Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. +39 06 6976681 fax +39 06 69766830
E-mail: presidenza@fondazioneoic.it

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM
commentletter@efrag.org

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Re: IASB ED/2019/4 Amendments to IFRS 17

Dear Jean-Paul,

We are pleased to have the opportunity to provide our comments on the EFRAG DCL on the Exposure Draft Amendments to IFRS 17 - Insurance Contracts (the 'ED').

Firstly, we would like to express our appreciation for the efforts made by the IASB in analyzing the concerns raised by stakeholders after the issue of the Standard.

We agree with many of the IASB's proposals; however, we have some concerns on others, mainly:

- the annual cohort requirement. We support the EFRAG proposal of developing an exception to the annual cohort requirement for some type of insurance contracts, ie those ones with cash flows that affect (or are affected by) cash flows of other contracts, according to B67-B71. For this type of contracts, the annual cohort requirement imposes a segmentation and an allocation of financial and actuarial assumptions. We have been informed by the industry that this requirement of level of aggregation is inconsistent with the way insurance business is managed and therefore gives rise to artificial information for users. On this regard we appreciate the effort of EFRAG to outreach with users to understand their information needs in relation to this issue. Since the objective of financial statements is to provide useful information to users, we believe that the results of this outreach should be carefully considered in the completion of the comment letter and Endorsement advice. In any case we have been told that this requirement implies significant implementation costs. We believe that the IASB should anyway consider it to develop accounting models that reduce this considerable level of costs;
- the prospective application at transition of the risk mitigation option. We support the EFRAG's proposal to allow the retrospective application of the risk mitigation option, if it is possible to demonstrate that a risk mitigation strategy was in place since the beginning of activities. We understand the argument of the consistency with transition requirements of hedge accounting in IFRS 9, but in the case of IFRS 17 there is a major change than the one on hedging. We would prefer to work on rules which mitigate the risk of hindsight, rather than allowing accounting mismatches;
- the effective date of IFRS 17. At this stage, we deem that the proposed deferral is not appropriate and that a further one-year postponement would be necessary (ie 1 January

2023). A further postponement appears necessary due to the need to find a solution for the significant issue of the annual cohort.

Moreover, we would like to highlight an issue which has not been amended in the ED by IASB and not listed in the EFRAG September letter to the IASB, but that our stakeholders informed us to be a significant one, that is the requirement in B137 of IFRS 17 not to change the treatment of accounting estimates made in previous interim financial statements in subsequent interim financial statements or in the annual ones.
Our stakeholders informed us that the current exception in IFRS 17 to the IAS 34 requirements creates practical difficulties and it is significant burdensome to implement.
We have been informed that the current requirement imposes the need for a double accounting track, creating differences due exclusively to different reporting frequencies (quarterly, half-yearly, annual) between the results of the subsidiaries, included in the Group's consolidated financial statements, and the subsidiaries' statutory financial statements.

Our detailed comments are set out below.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

Appendix 1 – OIC comments on specific questions raised in the IASB ED/2019/4 Amendments to IFRS 17

Question 2 - Expected recovery of insurance acquisition cash flows

> 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 support the proposed amendment on this issue.

In our opinion, the current accounting treatment does not reflect the economic substance of these transactions: the insurer incurs substantial acquisition costs to obtain the contract, in the expectation that the contract will be renewed and these costs will be recovered over the duration of the issued contract and future renewals. Indeed, the application of current requirements of IFRS 17 could result in groups of newly issued contracts to be classified as onerous and in future contract renewals to be reported as more profitable, even if the significant acquisition costs refer the last ones.

On the other side, the introduction of a mandatory impairment test grants a prudent accounting treatment.

Conversely, we have some concerns on the EFRAG's suggestion to make the acquisition costs' allocation a mandatory requirement. The option to recognize the acquisition costs as an expense is available for the premium allocation approach ('PAA') due to the general short coverage period. To support the deleting of the option, a cost/benefit analysis would be needed.

Question 4 - Reinsurance contracts held—recovery of losses on underlying insurance contracts

> 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 recognise 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?

We support the proposed amendment on this issue.

However, it would be useful to add more guidelines and examples to understand which types of reinsurance contracts fall within the scope of the proposed amendment. Indeed, we have been informed that in our jurisdiction the term "proportionate" does not exist, as the reinsurance treaties generally refer to "proportional" reinsurance coverages. Therefore, we would like to ask for some more precise references to help stakeholders in understanding the scope of the amendment and avoiding divergence in practice.
Finally, surplus reinsurance treaties seem to be excluded from the definition of proportionate coverages of the amendment. This type of contracts is currently considered proportional reinsurance contracts, as the insurer retains a risk ceiling, but above that ceiling, has the right to receive a reimbursement that is proportional to incurred claims. Therefore, we support the EFRAG suggestion to include these fact patterns in the scope of the proposed amendments.

IASB has not addressed non-proportionate reinsurance contracts.
In the case of non-proportionate coverage, we understand that this type of contracts operates on a cumulative basis, without a direct link to the underlying insurance contracts. Furthermore, we have been informed that the existence of a reinsurance contract could affect the measurement of the risk adjustment of the underlying insurance contract, partially reducing any accounting mismatches.
Considering these circumstances, taking into account the effective date of IFRS 17 and that a complete solution could require a considerable period, we understand the IASB's decision not to address this type of contracts in the ED.

Question 7 - Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4

> 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?

We agree with the proposed postponement on the effective date of IFRS 17 and keeping aligned the effective date of IFRS 17 with the one of IFRS 9.

However, at this stage, we deem that this deferral is not appropriate and that a further one-year postponement would be necessary (ie 1 January 2023). A further postponement appears necessary due to the need to solve the significant issue of the annual cohort requirement for some type of insurance contracts.

Question 8 - Transition modifications and reliefs

(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?

We support the proposed transitional relief related to the classification of contracts acquired in their settlement period as liabilities for incurred claims. This relief could simplify the burden of transition for insurers.

However, on this topic, we have some concerns on the recognition of these kind of liabilities in business combinations ('BC') incurring after the transition date. We understand the differences on the recognition between the debtor's original liabilities and those acquired in a BC. However, this fact pattern goes a little bit further as it determines a different subsequent measurement for potentially identical contracts. Indeed, contracts acquired in a BC in their settlement period should be measured according to the general model, while the original liabilities could be measured based on the PAA. Therefore, we suggest to extend this relief to the BC occurring after the transition date.

As regards to the risk mitigation option, we support the EFRAG's proposal to allow the retrospective application of the risk mitigation option, if it is possible to demonstrate that a risk mitigation strategy was implemented by the insurer from the beginning of the activities.

We acknowledge that applying risk mitigation retrospectively gives rise to the risk of hindsight, however, provided that appropriate documentation on risk management strategies exists prior to the transition, there are no reasons not to allow retrospective application; in addition, within these boundaries, the risk of hindsight should be reduced.

We would prefer to work on rules which mitigate the risk of hindsight, rather than allowing accounting mismatches.

Appendix 2 – OIC remaining main comments on topics listed in ERAG's September 2018 letter to the IASB that have not been addressed by the ED

Topic 1 - Annual Cohorts

The level of aggregation of insurance contracts affects the release of the contractual service margin to profit or loss and the level at which onerous contracts are identified. Accordingly, identifying the unit of account affects how the performance of the insurers are reported in financial statements.

Insurers rely on issuing large numbers of similar contracts to reduce risk and IFRS 17 itself acknowledges this by allowing insurers to use a unit of account higher than the individual contract level.

However, in our opinion, the group of contracts determined using the annual cohort requirement does not represents always the appropriate unit of account to depict the IFRS 17's reporting objectives, that are:

- providing information on trends in an entity's profitability over time;
- recognizing on a timely basis losses on onerous contracts; and
- recognizing profits of contracts over their duration.

We acknowledge that IASB tried to develop a more principle-based solution and that the annual cohort is a practical compromise. However, especially in life business, insurers spread their risks among different groups of policyholders, even between different generations of policyholders, and therefore, this annual segregation does not reflect the level at which the business is managed and profits are currently monitored and reported.

In our opinion, the splitting of "mutualized" amounts (ie insurance contracts with cash flows interdependent, according to B67-B71) into annual groups imposes a segmentation and an allocation of financial and actuarial assumptions that is significantly different from the current business management.

We appreciate the effort of EFRAG to outreach with users to understand their information needs in relation to this issue. Since the objective of financial statements is to provide useful information to users, we believe that the results of this outreach should be carefully considered in the completion of the comment letter and endorsement advice. In any case we have been told that this requirement implies significant implementation costs. We believe that the IASB should anyway consider it to develop accounting models that reduce this considerable level of costs.

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

IASB decided not to add further reliefs to the modified retrospective approach, neither to permit insurers to develop own additional modifications.

We support this decision, in the objective of not impairing financial statements comparability.

However, our stakeholders have highlighted that the level of approximation required to access to the simplifications of the modified approach depends much on the specific entity's background (eg if there have been business combinations in the past, if the terms for the obligation to keep the documentation have expired or not, etc.).

Therefore, we support the EFRAG suggestion to include in the Standard, an explicit statement that allows the use of estimates for accessing to the reliefs of modified, including shortcuts to approximate missing data.

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

IASB decided to retain the balance sheet presentation requirement of IFRS 17, without a separate presentation of premium receivables and claims payables.

In our opinion, the best picture of an insurance contract would be to recognize separately the financial assets from the insurance liabilities. These items have different nature and give different information to users on the entity's risks exposure.

For presentation purposes, these items could be offset, as long as the offsetting is allowed by the contract.

From discussions with our stakeholders, it emerged that, due to the non-payment of the premium by the policyholder, there is no obligation of coverage by the insurer (ie it is an executory contract). If the policyholder does not pay the premium established by the contract, the insurance coverage remains suspended and the insurer is not obliged to fulfill the coverage obligation, even if the insured event occurs. In such circumstances, therefore, there is no financial asset to be recognized separately (there is no contractual right to receive cash).

It has been pointed out that insurance contracts in which the premium is paid in installments are increasing in practice. In these circumstances, the obligation to provide coverage starts when the first installment is paid. However, it is likely that, in the event of the occurrence of the insured event, the liquidation will be settled net of the overdue premium installments not yet collected at the date. Therefore, there would be a contractual offsetting between different items. In such circumstances, there is a separate financial asset to recognize, but it could be offset against the insurance liability.

In conclusion, we would have preferred an accounting model in which different nature items are not offset, but we support the IASB's decision not to change the presentation requirements for practical reasons.

Topic 4 – Reinsurance contracts: contract boundary

IASB decided not to change the Standard on this issue.

Our stakeholders highlighted the need for a more holistic approach in developing an accounting model for reinsurance contracts, provided that insurers use reinsurance contracts as a form of hedging and in consideration of the different types of reinsurance contracts currently used.

However, as said before, taking into account the effective date of IFRS 17, we are aware that a complete solution could require a considerable period. We therefore support the IASB's decision not to change the reinsurance contracts' boundaries but ask the IASB to start as soon as possible a project on insurance hedging activities.