Fédération Française de l'Assurance

DIRECTION DES AFFAIRES FINANCIERES, PRUDENTIELLES ET COMPTABLES

Mr. Jean-Paul Gauzès
EFRAG Board President
EFRAG
35 Square de Meeûs
B-100 Brussels, Belgium
Paris, 2 September 2019

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Re: EFRAG's Draft Comment Letter on the IASB's ED/2019/4 Amendments to IFRS 17

Dear Mr Gauzès,

The FFA (Fédération Française de l'Assurance), represents the views of French insurance and reinsurance companies, totalling more than 90% of the premium income of the French insurance market.

We welcome the opportunity to respond to the EFRAG draft comment letter on IASB ED/2019/4 Amendments to IFRS 17 (hereafter the "ED").

We would like to express our appreciation for the work performed by EFRAG on the concerns we raised on IFRS 17 and that were confirmed by the outcomes of the EFRAG impact assessment to which our members participated.

In this respect, we welcome the decision of the IASB to reopen IFRS 17 to capture the concerns expressed by its stakeholders. However, if some proposed amendments are positive, others are too limited. Moreover, some issues still remain pending and need to be solved.

Our objective remains to achieve a high-quality standard for insurance contracts given the utmost economic importance of these activities and the crucial role they play.

In order to achieve this objective, the French insurance industry - in line with other European insurance stakeholders - considers that some changes to IFRS 17 are still required and particularly on the following key topics:

- **Level of Aggregation**

  The annual cohort requirement should be removed for contracts eligible to the variable fee approach sharing a significant part of returns on underlying items across generations. These contracts represent a very significant part of life insurers' activities in France. Therefore, it is of utmost importance for our market to amend IFRS 17 to appropriately reflect in the financial statements the legal framework, the contractual terms and the economics of these contracts while reducing complexity and costs for preparers.

  In addition, the requirement for annual cohorts should be also removed for all contracts at the transition date. This will also provide a significant operational relief and reduce the costs of IFRS 17 implementation.

- **Transition**

  The modified retrospective approach remains unduly complex and rules based. It should be simplified to become more principles based. Otherwise, in most cases entities will be forced to use the fair value approach, which would result in a much lower amount of contractual service margin at transition compared to the full or modified retrospective approaches. This will distort the post-transition results and thus comparability between entities depending on the transition approach chosen.

  Despite some welcomed improvements, the risk mitigation option remains too restrictive. Its retrospective application is essential to ensure a better alignment with the effective hedging strategies implemented by entities.

  Then, OCI on assets and liabilities should be consistently linked at transition beyond insurance contracts eligible to the variable fee approach not to distort post-transition performance.

  Finally, the transition relief proposed for business combinations should be extended to the full retrospective approach to avoid disproportionate costs compared to the value of information provided.

- **Presentation**

  The exception to IAS 34 that exists in IFRS 17 should be removed. It was developed initially with the objective of simplification, but it is a source of increased complexity in practice. Recalculating the carrying amount of the contractual service margin on a year-to-date basis would permit to treat accounting estimates made in previous interim financial statements similarly whatever the frequency of the reporting is and ensure comparability among entities.

  We believe that entities should be allowed not to present adjusted comparative information on initial application of IFRS 17. Such an amendment will give stakeholders applying IFRS 17 for the first time the same relief provided within IFRS 9. It will also drastically reduce implementation efforts for many entities. At the same time, being an option, entities willing to present adjusted comparatives would have the possibility to do it.

Other topics

We have included in our responses to the questions raised in the ED other concerns that we consider also necessary to be fixed. Among them, we would like to point out the treatment of reinsurance contracts that still need to be improved to reflect the economics of these transactions (Question 4), the requirement to present premium receivables and claim payables as part of the expected cash flows (Question 5) or the widening of the risk mitigation option beyond direct participating contracts (Question 6). Please note that we have also addressed in appendix 2, our comments on the topics in EFRAG's September 2018 letter to the IASB that have not been addressed by the ED.

We would like also to emphasize that the key features of IFRS 17 (i.e. a current and prospective measurement model) may not appropriately reflect certain long-term contracts under specific economic conditions as a result of IFRS 17 intrinsic volatility. This would be the case for direct participating contracts in stressed market conditions where the changes in the value of options and guarantees will drastically reduce the amount of the contractual service margin.

More generally, regarding IFRS 9, as stated in our response to the last EFRAG consultation on "Equity instruments – Research on Measurement", as long-term investors, we support the reintroduction of the recycling for equity instruments measured at fair value through other comprehensive income (FV OCI) together with an appropriate impairment model and the eligibility of equity like instruments to the same accounting approach. Indeed, prohibition of recycling hampers the depiction of the performance of equity instruments measured at FVOCI. In addition, the mandatory measurement at fair value through profit and loss measurement for equity-like instruments is a source of volatility as in case of adverse market conditions, the change in value of equity- like instruments impacts immediately the profit and loss even if these instruments are not held for trading and the entity does not intend to sell them. As such, IFRS 9 is detrimental to the investment in equity and equity like instruments notably for P&C and protection activities or for portfolios in representation of own funds. As such, we cannot exclude the possibility that some stakeholders may envisage to withdraw from this category of assets to protect their future P/L performance at the very time where long term investment is of key importance for Europe.

Timing

Regarding the implementation date of IFRS 17, we welcome the proposed deferral of the effective date of IFRS 17 and IFRS 9 by one year. It acknowledges the importance of the linkage between these two standards on insurance activities and the necessity to have a comprehensive approach. In this respect, the deferral of IFRS 9 for insurance activities of financial conglomerates should also be extended through a modification of the Commission Regulation (UE) 2017/1988.

However, the implementation of IFRS 17 remains a significant challenge for all entities whatever their sizes are due to a shortage of skilled resources (actuarial, accounting…) or IT solutions.

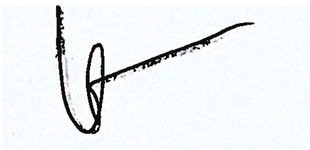
Moreover, there is still some uncertainty on the finalisation of the standard due to the importance of the issues that have not yet been addressed in the proposed amendments notably related to annual cohorts, transition or presentation.

As such, we consider that a one-year additional deferral in the application of IFRS 17 (i.e. 1st January 2023), together with that of IFRS 9, is needed for all jurisdictions with early application possible, including for insurance activities within financial conglomerates.

Early application will allow those entities that are further advanced in the implementation of IFRS 17 to limit their costs while permitting those which need an additional year to address the technical and operational challenges described above.

If you have any questions regarding this submission, we would be pleased to discuss any of these points further with you. Please do not hesitate to contact us.

Yours sincerely,



Christine Tarral
Director of Financial, Prudential and Accounting Affairs

Appendix 1 – Comments on the questions raised in the ED

Question 1—Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30)

(a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Do you agree with the proposed amendment? Why or why not?

(b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)–(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

Do you agree with the proposed amendment? Why or why not?

Q1 (a) – Specific credit card contracts that meet the definition of an insurance contract - Payment cards

We agree with the proposed amendment to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract, if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price with that customer. This scope exclusion will reduce the operational burden for the entities issuing such credit card contracts as they will not need to implement IFRS 17.

However, as mentioned by the IASB staff, credit cards combine payment services with the provision of credit (AP 2D March 2019). Indeed, as credit cards, some payment card contracts include insurance coverage with the same characteristics as those of the credit cards covered by the proposed amendment. As such, the rationale for changing the requirement of IFRS 17 applies also to such payment cards.

Therefore, we concur with EFRAG that payment card contracts that meet the definition of an insurance contract should be excluded from IFRS 9, if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

In this respect, even if this issue is not prevalent in our jurisdiction at this time, we share the concern expressed by EFRAG that this amendment may have unintended consequences in those countries where the insurance element is not required by law or regulation (e.g. by requiring to measure the financial instrument at fair value through profit and loss if it fails the SPPI test). As the objective of the amendment is to reduce the operational burden for entities issuing these credit card contracts and to achieve the same accounting outcome as prior to IFRS 17, it is worth considering how to maintain their current accounting policies independently on whether the entity is obliged or chooses to provide such insurance coverage.

Q1 (b) – Loan contracts that meet the definition of an insurance contract

We agree with the proposed amendment to permit an entity to apply either IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but that limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract. We concur with the IASB that this choice should be made portfolio by portfolio.

Question 2—Expected recovery of insurance acquisition cash flows (paragraphs 28A–28D, 105A–105C, B35A–B35C and BC31–BC49)

Paragraphs 28A–28D and B35A–B35C propose that an entity:

(a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;

(b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and

(c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

Paragraphs 105A–105C propose disclosures about such assets.

Do you agree with the proposed amendments? Why or why not?

We agree with the proposal to allocate insurance acquisition cash flows to expected contract renewals and recognise them as an asset rather than as part of the measurement of the initial contracts. This amendment will permit to better reflect the economics of the underlying transactions. Recognising a loss on these contracts would not have provided useful information to users of the financial statements.

The requirement to assess the recoverability of the assets only if facts and circumstances indicate the asset may be impaired is adequate as it is consistent with the requirement to determine whether any contracts belong to a group of onerous contracts before coverage begins or payments from policyholders are due.

We also note that users will benefit from appropriate information about these expected contract renewals through the reconciliation from opening to closing of the related assets and the quantitative disclosure of their expected inclusion in the measurement of the group of contracts to which they are allocated.

However, we are concerned that the asset resulting from insurance acquisition cash flows paid prior to the recognition of the groups of insurance contracts they relate to is included in the carrying amount of the related portfolios of insurance contracts issued, as requested by IFRS 17. ED 79. This asset would therefore most likely be presented as part of a liability as most portfolios of insurance contracts are expected to be in a liability position. This seems inconsistent with the objective of the proposed amendment as the IASB notes that it will lead to recognise those costs as an *asset* until the company recognises contract renewals, to assess the recoverability of this *asset*, and to provide disclosures about this *asset* [*emphasis added*].

We note that the IASB considers that the proposed amendment will make it easier for entities to explain the results of applying IFRS 17 (BC page 60). However, we believe that the inclusion of these assets in the portfolio asset/liability will reduce the quality of financial information available for users. Therefore, these assets should be separately disclosed on the face of the statement of financial position. Refer also to our more general comments on presentation.

Regarding the question of the EFRAG about the definition of insurance contracts renewals, we note that contract renewals have not been defined in IFRS 15 (for example regarding the pattern of amortisation of contract costs assets). Therefore, consistently with IFRS 15, we believe that IFRS 17 should remain principles based.

Question 3—Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44–45, 109 and 117(c)(v), Appendix A, paragraphs B119–B119B and BC50–BC66)

(a) Paragraphs 44, B119–B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage.

Paragraph B119B specifies criteria for when contracts may provide an investment-return service.

Do you agree with the proposed amendment? Why or why not?

(b) Paragraphs 45, B119–B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c)(v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Do you agree with the proposed disclosure requirements? Why or why not?

Contractual service margin attributable to investment-return service for contracts <u>without</u> direct participation features

We welcome the proposed amendment that an entity shall identify coverage units for insurance contracts without direct participation features by considering both insurance coverage and investment-return service, if any.

We agree with the IASB that this proposal is essential to reflect that some insurance contracts without direct participation features provide also the policyholder with access to an investment return that would not otherwise be available to the policyholder because of the amounts invested, their liquidity, complexity and expertise ("investment return service"). Taking this service into account when determining coverage units would provide useful information to users about the services that the entity regards itself as providing to the policyholder.

However, the IASB proposed definition of an investment return service still exclude certain contracts for example when options to transfer or surrender do not exist, which is the case for some deferred annuities. As such, no contractual service margin will be recognised during the accumulation phase for those deferred annuities where if the policyholder dies during the accumulation phase, no amount is repaid to “potential beneficiaries”. However, in such a case, when the policyholder enters the contract, he expects to benefit from the investment return services while the entity has to perform these services to generate a return in the case the policyholder does not die. Therefore, depending on the existence of these options, that may also be restricted by regulatory features, contracts similarly economically may result in different accounting outcomes.

In this respect, we concur with the EFRAG comments. As stated by the IASB in BC60, we believe that the identification of an investment return service should be a matter of judgment for the entity and that the criteria are necessary for identifying, but not determinative of, the existence of such a service. Therefore, ED B119B should be modified to be more principles-based i.e. to permit to determine coverage units based on insurance benefits and related non-insurance services performed to deliver those benefits and (a), (b), (c) should be labelled as indicators.

We agree that it is not necessary to develop specific requirements regarding the allocation on a systematic and rational basis of the weighting of benefits from insurance coverage and investment-return service and the pattern of their delivery as entities are already required to make similar assessments for insurance contracts with direct participation features.

We also believe that to the extent an entity determines that an investment-return service exists, the entity should include cash flows related to the fulfilment of that service in the fulfilment cash flows. It ensures consistency with the proposed amendment on the recognition of the contractual service margin for those contracts.

Contractual service margin attributable to investment-related service for contracts <u>with</u> direct participation features

Contracts with direct participation features are substantially investment-related service contracts. Therefore, we welcome the proposed clarifications that an entity is required to identify coverage units for these contracts by considering both insurance coverage and investment-related services and that the costs of managing their underlying assets should be included in the fulfilment cash flows. This will ensure consistency in the accounting treatment of these contracts and reflect the fact that the IASB considers that the entity is managing assets on behalf of the policyholders.

However, we would like also to emphasize that the key features of IFRS 17 (i.e. a current and prospective measurement model) may not appropriately reflect certain long-term contracts under specific economic conditions due to IFRS 17 intrinsic volatility. This would be the case for direct participating contracts in stressed market conditions where the changes in the value of options and guarantees will drastically reduce the amount of the contractual service margin.

Clarifications needed on paragraph B119A

Paragraph B119A of the ED clarifies the determination of the investment-return service period for contracts with or without direct participation features when payments are expected to be made to future policyholders. This topic was discussed during the January 2019 IASB Board. However, no example was provided to illustrate its impacts. Consequently, we believe that this proposal should be discussed again prior to its adoption to ensure that it does not result in unintended consequences on the determination of the contractual service margin on some French savings contracts when the insurer has discretion to allocate the participation to policyholders in a defined time frame.

Disclosures – Quantitative information about the recognition of the CSM in P/L

We agree with the IASB that an entity shall disclose information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of the reporting period.

However, we note that the IASB is now proposing to require only quantitative information in this respect. However, providing quantitative information can be commercially sensitive in some circumstances. Therefore, we consider that the possibility to provide only qualitative information should be reintroduced. Providing qualitative information only can equally achieve the disclosure objective of IFRS 17 for this requirement.

Disclosures – Approaches used to assess the relative weighting of the benefits provided by the different services

We agree with the proposal to require an entity to disclose the approach used to assess the relative weighting of the benefits from insurance coverage and investment-return service or investment-related services.

Including investment-related or investment-return services in determining the coverage units is necessary to faithfully depict the performance of these contracts. As such, it is equally important to provide useful and relevant information to users in this respect. It will enable them to better understand the economics of these contracts and make appropriate comparisons between the different categories of contracts within the entity and between entities.

Question 4—Reinsurance contracts held—recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B, B119C–B119F and BC67–BC90)

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognize income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

(a) the loss recognised on the group of underlying insurance contracts; and

(b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Do you agree with the proposed amendment? Why or why not ?

Reinsurance contracts held – recovery of losses on underlying contracts at initial recognition

First of all, we disagree with the proposed definition of a reinsurance contract held that provides proportionate coverage (Refer to Question 10). It is unduly restrictive and as such it does not reflect the diversity of reinsurance strategies. Proportionate coverage can also be achieved for example by a single reinsurance contract covering different underlying groups of insurance contracts or by multiple reinsurance contracts covering a single group of underlying insurance contracts but in different proportions.

We believe that the economics of reinsurance proportionate contracts will be more appropriately captured if they are defined as follows: “a reinsurance contract held that provides an entity with the right to recover from the issuer a contractually defined percentage of each claim incurred on individual underlying insurance contracts within a group of contracts”.

Regarding paragraph 66A, we agree with the proposed amendment. It ensures consistency with the exception already provided by IFRS 17 in case of subsequent adverse changes in onerous groups of underlying contracts. However, consistency is only partially achieved as this amendment is limited to "proportionate" reinsurance contracts. However, "other than proportionate" reinsurance contracts held are as well largely used by insurers to mitigate their risks. Therefore, the effects of these "other than proportionate" reinsurance contracts held should also be appropriately reflected at initial recognition for the very same reasons that have resulted in the proposed amendment for "proportionate" reinsurance contracts.

Such a modification will not only improve the consistency between the accounting treatment of proportionate and non-proportionate reinsurance contracts but also increase the relevance of information provided to users on the effects of the reinsurance coverage put in place. Otherwise, the economics of these contracts and the reality of the risk management policies of the entities will not be appropriately reflected in the financial statements.

Reinsurance contracts held - Boundaries

For a reinsurance contract held, IFRS 17 requires the entity to estimate future cash flows that relate to all insurance contracts the entity expects to be covered by the reinsurance contract held, including future insurance contracts the entity expects to issue.

The IASB Board has redeliberated this issue and concluded that no amendment to IFRS 17 is needed. However, we disagree with this outcome.

Consistently with feedback received by the IASB Board during the development of IFRS 17, this requirement is operationally complex. It represents a significant change compared to most existing practices that do not require to recognise the future projected cessions up to the end of the reinsurance coverage, on a current basis, in the statement of financial position.

Moreover, as mentioned in BC182, before any cash flows occur and any service is received, the carrying amount of the reinsurance contract held is zero. As such, developing costly IT systems to model and process these estimates while it will result in little or no benefits on information provided on the face of the statement of financial position or profit and loss is questionable.

Therefore, we continue to believe that IFRS 17 should be amended so that the cash flows of reinsurance contracts held should not include expected cash flows on the underlying insurance contracts which have not been issued.

Reinsurance contracts held - Risk mitigation option /Variable fee approach

The IASB Board considers that a reinsurance contract held cannot be eligible to the variable fee approach. However, consistently with feedback given by stakeholders to the IASB during the development of IFRS 17, applying the general model to a reinsurance contract held when the underlying insurance contracts are measured under the variable approach gives rise to accounting mismatches that do not reflect the economics of the arrangement.

By expanding the scope of the risk mitigation option when entities use reinsurance contracts (held) to mitigate the financial risks, the IASB has helped to mitigate the effects of their scope exclusion from the variable fee approach. However, the outcome of the change is only partial as this scope exception cannot be applied retrospectively. Refer to our comment to Question 6.

Therefore, we believe that the IASB should develop a pragmatic solution to address this issue by requiring to apply the variable fee approach to reinsurance contracts held where the underlying insurance contracts are within the scope of the variable fee approach.

Reinsurance contracts issued – Non eligibility to the variable fee approach

The IASB Board also considers that reinsurance contracts issued are not eligible to the variable fee approach. However, as mentioned in ED BC213, the IASB Board "has already acknowledged that in some specific circumstances a reinsurance contract might meet the criteria in paragraph B101 of IFRS 17". Therefore, we believe that the non-eligibility issue should be discussed again.

More generally, the non-eligibility of reinsurance contracts issued to the variable fee approach when the underlying insurance contracts are eligible to the variable fee approach remains a significant concern for some contracts in the French market.

We believe that the IASB should permit an exception to the scope exclusion of the variable fee approach in those limited circumstances where under the terms of the treaty, the return of underlying items is shared between the direct insurer and the reinsurer. This will improve the alignment between the accounting for these reinsurance contracts and their economics by reducing accounting mismatches. It will also reduce the complexity for users in understanding the accounting for these contracts.

Question 5—Presentation in the statement of financial position (paragraphs 78–79, 99, 132 and BC91–BC100)

The proposed amendment to paragraph 78 would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Do you agree with the proposed amendment? Why or why not?

We agree with the proposed amendment which would require entities to present separately in the statement of financial position the carrying amount of portfolios of insurance (reinsurance) contracts issued that are assets and those that are liabilities rather than at group level. This provides a welcomed practical relief that will help reduce the costs of the implementation of IFRS 17 with no significant loss of information for users of financial statements.

However, we are concerned that other significant issues related to the presentation are still not addressed particularly the exception to IAS 34 required by IFRS 17 or the mandatory presentation of comparative information.

Interim financial statements – IAS 34

As an exception to IAS 34, Interim Financial Reporting, IFRS 17 requires entities not to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual financial statements. Therefore, the frequency of an entity's reporting will affect the measurement of its annual results.

We strongly disagree with this requirement. We consider that no exception should be made to IAS 34. IFRS 17 should require entities to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual financial statements. Recalculating the carrying amount of the contractual service margin on a year-to-date basis annually will result in entities treating accounting estimates made in previous interim financial statements similarly and ensure comparability among entities.

Comparatives

We consider that entities should be permitted not to present adjusted comparative information on initial application of IFRS 17.

Including such comparatives creates an additional layer of complexity in the implementation of IFRS 17. It also results in specific issues in relation with the application of IFRS 9 as an entity may provide comparative information when applying IFRS 9 for the first time if, and only if, it is possible without the use of hindsight, or as it is prohibited to apply IFRS 9 to financial instruments that existed during the comparative period but were derecognised before the date of initial application.

More generally, making such an amendment will give stakeholders applying IFRS 17 for the first time the same relief that has been provided within IFRS 9. It will also permit to drastically reduce implementation efforts for many entities. At the same time, as it is an option, it will permit entities that want to present adjusted comparatives to do it.

Presentation of premium receivables, claim payables and collateral deposits

Most entities currently account for premium receivables and claim payables separately on an accrual basis. Therefore, those entities will have to implement new systems or to modify their existing systems to include premiums and claims on a cash basis in the measurement of their groups of contracts. This will result in significant additional costs for entities.

Therefore, we believe that IFRS 17 should be modified to require the separate presentation of premium receivables and claim payables and their inclusion on an accrual basis in the measurement of the related groups of insurance contracts. This proposal will increase the usefulness of information provided to users while significantly reducing the cost of implementation for entities.

Regarding collateral deposits related to reinsurance issued and held, these amounts are usually presented for separately under IFRS 4. Under IFRS 17, when a reinsurer provides funds withheld as a collateral with the ceded insurer, these funds will be included in the measurement of the liabilities. This offset will not fairly portray the economics of these deposits, because from a contractual point of view, these amounts correspond to funds transferred as guarantees to cover a risk of default by the reinsurer, and not to an advance payment. Offsetting the deposits with the reinsurance liability (for the reinsurer) or the asset (for the ceding company) will incorrectly reflect a compensation which may never exists if no default occurs.

Presentation of non-distinct investment components in the statement of profit and loss

IFRS 17 requires excluding non-distinct investment components from insurance revenue and insurance service expenses in the statement of profit and loss.

We do not question this IFRS 17 requirement for contracts with account or unit balances for which it will be more straightforward as there will be in most cases an explicit investment component specified in the contract.

However, for other contracts, this requirement will necessitate to implement costly new systems and processes as non-distinct investment components are currently not calculated at the inception of the contract nor tracked during its life. For those contracts, it will be much more complex to develop and apply a robust approach. The implementation costs will be significant while the usefulness of information provided to users is questionable.

More generally, the requirement to exclude non-distinct components from insurance revenue and insurance service expenses will also impact some of the industry performance metrics, leading entities to report adjusted KPIs to continue to provide consistent information to users.

Therefore, we believe that the IASB should reconsider the definition of non-distinct components for presentational purposes to limit them to contracts with account or unit balances to mitigate the costs of IFRS 17 implementation while preserving the usefulness of information provided to users.

Question 6—Applicability of the risk mitigation option (paragraphs B116 and BC101–BC109)

The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

Do you agree with the proposed amendment? Why or why not?

We welcome the proposed amendment to extend the risk mitigation option where an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features under the conditions set in paragraph B116 of IFRS 17.

We understand that this amendment alleviates the concerns regarding the ineligibility of reinsurance contracts held to the variable fee approach. However, even if it is a positive step, we would like to stress that it is not sufficient as the risk mitigation option cannot be applied retrospectively.

In this respect, the IASB Board has introduced the risk mitigation option with the objective to avoid accounting mismatches where the fair value changes on hedging instruments are not recognised in the same line as the changes on the hedged items.

However, the current risk mitigation option is still too narrow. Indeed, risk mitigation strategies used by entities issuing insurance contracts are covering contracts other than those eligible to the variable fee approach and instruments used in risk mitigation strategies are not limited to derivatives or reinsurance contracts.

Insurers that put in place risk mitigation strategies on other contracts or use more complex risk mitigation strategies should not be put at disadvantage by not being able to reflect the economics of their risk mitigation policies in their financial statements. This will indeed also not provide useful information to users.

Therefore, it is essential to amend IFRS 17 to extend the risk mitigation option to all insurance contracts and the instruments eligible beyond derivatives and reinsurance contracts.

Besides, other sources of mismatching remain unsolved, namely interest rates and contracts boundaries.

Question 7—Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs C1, [Draft] Amendments to IFRS 4 and BC110–BC118)

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date.

(a) The proposed amendment to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

(b) The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

Regarding the implementation date of IFRS 17, we welcome the proposed deferral of the effective date of IFRS 17 and IFRS 9 by one year. It acknowledges the importance of the linkage between these two standards on insurance activities and the necessity to have a comprehensive approach. In this respect, the deferral of IFRS 9 for insurance activities of financial conglomerates should also be extended through a modification of the Commission Regulation (UE) 2017/1988.

More generally, regarding IFRS 9, as stated in our response to the last EFRAG consultation on “Equity instruments – Research on Measurement”, as long-term investors, we support the reintroduction of the recycling for equity instruments measured at fair value through other comprehensive income (FV OCI) together with an appropriate impairment model and the eligibility of equity like instruments to the same accounting approach. Indeed, prohibition of recycling hampers the depiction of the performance of equity instruments measured at FVOCI. In addition, the mandatory measurement at fair value through profit and loss measurement for equity-like instruments is a source of volatility as in case of adverse market conditions, the change in value of equity- like instruments impacts immediately the profit and loss even if these instruments are not held for trading and the entity does not intend to sell them. As such, IFRS 9 is detrimental to the investment in equity and equity like instruments notably for P&C and protection activities or for portfolios in representation of own funds. As such, we cannot exclude the possibility that some stakeholders may envisage to withdraw from this category of assets to protect their future profit and loss performance at the very time where long term investment is of key importance for Europe.

The implementation of IFRS 17 remains a significant challenge for all entities whatever their sizes are due to shortage of skilled resources (actuarial, accounting…) or IT solutions.

Moreover, there is still some uncertainty on the finalisation of the standard due to the importance of the issues that have not yet been addressed in the proposed amendments notably related to annual cohorts, transition or presentation.

As such, we consider that a one-year additional deferral in the application of IFRS 17 (i.e. 1st January 2023), together with that of IFRS 9, is needed for all jurisdictions with early application possible, including for insurance activities within financial conglomerates.

Early application will allow those entities that are furthest advanced in the implementation of IFRS 17 to limit their implementation costs while permitting those which need an additional year of delay to address the technical and operational challenges described above.

Question 8—Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119–BC146)

(a) Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.

Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims.

Do you agree with the proposed amendments? Why or why not?

(b) The proposed amendment to paragraph C3(b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Do you agree with the proposed amendment? Why or why not?

Classification of contracts acquired in their settlement period – (a)

IFRS 17 requires an entity to assess the classification of contracts acquired as if it had entered into the contracts on the acquisition date. This will result in entities classifying contracts acquired in their settlement period as a liability for remaining coverage as they will be considered to provide coverage for the adverse development of claims. Therefore, the entity will recognise revenue for the insurance service provided and expenses for the claims incurred.

As outlined by various stakeholders since IFRS 17 was issued, similar contracts may be accounted for differently based on whether they have been acquired during the settlement period or issued by the entity. It would not reflect the way the acquired contracts are managed by the entity. As such, it diminishes the usefulness of information provided to users of financial statements on the activities of the entity. Moreover, this is a change from current practice that would result in significant implementation complexities and costs for entities. Finally, this would lead the acquirer to recognise insurance revenue beyond the coverage period of the original contract.

We agree that the proposed amendments applicable at the transition are a step in the good direction. However, they are not sufficient to address the challenges described above both when entities apply the full retrospective approach and when business combinations take place after the transition date. To alleviate these concerns, that are key especially during the implementation phase of IFRS 17, similar amendments should be introduced to treat insurance contracts acquired in their settlement prior as liability for incurred claims consistently, e.g. whatever the date of the business combination and the transition approach applied.

Moreover, a transition relief is proposed in the modified retrospective approach for business combination claims in payment at the acquisition date to treat them as a liability for incurred claims instead of a liability for remaining coverage. This transition relief should be extended to the full retrospective approach. Indeed, even if the data is available and can be gathered, the restatement of these claims in payment (in liability for remaining coverage) represents a considerable workload. This would avoid disproportionate costs compared to the value of information provided in the context of an already complex and costly IFRS 17 implementation project.

Risk mitigation for insurance contracts (b)-(d)

We welcome the proposed amendments. However, as consistently outlined by many stakeholders since IFRS 17 has been issued, the risk mitigation remains too restrictive. In this respect, we consider that its retrospective application is essential. It is necessary to ensure that the amounts recognised in retained earnings/OCI and CSM are consistent with the risk mitigation relationships that were in place prior to the transition date. Otherwise, information provided in the financial statements will not reflect the effective hedging strategies of entities, diminishing the relevance of information provided to users.

We note that the IASB Board is concerned that permitting application of the option retrospectively would give rise to the risk of the use of hindsight as entities may decide or not to apply it depending on the outcome of the strategy. To address this concern and to avoid any risk of creating inappropriate opportunities, IFRS 17 should be amended to require an entity to apply the risk mitigation option of IFRS 17 to all transactions that meet the conditions in paragraph B116.

In this respect, the IASB Board considers that "*such an amendment would not be appropriate because it would not be possible to assess the completeness of such an approach in practice and that no other IFRS Standard has required an entity to document such risk mitigation relationship as specified in paragraph B116"* (BC 133). However, there is no such a need as the risk management policies of entities issuing insurance contracts (notably due to the regulated nature of these activities) already require such a documentation to be in place, where such risk mitigation policies exist.

Retrospective modified approach requirements

We welcome the practical one-off reliefs that the IASB Board has provided to help entities with their transition to IFRS 17 without any significant loss of information for users.

As stated in paragraph BC 139 of the ED, the entity must have reasonable and supportable information necessary to use each modification of the modified retrospective approach otherwise the entity will be required to apply the fair value to the group of insurance contracts. At the same time, BC 143 states that the IASB Board expects that estimates will often be needed when applying a specified modification in the modified retrospective approach. We welcome this clarification that seems to indicate that estimates can be considered reasonable and supportable information when the specified modifications are used. However, it will be more appropriate to include it in the standard rather than in the basis for conclusions.

However, we are concerned that the modified retrospective approach remains still unduly complex and rules based. For example, it would be unduly complicated to perform the retrospective calculation starting from the inception date when contracts were concluded many years ago or to re-calculate the contractual service margin at the appropriate level of granularity.

Therefore, the modified retrospective approach should be simplified to become more principles based and to permit more largely the use of estimates in order to promote a retrospective application rather than a fair value approach.

Otherwise, in most cases entities will be forced to use the fair value approach, which would result in a much lower amount of contractual service margin at transition compared to the full or modified retrospective approaches. This will distort the post-transition results and thus comparability between entities depending on the transition approach chosen.

Indeed, simplifying the modified retrospective approach will not only help to reduce the implementation one-off costs of the transition. It will also improve the comparability between the results of the in-force portfolios after the transition date. This will not be achieved if the fair value approach is largely used.

Treatment of accumulated other comprehensive income on transition

We consider that the accumulated amount of insurance finance income or expenses in other comprehensive income should be consistent with the accumulated amount in other comprehensive income arising from financial assets accounted for applying IFRS 9 that are related to insurance contracts. As stated in BC 138 (b) of the ED, this approach will be similar to the requirement of paragraph C19(b) (iv) of IFRS 17 for insurance contracts with direct participating features.

The IASB indicates that this will mean that insurance finance income or expenses recognised in profit or loss in future periods will reflect the historical discount rate for those assets that the entity determines as related to insurance contracts (BC 138(d)).

However, such a practical expedient is a better trade off than the current situation that may significantly distort equity at transition and post-transition results and as such will not provide appropriate information to the users.

Question 9—Minor amendments (BC147–BC163)

This Exposure Draft also proposes minor amendments (see paragraphs BC147–BC163 of the Basis for Conclusions).

Do you agree with the Board's proposals for each of the minor amendments described in this Exposure Draft? Why or why not?

Recognition of a group of insurance contracts in a reporting period

By amending paragraph 25 of IFRS 17, we understand that the proposal of the IASB Board is to clarify that insurance contracts can be added to a group when they meet the recognition criteria which may or may not be when those contracts are issued. At the same time, the IASB Board considers that the paragraph 22 of IFRS 17 (which states that the entity shall not include contracts issued more than one year apart in the same group) will not be amended.

The practical consequences of this amendment and of the interactions between paragraph 25 and 22 have not been detailed in the ED. Therefore, we are not in a position to assess this amendment at this stage.

Changes in underlying items caused by changes in the fair value of underlying items

We do not agree with the proposed amendment. Changes in underlying items that are not financial assets should not be classified as insurance finance income. Otherwise, it would result in inappropriate presentation of non-financial items in the insurance finance income.

Moreover, we note that BC161 states that “otherwise, changes in the underlying items could adjust the contractual service margin of insurance contracts without direct participation features”. However, our current understanding is that IFRS 17 does not define the notion of “underlying items” for contracts without direct participation features.

Definition of reinsurance contract held that provides proportionate coverage

Refer to question 4.

Mutual entities issuing insurance contracts

We welcome the clarification “that not all entities that may be described as mutual entities have the feature that the most residual interest of the entity is due to a policyholder” is a positive step in recognising that in depth analysis of the terms and conditions of the contracts and the legal environment in which the entity operates is necessary prior to conclude that so-called “mutual entities” have in principle, no equity and no total comprehensive income in any accounting period.

Question 10—Terminology

This Exposure Draft proposes to add to Appendix A of IFRS 17 the definition ‘insurance contract services’ to be consistent with other proposed amendments in this Exposure Draft.

In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’. If that change is made, those terms would become ‘service units’, ‘service period’ and ‘liability for remaining service’, respectively, throughout IFRS 17.

Would you find this change in terminology helpful? Why or why not?

We do not have any specific comments on this change in terminology.

Appendix 2 – Other comments on topics in EFRAG's September 2018 letter to the IASB that have not been addressed by the ED

Topic 1 - Annual cohorts

One of the most important issues still to be addressed, together with those mentioned in our responses on transition and presentation relates to annual cohorts.

Annual cohorts are a key feature of FRS 17. We generally understand the rationale that has conducted the IASB to develop this requirement as a trade-off between tracking the contracts' profitability on an individual basis while ensuring that onerous contracts are recognised on a timely basis.

However, if we concur with the conclusions set out in BC 175 for groups of contracts that fully share the return on underlying items (i.e. 100 per cent of the return on a pool of underlying items), we disagree with the conclusions set out in BC 176 for groups of contracts when those contracts share to a lesser extent in the return on a pool of underlying items.

We would like to illustrate this with contracts representing the vast majority of life savings French insurance markets. The key feature of these contracts, which are eligible to the variable fee approach, is their intergenerational sharing of financial returns. Policyholders participate significantly in the return of a common underlying pool of items over time i.e. there is a sharing and transfer of wealth (returns of underlying assets) between the generations of policyholders. It means that "new" and "old" policyholders share equally in the return of the pool of underlying items that has been constituted over time with their premiums.

The entity does not "earn" higher or lower profits from different generations of contracts, but "earn" over time an average profit from these different generations based on the return of the mutualised underlying pool of assets. Grouping these contracts into annual cohorts is not consistent as it does not reflect the legal framework, the contractual terms of these contracts and their economics which determine the way such businesses are managed.

As such, there is in substance no onerous contract until the portfolio as a whole is onerous which may be the case where the return of the underlying pool of items would not be sufficient to cover the average guaranteed benefits of this portfolio. Therefore, the same accounting outcome as currently requested by IFRS 17 could be achieved for these contracts without annual cohorts when the contractual margin is determined at the level of the portfolio.

Identifying the contract service margin at the annual cohort level and following it over time for these contracts will lead to operational complexities as they are not managed operationally at annual cohort levels. It will require to develop or modify IT systems, actuarial and accounting processes at a significant cost with the objective to provide users with an information that does not reflect the legal framework, the contractual terms and the economics of these contracts over time.

The key relevant information on such portfolios for users of financial statements is their profitability trend over time. As such, the disclosures mentioned by the EFRAG in paragraph 143 will be useful as they provide users with information on the profitability trend of the new business at a given time.

As a conclusion, we agree with EFRAG that it is crucial to re-consider the annual cohort requirements. Indeed, we consider that the annual cohort requirement should be removed for contracts eligible to the variable fee approach that share a significant part of return on underlying items across generations.

These contracts represent a very significant part of the life insurers' activities in France. Therefore, it is of utmost importance for our market to amend IFRS 17 to appropriately reflect in the financial statements the legal framework, the contractual terms and the economics of these contracts. It will improve the relevance of information provided to users on these contracts while reducing complexity and costs for preparers.

More generally, in the same manner that it has been done for the variable fee approach, the requirement for annual cohorts should be removed for all contracts at the transition date. This will provide a significant operational relief and reduce the costs of IFRS 17 implementation.

Topic 2 - Transition: Modified retrospective approach and fair value approach

Regarding the issues still to be addressed in relation with the transition approaches, we consider that the modified retrospective approach remains unduly complex and rules based. For example, it would be unduly complicated to perform the retrospective calculation starting from the inception date when contracts were concluded many years ago or re-calculate the contractual service margin at the appropriate level of granularity.

The modified retrospective approach should be simplified to become more principles based. Otherwise, in most cases entities will be forced to use the fair value approach, which would result in a much lower amount of contractual service margin at transition compared to the full or modified retrospective approaches. This will distort the post-transition results and thus comparability between entities depending on the transition approach chosen. Please refer to our Question 8 for further details.

Topic 3 – Balance sheet presentation: Non-separation of receivables

As mentioned in our response to Question 5, we do not agree with the decision taken by the IASB to retain the requirements in IFRS 17 on balance sheet presentation, without a mandatory separated presentation of premiums receivables. We believe that IFRS 17 should be modified to require the separated presentation of premium receivables and claim payables, as well as their inclusion on an accrual basis in the measurement of the related groups of insurance contracts. This proposal will not diminish the usefulness of information provided to users while significantly reducing the cost of implementation for entities. Please refer to Question 5 for further details (including on the presentation of collateral deposits).

Topic 4 – Reinsurance contracts: contract boundary

As mentioned in our response to Question 4, we do not support the IASB's tentative decision not to amend IFRS 17 for the contract boundary of reinsurance contracts held. This IFRS 17 requirement is operationally complex. It represents a significant change compared to the most existing practices that do not require to recognise the future projected cessions up to the end of the reinsurance coverage, on a current basis, in the statement of financial position.

Moreover, as mentioned in ED BC182, before any cash flows occur and any service is received, the carrying amount of the reinsurance contract held is zero. As such, developing costly IT systems to model and process these estimates while it will result in little or no benefits on information provided on the face of the statement of financial position or profit and loss is questionable. Please refer to Question 4 for further details.