belgium	Germany	Spain	Total
By respondent country	1	2	1	***4***

IFRS 17 DEA - European public good

Responses with regard to European public good

- **Question 3a:** Are all the other requirements in IFRS 17, apart from the application of annual cohorts to IGM and CFM contracts, conducive to European public good?
- **Question 3b**: Are the requirements in IFRS 17 relating to the application of annual cohorts to IGM contracts conducive to European public good?
- **Question 3c:** Are the requirements in IFRS 17 relating to the application of annual cohorts to CFM contracts conducive to European public good?

	"Yes"	"No"	No answer[1]
Criteria met for all other requirements?			
ITC	21 (1 user, 1 EUO)	3	-
Letter	7	-	9 (1 IUO)
	28 (1 user, 1 EUO)	**3**	**9 (1 IUO)**
Criteria met for annual cohorts relating to IGM contracts?			
ITC	8 (1 user)	15 (1 EUO)	1
Letter	5	7	4 (1 IUO)
	13 (1 user)	**22 (1 EUO)**	**5 (1 IUO)**
Criteria met for annual cohorts relating to CFM contracts?			
ITC	7 (1 user)	7 (1 EUO)	10
Letter	5	5	6 (1 IUO)
	12 (1 user)	**12 (1 EUO)**	**16 (1 IUO)**

[1] This refers to no responses being provided (either in ITC or letter) or marked as not applicable
For more information, please see the Annex.

IGM: intergenerationallly-mutualised contracts **CFM**: cashflow-matched contracts

IOU: International user organisation **EUO**: European user organisation

Reasons for NO: all requirements apart from cohorts

- Three transition approaches impair comparability
- Imbalance between the benefits and costs of the annual cohort requirement
- Remaining PIR issues (including mismatches that arise at transition under fair value approach, CSM amortization, scope of hedging and interaction with IFRS 9)

Reasons for NO: cohorts for IGM

- Additional costs do not outweigh benefits in terms of financial reporting improvements
- Methods to determine the information on an annual cohort basis may not be comparable
- The annual cohort requirement may not depict an insurer's profitability faithfully
- Increased volatility in the profit or loss results
  - complexity in reporting and communication of the financial results
  - insurers may withdraw products or increase their prices
- May have to do asset-liability management on cohort level which would be inefficient
- Risks procyclical reporting effects
- Risk that the cost of implementation will affect the policyholders
- The annual cohort requirement introduces inconsistency with the contractual terms and asset management
- The information is costly to be understood
- Stakeholders (including sophisticated users) are not very interested in the expensive Solvency II results
- Lower aggregation cuts across management, pricing and risk-management decisions - inappropriate outcome
- The requirement is inconsistent with the business model and how these contracts are designed and managed.
- Adds unnecessary complexity and could disincentive these savings contracts
- Design of insurance products, financial asset management policy and current coverage system could be impacted while approved by the regulator

Reasons for NO: cohorts CFM

- These contracts promote long-term savings in Spain and usually include long-term fixed rate guarantees. The requirement combined with the persistent low interest rate environment could discourage the sale of these contracts in favour of unit-linked type products.
- The requirement would increase the implementation and ongoing costs as the actuarial statistical models used to estimate expected cash flows are based in asset liability management.
- The annual cohort requirement for the Spanish long-term savings-products (cash-flow matched products) is not justified and inconsistent with the insurance business principles.
- Furthermore, it would lead to artificial variability in the adjustments of the CSM in senior cohorts and increases the scope of potential onerous cohorts. However, any solution should be optional and should not delay the 2023 effective date.
- The insurance business model manages the interest rate (reinvestment) and insurance (longevity/survival) risks of a large pool of contracts by matching cash flows from the pool of assets to the expected benefits of policyholders.
- Longevity risk is estimated on the basis of internal models that group together a large number of elements covering a population of multiyear contracts.
- Grouping by cohorts distorts the profitability reporting of these contracts that do not exist in a broader view. This will not provide useful information because of the pricing, the business and risk management techniques are applied at portfolio level and not on an annual cohort basis.

Reasons for NO: cohorts CFM

- Senior cohorts will have a lower number of policyholders of a similar age over time, resulting in a sample of contracts that are not representative of the insured population or the actuarial assumptions. This increases variability in the adjustments to the CSM and the scope for “onerous” cohorts as in the actuarial assumptions are based on the whole population.
- Therefore, cohorts would generate “artificial” variability in performance, and not be aligned with the economic performance. The product would be expected to provide a stable margin with no significant variation from the pricing assumptions in relation to longevity risk of the global population.
- The resulting financial information provided would not be easily understandable by users and could be confusing, leading investors to consider that an entity lacks a good risk management framework.
- The requirement will significantly increase the cost of preparing the financial reporting and the resulting financial information will not be useful.
- This should be resolved as part of the endorsement of IFRS 17 by the European Union, but such a solution should be optional and furthermore should not delay the effective date of 1 January 2023.
- A potentially simple solution would be that an entity is not required to apply paragraph 22 to contracts and the related assets that meet the conditions set out in Article 77b of the Solvency II - Directive 2009/138/EC (i.e. eligible for the matching adjustment).

Other questions on European public good

Other questions: reasons for disagreement (1 of 5)

`	Agree with EFRAG	Disagree with EFRAG	Both "Yes" and "No"	No answer[1]
4. Improvement in financial reporting	25 (3 users)	3	2	10
5. Costs and benefits	18 (1 user)	3 (1 EUO)	1	18 (1 IUO)

For further granular information, please refer to Agenda Paper 01-02 IFRS 17 Comment letter analysis
[1] This refers to no response provided or marked as not applicable
IOU: International user organisation **EUO**: European user organisation

Q 4: Improvement in financial reporting

- Different methodologies and judgement required: CSM allocation, risk adjustment calculation and VFA eligibility
- Disclosures should be only of material items to avoid excessive details
- Mismatches that arise under fair value approach, CSM amortisation, reinsurance, multi-component contracts, interaction with IFRS 9 and business combinations
- Calculation of regulatory capital requirements of conglomerates
- IFRS 4 already allows current estimates and an allowance for risk; IFRS 17 complexity is unnecessary

Q 5: Costs and benefits

- Costs outweigh benefits of increased comparability and relevance due to complexity; would worsen if no solution for annual cohorts
- Very difficult to quantify and measure the benefits of IFRS 17
- Significant proportion of the implementation costs has already been incurred
- Costs relating to the implementation of the annual cohort requirement leads to a negative assessment, but the benefits of other requirements exceed the related costs

Other questions: reasons for disagreement (2 of 5)

`	Agree with EFRAG	Disagree with EFRAG	Both "Yes" and "No"	No answer[1]
6. Financial stability	20 (1 user, 1 EUO)	3	-	17 (1 IUO)
7. Competitiveness	22 (1 user, 1 EUO)	-	-	18 (1 IUO)
8a. Pricing and product offerings	22 (1 user, 1 EUO)	-	-	18 (1 IUO)
8b. Asset allocation	21 (1 user, 1 EUO)	2	-	17 (1 IUO)
8c. SMEs	16 (1 user, 1 EUO)	4	1	19 (1 IUO)

For further granular information, please refer to Agenda Paper 01-02 IFRS 17 Comment letter analysis

[1] This refers to no response provided or marked as not applicable

IOU: International user organisation **EUO**: European user organisation

Q 6: Financial stability

- The behaviour of long-term contracts under stressed market conditions where CSM is immediately impacted by changes in the value of options and guarantees. The downside volatility is procyclical. Hence, improved transparency - allowing investors to react more timely – does not mitigate volatility and procyclicality.
- The volatility induced by market consistent measurement is artificially amplified by the annual cohorts' requirement

Q 8b: Asset allocation

- Will also be based on accounting treatment (e.g., change in use of derivatives depending qualification for hedge accounting or invest less in equities due to lack of recycling under IFRS 9)

Q 8c: SMEs

- EFRAG's analysis on SMEs affected by IFRS 17 is misleading. To define "small" insurers, EFRAG uses EIOPA's definition of small insurers for which Solvency II requirements do not apply. This means that EFRAG's analysis focuses only on extremely small insurers and fails to consider the large number of small and medium unlisted insurers which apply IFRS as part of the option under article 5 of the IAS regulation in Europe.
- A proportionate approach should be adapted such as in Solvency II.

Other questions: reasons for disagreement (3 of 5)

`	Agree with EFRAG	Disagree with EFRAG	Both “Yes” and “No”	No answer[1]
9. Presentation of general insurance contracts	14 (1 user)	6	1	19 (1 IUO, 1 EUO)
10. IFRS 17 and Solvency II	23 (1 user, 1 EUO)	-	-	17 (1 IUO)
11a. Long-term investment	21 (1 user, 1 EUO)	1	-	18 (1 IUO)
11b. Procyclicality and volatility	18 (1 user, 1 EUO)	5	-	17 (1 IUO)

For further granular information, please refer to Agenda Paper 01-02 IFRS 17 Comment letter analysis

[1] This refers to no response provided or marked as not applicable **IOU**: International user organisation **EUO**: European user organisation

Q 9: Presentation of general insurance contracts
- Non-presentation of insurance receivables and payables, and collateral reinsurance deposits
- Lack of guidance on presentation of expenses by nature or by function means results will not be comparable
- Insurance service result will not be comparable to information currently provided
- Interaction between IFRS 17 and IFRS 9 for financial conglomerates
- Treatment of contracts acquired in their settlement period in a business combination or portfolio transfer

Q 11a: Long-term investment
- Lack of recycling of equity instruments under IFRS 9

Q 11b: Procyclicality and volatility
- The impact on the regulatory capital requirements for financial conglomerates
- The locked in discount rate under the general model leads to accounting volatility
- For conglomerates, the IFRS results may be relevant for dividend distribution purposes

Other questions: reasons for disagreement (4 of 5)

`	Agree with EFRAG	Disagree with EFRAG	Both "Yes" and "No"	No answer[1]
12a. Hedge accounting	15 (1 user, 1 EUO)	3	1	21 (1 IUO)
12b. OCI balances and risk mitigation	12 (1 user)	9	1	18 (1 EUO, 1 IUO)
13. IFRS 15	21 (1 user, 1 EUO)	-	-	19 (1 IUO)
14. Transitional requirements	19 (1 user, 1 EUO)	3	2	16 (1 IUO)

For further granular information, please refer to Agenda Paper 01-02 IFRS 17 Comment letter analysis

[1] This refers to no response provided or marked as not applicable

IOU: International user organisation **EUO**: European user organisation

<u>Q 12a: Hedge accounting</u>

- Lack of recycling of equity instruments under IFRS 9
- Lack of macro hedge model for insurance liabilities

<u>Q 12b: OCI balances and risk mitigation</u>

- The impact on the regulatory capital requirements for financial conglomerates
- The locked in discount rate under the general model leads to accounting volatility
- For conglomerates, the IFRS results may be relevant for dividend distribution purposes
- Risk mitigation is an integral part of normal business operations in the insurance industry and is routinely planned and documented. There should be no significant difficulty in providing the evidence in practice to support the retrospective application of the risk mitigation option.

<u>Q 14: Transitional requirements</u>

- Complexity of the MRA on transition
- Conceptual reservations about the use of the FVA (use of level-3 measurements) and lack of flexibility in the FRA and MRA which could encourage application of the FVA

Other questions: reasons for disagreement (5 of 5)

	Agree with EFRAG	Disagree with EFRAG	Both "Yes" and "No"	No answer[1]
15. Reinsurance	15 (1 user)	6	1	18 (1 EUO, 1 IUO)
16a. Delay to 2023	22 (1 user, 1 EUO)	-	-	18 (1 IUO)
16b. Early application	21 (1 user, 1 EUO)	1	-	18 (1 IUO)
17. No other factors to consider	20 (1 user)	2 (1 EUO)	-	18 (1 IUO)

For further granular information, please refer to Agenda Paper 01-02 IFRS 17 Comment letter analysis

[1] This refers to no response provided or marked as not applicable **IOU**: International user organisation **EUO**: European user organisation

Reasons for disagreement

Q 15: Reinsurance

- Scope of the VFA
- Contract boundaries

Q 16b: Early application

- Some preparers may want to be able to early adopt

Q 17: No other factors to consider

- Volatility in OCI should be addressed
- Annual cohorts could incorrectly reflect profitability and does not agree to Solvency II classification of life and non-life contracts.

Some further issues highlighted

Q14 Transition

Few respondents touched upon areas broader than IFRS 17

- Retrospective application of IFRS 9 to financial instruments derecognised at date of initial application
- Recycling of gains or losses of equity investments under IFRS 9
- Effects of applying IFRS 9 and IFRS 17 together on the regulatory capital requirements of financial conglomerates

Role of actuaries

Actuaries request a more formal role in relation to IFRS 17

Impact of the pandemic

Broader effects (impacting IFRS 17 and solvency reporting)

- Changes in mortality and morbidity experience
- Changes in financial market variables (e.g., interest rates and credit spreads)

Impact on implementation

- Few respondents reported some delay in their implementation process
- No impact on the 2023 effective date though

Use of updated assumptions and current estimates: views differ

- According to some will lead to transparent, meaningful and instructive financial reporting outcomes
- According to others will lead to volatility, procyclical outcomes in adverse market conditions

Topics raised for IFRS 17 Post Implementation Review

It was suggested that while these topics should not necessarily impact endorsement, they should be resolved by an IFRS 17 PIR at the latest.

Reinsurance contracts held: • Contract boundaries • Qualifying for VFA
Retrospective application of the risk mitigation option (*)
Scope of VFA (B107)
Complexity and inflexibility of MRA method on transition (*)
Amounts recognised in OCI under FVA transition method (*)
Contracts that change nature over time
CSM amortisation
Multi-component contracts
Scope of hedging
Interaction with IFRS 9 including comparatives on transition (*)
Business combinations
Presentation of receivables and payables
Measurement of TVOG[1]
Locked-in discount rate for CSM under General Model
Exclusion of investment components from revenue and claims
Disclosure of portfolios in asset or liability position
Equivalent confidence level disclosure
Interaction between IFRS 17 and IFRS 9 (including hedge accounting)
Wider application issues relating to discount rates

[1]TVOG: time value of options and guarantees
(*) transition requirement

ANNEX – FURTHER DETAILS

Annex: Question 2a (1/3)

Do all the other requirements in IFRS 17, apart from the application of annual cohorts to IGM and CFM contracts, meet the technical requirements?

	Form of response	Yes	No	Yes and No	No answer	Total
Austria		**1**	**-**	**-**	**-**	**1**
Actuarial organisation	ITC	1	-	-	-	1
Belgium		**1**	**-**	**-**	**-**	**1**
Preparer	ITC	1	-	-	-	1
Europe		**6**	**1**	**1**	**2**	**10**
Accounting organisation	ITC	1	-	-	-	1
Actuarial organisation	ITC	1	-	-	-	1
Preparer		-	1	1	2	4
	ITC	*-*	*1*	*1*	*-*	*2*
	Letter	*-*	*-*	*-*	*2*	*2*
Regulator	Letter	2	-	-	-	2
Users	ITC	2	-	-	-	2

Annex: Question 2a (2/3)

Do all the other requirements in IFRS 17, apart from the application of annual cohorts to IGM and CFM contracts, meet the technical requirements?

	Form of response	Yes	No	Yes and No	No answer	Total
France		**5**	**-**	**-**	**2**	**7**
Accounting organisation	Letter	1	-	-	1	2
Actuarial organisation	ITC	1	-	-	-	1
National standard setter	Letter	1	-	-	-	1
Preparer		2	-	-	1	3
	ITC	*2*	*-*	*-*	*-*	*2*
	Letter	*-*	*-*	*-*	*1*	*1*
Germany		**3**	**-**	**-**	**1**	**4**
Actuarial organisation	ITC	1	-	-	-	1
National standard setter	ITC	1	-	-	-	1
Preparer		1	-	-	1	2
	ITC	*1*	*-*	*-*	*-*	*1*
	Letter	*-*	*-*	*-*	*1*	*1*
Global/Europe		**5**	**-**	**-**	**2**	**7**
Accounting organisation		5	-	-	1	6
	ITC	*2*	*-*	*-*		*2*
	Letter	*3*	*-*	*-*	*1*	*4*
User organisation	Letter	-	-	-	1	1

Annex: Question 2a (3/3)

Do all the other requirements in IFRS 17, apart from the application of annual cohorts to IGM and CFM contracts, meet the technical requirements?

	Form of response	Yes	No	Yes and No	No answer	Total
Italy		**5**	**-**	**-**	**-**	**5**
National standard setter	ITC	1	-	-	-	1
Preparer	ITC	4	-	-	-	4
Netherlands		**-**	**-**	**-**	**1**	**1**
National standard setter	Letter	-	-	-	1	1
Poland		**-**	**-**	**-**	**1**	**1**
Government	Letter	-	-	-	1	1
Spain		**-**	**2**	**-**	**-**	**2**
National standard setter	ITC	-	1	-	-	1
Preparer	ITC	-	1	-	-	1
United Kingdom		**-**	**-**	**1**	**-**	**1**
Preparer	ITC	-	-	1	-	1
Total		**26**	**3**	**2**	**9**	**40**

Annex: Question 2b (1/3)

Do the requirements in IFRS 17 relating to the application of annual cohorts to IGM contracts meet the technical requirements?

	Form of response	Yes	No	No answer	Total
Austria		**-**	**1**	**-**	**1**
Actuarial organisation	ITC	-	1	-	1
Belgium		**1**	**-**	**-**	**1**
Preparer	ITC	1	-	-	1
Europe		**4**	**6**	**-**	**10**
Accounting organisation	ITC	1	-	-	1
Actuarial organisation	ITC	-	1	-	1
Preparer		-	4	-	4
	ITC	*-*	*2*	*-*	*2*
	Letter	*-*	*2*	*-*	*2*
Regulator	Letter	2	-	-	2
Users	ITC	1	1	-	2

Annex: Question 2b (2/3)

Do the requirements in IFRS 17 relating to the application of annual cohorts to IGM contracts meet the technical requirements?

	Form of response	Yes	No	No answer	Total
France		**-**	**7**	**-**	**7**
Accounting organisation	Letter	-	2	-	2
Actuarial organisation	ITC	-	1	-	1
National standard setter	Letter	-	1	-	1
Preparer		-	3	-	3
	ITC	*-*	*2*	*-*	*2*
	Letter	*-*	*1*	*-*	*1*
Germany		**3**	**-**	**1**	**4**
Actuarial organisation	ITC	1	-	-	1
National standard setter	ITC	1	-	-	1
Preparer		1	-	1	2
	ITC	*1*	*-*	*-*	*1*
	Letter	*-*	*-*	*1*	*1*
Global/Europe		**5**	**-**	**2**	**7**
Accounting organisation		5	-	1	6
	ITC	*2*	*-*	*-*	*2*
	Letter	*3*	*-*	*1*	*4*
User organisation	Letter	-	-	1	1

Annex: Question 2b (3/3)

Do the requirements in IFRS 17 relating to the application of annual cohorts to IGM contracts meet the technical requirements?

	Form of response	Yes	No	No answer	Total
Italy		**-**	**5**	**-**	**5**
National standard setter	ITC	-	1	-	1
Preparer	ITC	-	4	-	4
Netherlands		**-**	**-**	**1**	**1**
National standard setter	Letter	-	-	1	1
Poland		**-**	**1**	**-**	**1**
Government	Letter	-	1	-	1
Spain		**-**	**2**	**-**	**2**
National standard setter	ITC	-	1	-	1
Preparer	ITC	-	1	-	1
United Kingdom		**-**	**-**	**1**	**1**
Preparer	ITC	-	-	1	1
Total		**13**	**22**	**5**	**40**

Annex: Question 2c (1/3)

Do the requirements in IFRS 17 relating to the application of annual cohorts to CFM contracts meet the technical requirements?

	Form of response	Yes	No	No answer	Total
Austria		**1**	**-**	**-**	**1**
Actuarial organisation	ITC	1	-	-	1
Belgium		**-**	**-**	**1**	**1**
Preparer	ITC	-	-	1	1
Europe		**4**	**5**	**1**	**10**
Accounting organisation	ITC	1	-	-	1
Actuarial organisation	ITC	-	-	1	1
Preparer		-	4	-	4
	ITC	*-*	*2*	*-*	*2*
	Letter	*-*	*2*	*-*	*2*
Regulator	Letter	2	-	-	2
Users	ITC	1	1	-	2
France		**-**	**2**	**5**	**7**
Accounting organisation	Letter	-	1	1	2
Actuarial organisation	ITC	-	-	1	1
National standard setter	Letter	-	1	-	1
Preparer		-	-	3	3
	ITC	*-*	*-*	*2*	*2*
	Letter	*-*	*-*	*1*	*1*

Annex: Question 2c (2/3)

Do the requirements in IFRS 17 relating to the application of annual cohorts to CFM contracts meet the technical requirements?

	Form of response	Yes	No	No answer	Total
Germany		**2**	**-**	**2**	**4**
Actuarial organisation	ITC	1	-	-	1
National standard setter	ITC	1	-	-	1
Preparer		-	-	2	2
	ITC	*-*	*-*	*1*	*1*
	Letter	*-*	*-*	*1*	*1*
Global/Europe		**5**	**-**	**2**	**7**
Accounting organisation		5	-	1	6
	ITC	*2*	*-*	*-*	*2*
	Letter	*3*	*-*	*1*	*4*
User organisation	Letter	-	-	1	1

Annex: Question 2c (3/3)

Do the requirements in IFRS 17 relating to the application of annual cohorts to CFM contracts meet the technical requirements?

	Form of response	Yes	No	No answer	Total
Italy		**-**	**2**	**3**	**5**
National standard setter	ITC	-	-	1	1
Preparer	ITC	-	2	2	4
Netherlands		**-**	**-**	**1**	**1**
National standard setter	Letter	-	-	1	1
Poland		**-**	**1**	**-**	**1**
Government	Letter	-	1	-	1
Spain		**-**	**2**	**-**	**2**
National standard setter	ITC	-	1	-	1
Preparer	ITC	-	1	-	1
United Kingdom		**-**	**-**	**1**	**1**
Preparer	ITC	-	-	1	1
Total		**12**	**12**	**16**	**40**

Comments received (1/3)

	No delay[1]	No EU solution[2]	Solution for ACs[3]	Soln. for both[4]	Soln. for IGM only	Optional soln.[5]
Austria	-	-	**1**	-	-	-
Actuarial organisation	-	-	1	-	-	-
Belgium	**1**	**1**	**-**	**-**	**-**	**-**
Preparer[6]	1	1	-	-	-	-
Europe	**4**	**4**	**6**	**5**	**1**	**5**
Accounting organisation	-	1	-	-	-	-
Actuarial organisation	-	-	1	-	1	1
European user org.	-	-	1	1	-	-
Preparer	3	-	4	4	-	4
Regulator	-	2	-	-	-	-
User	1	1	-	-	-	-

[1]This refers to comments from respondents asking that the effective date of IFRS 17 should be no later than 1 January 2023 as currently required by the IASB.
[2]Some respondents considered that there should be no European version of IFRS 17.
[3]These respondents considered there should be a solution for the annual cohort requirement.
[4]These respondents considered there should be a solution for both intergenerationally-mutualised and cashflow-matched contracts.
[5]These respondents indicated that any solution for annual cohorts should be optional.
[6]Includes preparer organisations.

Comments received (2/3)

	No delay[1]	No EU solution[2]	Solution for ACs[3]	Soln. for both[4]	Soln. for IGM only	Optional soln.[5]
France	**5**	**-**	**7**	**2**	**5**	**1**
Accounting organisation	1	-	2	1	1	-
Actuarial organisation	-	-	1	-	1	-
National Standard Setter	1	-	1	1	-	-
Preparer[6]	3	-	3	-	3	1
Germany	**3**	**4**	**-**	**-**	**-**	**1**
Actuarial organisation	1	1	-	-	-	-
National Standard Setter	1	1	-	-	-	-
Preparer	1	2	-	-	-	1
Global/Europe[7]	**6**	**7**	**1**	**-**	**-**	**-**
Accounting organisation	5	6	-	-	-	-
International user org.[8]	1	1	1	-	-	-

[1]This refers to comments from respondents asking that the effective date of IFRS 17 should be no later than 1 January 2023 as currently required by the IASB.
[2]Some respondents considered that there should be no European version of IFRS 17.
[3]These respondents considered there should be a solution for the annual cohort requirement.
[4]These respondents considered there should be a solution for both intergenerationally-mutualised and cashflow-matched contracts.
[5]These respondents indicated that any solution for annual cohorts should be optional.
[6]Includes preparer organisations.
[7]Includes global organisations with a strong presence in Europe such as auditing firms.
[8]This respondent did not specify to which contracts a possible solution should apply.

Comments received (3/3)

	No delay[1]	No EU solution[2]	Solution for ACs[3]	Soln. for both[4]	Soln. for IGM only	Optional soln.[5]
Italy	**1**	**-**	**5**	**2**	**3**	**1**
National Standard Setter	1	-	1	-	1	-
Preparer[6]	-	-	4	2	2	1
Netherlands	**1**	**1**	**-**	**-**	**-**	**-**
National Standard Setter	1	1	-	-	-	-
Poland	**-**	**-**	**1**	**1**	**-**	**-**
Government	-	-	1	1	-	-
Spain	**1**	**-**	**2**	**2**	**-**	**-**
National Standard Setter	-	-	1	1	-	-
Preparer	1	-	1	1	-	-
Total	**22**	**17**	**23**	**13**	**10**	**11**

[1]This refers to comments from respondents asking that the effective date of IFRS 17 should be no later than 1 January 2023 as currently required by the IASB.
[2]Some respondents considered that there should be no European version of IFRS 17.
[3]These respondents considered there should be a solution for the annual cohort requirement.
[4]These respondents considered there should be a solution for both intergenerationally-mutualised and cashflow-matched contracts.
[5]These respondents indicated that any solution for annual cohorts should be optional.
[6]Includes preparer organisations.

Annex: Question 3a (1/3) Have the European public good criteria been met for all other requirements (excluding annual cohorts).

	Form of response	Yes	No	No answer	Total
Austria		**1**	**-**	**-**	**1**
Actuarial organisation	ITC	1	-	-	1
Belgium		**1**	**-**	**-**	**1**
Preparer	ITC	1	-	-	1
Europe		**7**	**1**	**2**	**10**
Accounting organisation	ITC	1	-	-	1
Actuarial organisation	ITC	1	-	-	1
Preparer		1	1	2	4
	ITC	*1*	*1*	*-*	*2*
	Letter	*-*	*-*	*2*	*2*
Regulator	Letter	2	-	-	2
Users	ITC	2	-	-	2

Annex: Question 3a (2/3) Have the European public good criteria been met for all other requirements (excluding annual cohorts)?

	Form of response	Yes	No	No answer	Total
France		5	-	2	7
Accounting organisation	Letter	1	-	1	2
Actuarial organisation	ITC	1	-	-	1
National standard setter	Letter	1	-	-	1
Preparer		2	-	1	3
	ITC	*2*	*-*	*-*	*2*
	Letter	*-*	*-*	*1*	*1*
Germany		3	-	1	4
Actuarial organisation	ITC	1	-	-	1
National standard setter	ITC	1	-	-	1
Preparer		1	-	1	2
	ITC	*1*	*-*	*-*	*1*
	Letter	*-*	*-*	*1*	*1*
Global/Europe		5	-	2	7
Accounting organisation		5	-	1	6
	ITC	*2*	*-*	*-*	*2*
	Letter	*3*	*-*	*1*	*4*
User organisation	Letter	-	-	1	1

Annex: Question 3a (3/3) Have the European public good criteria been met for all other requirements (excluding annual cohorts)?

	Form of response	Yes	No	No answer	Total
Italy		**5**	**-**	**-**	**5**
National standard setter	ITC	1	-	-	1
Preparer	ITC	4	-	-	4
Netherlands		**-**	**-**	**1**	**1**
National standard setter	Letter	-	-	1	1
Poland		**-**	**-**	**1**	**1**
Government	Letter	**-**	**-**	**1**	**1**
Spain		**-**	**2**	**-**	**2**
National standard setter	ITC	-	1	-	1
Preparer	ITC	-	1	-	1
United Kingdom		**1**	**-**	**-**	**1**
Preparer	ITC	1	-	-	1

Annex: Question 3b (1/3) Have the European public good criteria been met for annual cohorts relating to intergenerationally-mutualised contracts?

	Form of response	Yes	No	No answer	Total
Austria		**-**	**1**	**-**	**1**
Actuarial organisation	ITC	-	1	-	1
Belgium		**1**	**-**	**-**	**1**
Preparer	ITC	1	-	-	1
Europe		**4**	**6**	**-**	**10**
Accounting organisation	ITC	1	-	-	1
Actuarial organisation	ITC	-	1	-	1
Preparer		-	4	-	4
	ITC	*-*	*2*	*-*	*2*
	Letter	*-*	*2*	*-*	*2*
Regulator	Letter	2	-	-	2
Users	ITC	1	1	-	2

Annex: Question 3b (2/3) Have the European public good criteria been met for annual cohorts relating to intergenerationally-mutualised contracts?

	Form of response	Yes	No	No answer	Total
France		**-**	**7**	**-**	**7**
Accounting organisation	Letter	-	2	-	2
Actuarial organisation	ITC	-	1	-	1
National standard setter	Letter	-	1	-	1
Preparer		-	3	-	3
	ITC	-	2	-	2
	Letter	-	1	-	1
Germany		**3**	**-**	**1**	**4**
Actuarial organisation	ITC	1	-	-	1
National standard setter	ITC	1	-	-	1
Preparer		1	-	1	2
	ITC	1	-	-	1
	Letter	-	-	1	1
Global/Europe		**5**	**-**	**2**	**7**
Accounting organisation		5	-	1	6
	ITC	2	-	-	2
	Letter	3	-	1	4
User organisation	Letter	-	-	1	1

Annex: Question 3b (3/3) Have the European public good criteria been met for annual cohorts relating to intergenerationally-mutualised contracts?

	Form of response	Yes	No	No answer	Total
Italy		**-**	**5**	**-**	**5**
National standard setter	ITC	-	1	-	1
Preparer	ITC	-	4	-	4
Netherlands		**-**	**-**	**1**	**1**
National standard setter	Letter	-	-	1	1
Poland		**-**	**1**	**-**	**1**
Government	Letter	-	1	-	1
Spain		**-**	**2**	**-**	**2**
National standard setter	ITC	-	1	-	1
Preparer	ITC	-	1	-	1
United Kingdom		**-**	**-**	**1**	**1**
Preparer	ITC	-	-	1	1

Annex: Question 3c (1/3) Have the European public good criteria been met for annual cohorts relating to cashflow-matched contracts?

	Form of response	Yes	No	No answer	Total
Austria		**1**	**-**	**-**	**1**
Actuarial organisation	ITC	1	-	-	1
Belgium		**-**	**-**	**1**	**1**
Preparer	ITC	-	-	1	1
Europe		**4**	**5**	**1**	**9**
Accounting organisation	ITC	1	-	-	1
Actuarial organisation	ITC	-	-	1	1
Preparer		-	4	-	4
	ITC	*-*	*2*	*-*	*2*
	Letter	*-*	*2*	*-*	*2*
Regulator	Letter	2	-	-	2
Users	ITC	1	1	-	2

Annex: Question 3c (2/3) Have the European public good criteria been met for annual cohorts relating to cashflow-matched contracts?

	Form of response	Yes	No	No answer	Total
France		**-**	**2**	**5**	**7**
Accounting organisation	Letter	-	1	1	2
Actuarial organisation	ITC	-	-	1	1
National standard setter	Letter	-	1	-	1
Preparer		-	-	3	3
	ITC	*-*	*-*	*2*	*2*
	Letter	*-*	*-*	*1*	*1*
Germany		**2**	**-**	**2**	**4**
Actuarial organisation	ITC	1	-	-	1
National standard setter	ITC	1	-	-	1
Preparer		-	-	2	2
	ITC	*-*	*-*	*1*	*1*
	Letter	*-*	*-*	*1*	*1*
Global/Europe		**5**	**-**	**2**	**7**
Accounting organisation		5	-	1	6
	ITC	*2*	*-*	*-*	*2*
	Letter	*3*	*-*	*1*	*4*
User organisation	Letter	-	-	1	1

Annex: Question 3c (3/3) Have the European public good criteria been met for annual cohorts relating to cashflow-matched contracts?

	Form of response	Yes	No	No answer	Total
Italy		**-**	**2**	**3**	**5**
National standard setter	ITC	-	-	1	1
Preparer	ITC	-	2	2	4
Netherlands		**-**	**-**	**1**	**1**
National standard setter	Letter	-	-	1	1
Poland		**-**	**1**	**-**	**1**
Government	Letter	-	1	-	1
Spain		**-**	**2**	**-**	**2**
National standard setter	ITC	-	1	-	1
Preparer	ITC	-	1	-	1
United Kingdom		**-**	**-**	**1**	**1**
Preparer	ITC	-	-	1	1

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Thank you

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