DEA on IFRS 17:

Note from EFRAG TEG to EFRAG Board on the EFRAG TEG vote

This note has been prepared according to EFRAG's internal rules, to inform the EFRAG Board meeting of 10 September 2020 about the EFRAG TEG vote on the IFRS 17 DEA.

EFRAG TEG members met on 3 September 2020 in a public webcast meeting in order to discuss and express a vote on the recommendation to the EFRAG Board of the draft endorsement advice of IFRS 17 *Insurance Contracts* (IFRS 17 DEA).

1. Discussion and vote on the appendices and Annex 1

EFRAG TEG members provided additional editorial suggestions on the Appendices and on Annex 1.

All EFRAG TEG members that voted agreed with the contents of Appendix 1 and to recommend it to the EFRAG Board for issuance.

All EFRAG TEG members that voted agreed with the contents of Appendices 2 and 3 as a technical basis for the assessment and conclusion of all the other requirements of IFRS 17 (the analysis of the requirement to apply annual cohorts to the intergenerationally mutualised and cashflow matched contracts was not in Appendices 2 and 3) and they agreed to recommend the two appendices to the EFRAG Board for issuance.

Under the premise that Annex 1 has been drafted in order to provide a neutral illustration of the technical merit of the two existing views on annual cohorts, all EFRAG TEG members that participated to the vote agreed with the contents of Annex 1 and they agreed to recommend the Annex 1 to the EFRAG Board for issuance.

2. Discussion and vote on the Cover Letter of the DEA

EFRAG TEG members were asked to express their support to the issuance of the DEA as prepared (two of them - Olivier Scherer and Christoph Shauerte – had provided their written vote in anticipation of the meeting as they did not attend). The cover letter has been drafted by the EFRAG Secretariat following the directions of the EFRAG Board. The following is the result of the vote:

- Eight EFRAG TEG members supported the issuance of the DEA as currently drafted. These members expressed their views as follows:
  - One EFRAG TEG member [Erlend Kvaal] positioned himself in the group that supports the application of the annual-cohorts requirement to the intergenerationally-mutualised and cash-flow matched contracts.
  - Seven EFRAG TEG members [Chiara Del Prete, Ana Cortez, Geert Ewalts, Tommaso Fabi, Emmanuelle Guyomard, Vincent Louis, Olivier Scherer] positioned themselves in the group that does not support the application of annual-cohorts requirement to the intergenerationally-mutualised and cash-flow matched contracts.
- Seven EFRAG TEG members [Nicklas Grip, Jens Berger, Sven Morich, David Procházka, Christoph Schauerte, Ambrogio Virgilio, Jed Wrigley], while supporting

a positive endorsement of the standard as issued by the IASB (and resulting from the Amendments), dissented from the approval of the Cover Letter as drafted. Their dissenting opinion is based on the following reasons:

- The descriptions of the impact of the application of annual cohorts to intergenerationally mutualised and cash-flow matched contracts is (even in the positive of the two views) too negative given the current wording "… despite the *concerns* on annual cohorts."
- The conclusion on the endorsement criteria is unfair as it is described as "on balance *all the other requirements* of IFRS 17 meet the qualitative characteristics" implying that the requirement to apply the annual cohorts to intergenerationally mutualised and cash-flow matched contracts does not meet the criteria (page 2 of the Cover Letter).
- The overall advice presented at the end of the letter sounds like an "except for caveat when recommending endorsement" when considering the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts.

One of the seven members that approved the Cover Letter and is in the group of members that does not support the application of annual cohorts [Ana Cortez], agrees with the supporting arguments presented in the Cover Letter for this view, except for procyclicality, as she does not believe that the requirement may produce pro-cyclical reporting effects.

One of the seven members that dissented [David Procházka] highlighted that the advice to the European Commission as drafted in the Cover Letter may sound like an implicit statement proposing the endorsement of IFRS 17 with a carve-out for annual cohorts. Therefore, he recommends the EFRAG Board to review this wording, as EFRAG TEG has not discussed any intention to propose the carve-out and he did not think that the EFRAG Board had such an intention in mind. He also believes that EFRAG does not have conclusive evidence about the negative consequences of annual cohorts, to make such a strong statement in the advice section.

Jenny Carter did not participate to the meeting.

Oliver Scherer clarified that he was providing his personal view while his firm supports the requirement to apply annual cohorts.

Tommaso Fabi clarified that he expressed the tentative of the OIC.

3. Non-Editorial suggestions for the EFRAG Board to consider

Non-editorial drafting suggestions made by EFRAG TEG members for the EFRAG Board to consider:

- Annex A to Annex 1: in the description of the product features that prevails in the different jurisdictions. One EFRAG TEG member suggested to clarify that "this description of the contractual features in a given country does not necessarily imply that constituents in that country consider annual cohorts when applied to these features to be an source of concern when assessing the endorsement of IFRS 17".
- Cover Letter: in the description of the view of those that support the requirement to apply annual cohorts to intergenerationally mutualised contracts. Two EFRAG TEG members that expressed a dissenting vote recommend that the EFRAG Board members in this group consider mentioning in their reasoning the relevance of annual cohorts to the EU public good. This is because they believe that it is the public interest to apply this requirement as it results in relevant information about the performance of the insurance portfolios:
  - They do not consider the transparency, per se, results in procyclicality and changes in product range. If transparency changes the product offering, this is positive and in the public interest. Further, procyclicality comes from

the Solvency II requirements that forces a measurement at current value for all asset and liabilities. That is the binding restriction for the product offering, not accounting rules.

- In addition, they believe that cost/benefit considerations on balance are positive.