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Submitted via website

Brussels, 1 October 2019

**Subject: Proposed amendments to IFRS 17**

Dear Mr. Hoogervorst, Mr. Gauzès,

We are pleased to respond to the IASB's Exposure Draft (ED) concerning Proposed amendments to IFRS 17 and EFRAG's Draft Comment Letter (DCL) thereon.

Accountancy Europe welcomes the introduction of the IFRS 17 accounting standard. We strongly believe that, compared to IFRS 4, the new accounting model for insurance contracts proposed under IFRS 17 will improve comparability, drive greater consistency of recognition and measurement criteria globally, and provide more insightful and relevant information to the intended users including on business model and profitability trends for investors.

*Some preliminary considerations relating to IFRS 17 implementation, from an auditor's perspective*

Accountancy Europe believes that financial statements prepared in accordance with IFRS 17, including the proposed amendments, are auditable. However, we recognise the existence of certain technical complexities underpinning the standard, the high degree of sectoral knowledge required to fully appreciate its informative value as well as the implementation challenges and costs faced by the industry. We appreciate the efforts made by IASB to address some of the concerns raised by various stakeholders and we hope that the due process accompanying the ED and feedback by stakeholders contributes to further enhance the understanding of the technical implications of the standard, bring clarification where needed and provide a common ground for operational solutions and consistency of application of the standard.

Accountancy Europe believes that the new standard for insurance accounting will result in a fundamental change of perspective for the audit profession that will be challenged around: i) areas of significant judgement; ii) adequacy and reliability of the disclosures relating to significant estimates, arising from the complexity of the accounting policy selected and the variety of practical expedients that might emerge from implementing IFRS 17; and iii) the auditability of material (or the assessment of omitted) information in the context of IFRS 17 due to the increase in the use of current estimates and assumptions, the volatility of results, the granularity of disclosures and the focus on the statement of financial performance. Finally, the audit teams will need to consistently exercise their professional judgment throughout the planning, execution and conclusion phases of IFRS 17 audits.

Accountancy Europe considers major areas of interest for the auditing firms are an increased focus on technical excellence and related skills and competencies, as well as an innovative approach pertaining the audit delivery model, exploiting new technologies. In fact, as a result of the change in accounting for insurance contracts, the audit firms are making and will need to make, in the near future, significant investments in order to adequately equip to take on the new challenges. In particular, the profession will need to further integrate in the audit team multidisciplinary capabilities (e.g. involving actuaries, IT auditors, regulatory experts, etc.); increase the involvement of more experienced profiles; provide extensive trainings for auditors and develop new customized audit tools, by adopting sophisticated digital platform and predictive analytics actuarial solutions, leveraging Artificial Intelligence, to audit and to project cash-flows.

As a final consideration, we consider that circumstances might exist where reaching a conclusion would be particularly challenging in relation to i) the reliability of controls over the financial statement closing process - including but not limited to the overall strength of the system of governance, soundness of the methodological basis underpinning the practical expedients adopted, adequacy and comprehensiveness of the underlying documentation, robustness of data quality framework - and ii) the extent of expert judgement applied by the management. As a result, Accountancy Europe considers that the current debates among relevant parties help for an effective application of the relevant auditing standard applicable to the subject matter.

## *General comments on the proposed amendments*

We welcome the opportunity to contribute to the debate and appreciate the steps taken by the IASB in addressing some of the concerns that have emerged since the publication of the standard in May 2018, as well as since the subsequent debates taking place either at the TRG, within the industry and within the profession, or with other constituents.

It is important to note that Accountancy Europe is commenting only on selected key topics of IASB's and EFRAG's consultations, as well as some other elements of IFRS 17 implementation that we consider important to bring to your attention. We have taken into account that the proposed amendments relate to a new Standard, which is not effective yet (i.e. exceptional situation). Accordingly, we decided not to include further elements of feedback or views that we assessed as less important, mindful of the advanced status of this project.

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by Accountancy Europe on endorsement of the definitive IFRS Standard in the European Union and European Economic Area.

Accountancy Europe generally agrees with most of the amendments proposed in the ED. However, we believe that some points we describe hereinafter, merit further consideration by the IASB.

### **Annual cohorts**

Accountancy Europe agrees with the overall IASB's reporting objectives of the level of aggregation requirements in IFRS 17, i.e. i) recognition of CSM based on service provided, ii) timely recognition of losses from onerous contracts, and iii) information on profitability trends.

We also understand that the annual cohorts' approach is a simplification to achieve these overall reporting objectives put forward by the IASB as set out in the paragraph above.

Accountancy Europe share the concerns raised by the preparers that the costs related to the implementation of such requirement, especially for smaller players, could be significant.

We acknowledge the position outlined in EFRAG's DCL, i.e. EFRAG believes that it is worth re-considering whether in certain cases the annual cohorts' requirement is justified. EFRAG indeed considers that the requirement leads to unnecessary cost in some fact patterns, in particular for contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts, as described in IFRS 17.B67 (i.e. the major part of the European life 'traditional with profits' insurance business). We also acknowledge that EFRAG recommends that the IASB considers developing an 'exception' for such contracts, starting from paragraph IFRS 17.BC138; the exception should be reflective of the aforementioned reporting objectives of the level of aggregation requirements in IFRS 17.

Accountancy Europe concurs with EFRAG position. However, acknowledging that the IASB has already provided specific reasons for rejecting certain requests on annual cohorts, we recommend that EFRAG builds further arguments and considerations, perhaps supported by numeric examples, to substantiate EFRAG DCL's request for re-consideration, starting by

rebutting and challenging the IASB's rationale outlined in the level of aggregation section of the basis of conclusions of the Exposure Draft.

Accountancy Europe agrees with EFRAG that it could be useful in this context to elevate IFRS 17.BC138 to the main body of the Standard, provided that the calculation of CSM according to annual cohorts and selected alternative methods does not result in material differences in the reported amounts. Nevertheless, we do believe that, in case an alternative model is developed, further comprehensive guidance will be needed in order to avoid a wide variety of practices and different degree of judgement adopted by preparers. In its absence, it would pose additional challenges for the profession in terms of effort and related audit costs.

### **Modified retrospective approach at transition**

Accountancy Europe concurs with EFRAG's views reflected in its DCL regarding the Modified Retrospective Approach (MRA) at transition. We recommend that the IASB acknowledges in the main text of the final standard that the use of estimates is allowed, including those needed to approximate missing information. Accountancy Europe also suggests that the IASB clarifies that the 'reasonable and supportable information' criterion is not intended to change the judgement ordinarily required in IAS 8 to make estimates.

### **Effective date**

Although the timeline is extremely challenging, Accountancy Europe supports to 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. This one year delay would not unduly disrupt implementation already under way or risk undue delays in the effective date. It needs to be acknowledged that this revised timeline would still continue to be extremely challenging to be met, particularly due to the required presentation of a minimum one year comparative period.

One might also consider providing a relief for comparative figures at transition consistent with the IFRS 9 transitional guidance.

If the IASB would however retain the mandatory requirement for IFRS 17 comparatives, then it would be advisable to modify the transitional rules stipulated in IFRS 9.7.2.1, i.e. "This standard shall not be applied to items that have already been de-recognised at the date of initial application", to enhance the relevance of the financial information provided at transition.

We concur with extending 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. We agree with the IASB that the effective date for IFRS 9 should continue to be aligned with the effective date of IFRS 17.

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We kindly refer to the annexes to this letter (i.e. Annex 1 and Annex 2) for our detailed responses.

Other IFRS 17 related comments, not covered by the IASB's ED or EFRAG's DCL, are included in Annex 3.

Please do not hesitate to contact Ben Renier (Ben@accountancyeurope.eu) in case of any additional questions or remarks.

Sincerely,



Florin Toma  
President



Olivier Boutellis-Taft  
Chief Executive

### **ABOUT ACCOUNTANCY EUROPE**

Accountancy Europe unites 51 professional organisations from 36 countries that represent 1 million professional accountants auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

## ANNEX 1: IASB ED – QUESTIONS FOR RESPONDENTS

- (1) We are pleased to provide below our detailed responses to the questions.

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### 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?*

- (2) Accountancy Europe agrees with the proposed IASB amendments concerning the scope. However, the exception only strictly refers to credit cards. This would mean that the scope exclusion would not be available to any other types of products currently including the same cover (e.g. consumer loans and other contracts which have similar insurance risk components as credit cards). To avoid this risk, the standard should in our view provide a scope exclusion based on the underlying principle of not reflecting an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer, rather than referring to specific product types.

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### 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?*

- (3) Accountancy Europe agrees with the proposed IASB amendments concerning acquisition costs.

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**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?*

- (4) B119B of the ED establishes the right to withdraw, or the existence of an investment component as a necessary condition for investment return services. We believe that these conditions limit the scope of investment return services unduly. Whereas investment component and right to withdraw may provide evidence for the existence of investment return services in certain cases, they might not be a necessary condition. We therefore suggest revisiting the definition retained in B119, (a) and (b) to reflect the above mentioned considerations.

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**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 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?*

- (5) Accountancy Europe welcomes the proposed amendments regarding the recovery of losses on underlying insurance contracts linked to proportionate reinsurance contracts held. However, it would be important for the IASB to investigate, as part of its final deliberation process, whether there are other types of reinsurance that are typically seen as proportionate in the market where this direct link would function sufficiently at initial recognition.



- (6) In addition, we believe that the proposed amendment should be extended to non-proportionate reinsurance, where the insurer is able to identify a clear link between direct risk and reinsurance coverage - which is in fact the case, for instance, for surplus contracts, XL Nat-Cat and Man-made reinsurance treaties - whenever such a link is embedded in the pricing model of the reinsurance contract and therefore identifiable at initial recognition.

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**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?*

- (7) Accountancy Europe agrees with the proposed IASB amendments concerning the balance sheet presentation.

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**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?*

- (8) Accountancy Europe agrees with the proposed IASB amendments concerning applicability of the risk mitigation option.

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**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?*

- (9) Although the timeline would remain extremely challenging, Accountancy Europe supports to 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. This one-year delay would not unduly disrupt implementation already under way or risk



undue delays in the effective date. It needs to be acknowledged that this revised timeline would still continue to be extremely challenging to be met, particularly due to the required presentation of a minimum one year comparative period.

- (10) One might also consider providing a relief for comparative figures at transition consistent with the IFRS 9 transitional guidance.
- (11) If the IASB would however retain the mandatory requirement for IFRS 17 comparatives, then it would be advisable to modify the transitional rules stipulated in IFRS 9.7.2.1, i.e. “This standard shall not be applied to items that have already been de-recognised at the date of initial application”, to enhance the relevance of the financial information provided at transition.
- (12) We concur with extending 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. We agree with the IASB that the effective date for IFRS 9 should continue to be aligned with the effective date of IFRS 17.

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#### 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?*

- (13) Accountancy Europe agrees with the proposed IASB amendments concerning transition modifications and reliefs. We also believe that retrospective application should be allowed at transition when supportable and reliable documentation exists with reference to risk mitigation strategy, its objectives, instruments, results and effectiveness.
- (14) We however also would like to refer in this context to our response to Question L in Annex 2 related to the Modified Retrospective Approach at transition.

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#### 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?*

- (15) Accountancy Europe agrees with the proposed minor amendments.

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#### 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?*

- (16) B119B of the ED establishes the right to withdraw, or the existence of an investment component as a necessary condition for investment return services. We believe that these conditions limit the scope of investment return services unduly. Whereas investment component and right to withdraw may provide evidence for the existence of investment return services in certain cases, they might not be a necessary condition. We therefore suggest revisiting the definition retained in B119, (a) and (b) to reflect the above mentioned considerations.

## ANNEX 2: EFRAG'S DRAFT COMMENT LETTER – QUESTIONS FOR RESPONDENTS

- (1) Hereinafter, we are pleased to provide our detailed responses to the questions posed by EFRAG. Notwithstanding the fact that the following responses are related to specific EFRAG questions, we invite the IASB to consider these in preparation of the final standard.

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### Question A (Paragraph 10)—Scope exclusions

*Paragraph B.4.1.9.E of IFRS 9 allows a regulated interest rate as a proxy for the time value of the money in applying the SPPI test, under certain conditions. EFRAG understands that in some countries the insurance element is not required by the regulation and, as a consequence, the financial instrument could fail the SPPI test and would have to be measured at fair value through profit or loss. How prevalent are these concerns within your jurisdiction?*

- (2) No comment provided.

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### Question B (Paragraph 18)—Expected recovery of insurance acquisition cash flows

*Insurance contract renewals are not a defined term which may lead to diversity in practice when allocating insurance acquisition cash flows. Do you consider that insurance contract renewals should be defined in order to achieve comparability and, if so, how would you define them?*

- (3) Insurance renewals are not defined. However, we believe that the issue is not related to comparability per se, considering that in practice different remuneration patterns might exist taking into account the different distribution channels. Instead, pursuing data reliability and consistency in applying the accounting policy by preparers over time should be the key element in achieving comparability.
- (4) Accountancy Europe also would like to obtain confirmation that 'expected renewals' do not result in the recognition of an intangible asset in accordance with IAS 38 *Intangible Assets*.

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### Question C (Paragraph 35-36)—Contractual service margin attributable to investment-return service and investment-related service

*EFRAG has been informed of possible fact patterns of deferred annuities for which there is no investment component as defined by the ED, nor a right to withdrawal; however, the insurance entity performs asset management activities, revenues of which would not be captured in the CSM release. For example, for particular Deferred Annuities, there is an accumulation phase followed by the annuity phase. The policyholder's beneficiaries receive no return if the policyholder dies during the accumulation phase. During the annuity phase, a surviving policyholder receives a fixed annuity amount based on premiums/technical provisions. In these deferred annuities the policyholder does not have a right to withdraw during either the accumulation phase or the annuity phase. Do you have additional examples of investment activities that are not captured by the proposals in the ED?*

*Entities have to provide quantitative disclosures on the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period, in appropriate time bands. Do user constituents agree with this disclosure requirement? Do preparer constituents consider that this information is commercially sensitive? Please explain.*

- (5) Accountancy Europe is of the opinion that the disclosure proposals related to CSM amortisation will provide useful information to the users of financial statements.

- (6) Please also refer to the second item in Annex 3.

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#### Question D (Paragraph 45-47)— Reinsurance contracts held — recovery of losses on underlying insurance contracts

*For proportionate reinsurance contracts, please provide fact patterns that are not captured by the amendment but for which the solution proposed by the IASB would be relevant.*

*The IASB has not addressed non-proportionate reinsurance contracts. A peculiarity of such contracts is that there is no one-to-one relationship between the direct underlying contract and the reinsurance contract held, for example because there are many underlying contracts that are covered by a single excess loss reinsurance contract held. Addressing non-proportionate reinsurance may therefore require the need to identify a “link” between the reinsured risk and the underlying contracts. EFRAG understands that any accounting mismatch for non-proportionate contracts may, in practice, be reduced due to the impact on the risk adjustment rather than on the CSM.*

*In your view:*

- a) *Should non-proportionate reinsurance contracts be treated similarly to proportionate reinsurance contracts, i.e. gains in profit or loss when a loss is recognised on underlying contracts? If yes, please provide information about (i) the prevalence of such contracts, including volumes and jurisdictions where the issue arises and (ii) the cash flow pattern of these non-proportionate reinsurance contracts.*
- b) *How would an accounting solution for non-proportionate reinsurance work?*

- (7) Please refer to our response to question 4 in Annex 1.

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#### Question E (Paragraph 54)— Presentation in the statement of financial position

*Do Constituents that are Users agree that separate balance sheet presentation (of insurance contracts that are in an asset position from those that are in a liability position) on a portfolio level rather than at group level will not significantly reduce the information available? Please explain.*

- (8) No comment provided.

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#### Question F (Paragraph 64-65)— Applicability of the risk mitigation option

*EFRAG has heard that the extension of the risk mitigation option should be widened, for example, to include non-derivative instruments such as when hedging of interest rate risk is carried out using a combination of swaps, swaptions and fixed interest securities.*

*Please explain the prevalence including volumes and jurisdictions involved, of the risk mitigation strategies identified in paragraph 64 above.*

- (9) No comment provided.

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#### Question G (Paragraph 73-75)— Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4

*Do you consider that the proposed deferral of the effective date to 1 January 2022 is sufficient or would you support an additional year (i.e. 1 January 2023)?*

*Arguments in favour of accepting the proposed effective date of 1 January 2022 include:*

- a) *Further delaying the application of IFRS 17 beyond 2022 will be disruptive, as will increase the costs of their implementation processes; and*

- b) A delay beyond 2022 may encourage entities to defer their implementation efforts rather than using the extended period to better implement the Standard.

Arguments in favour of further delaying the effective date to 1 January 2023 include:

- a) Some entities, mainly small and medium sized ones, often rely on third IT systems providers and so far there are no IT solutions for IFRS 17 available on the market, thereby making it difficult to meet the proposed 2022 effective date;
- b) The IASB expects to finalise the amendments by mid-2020. As a result, there will only be six months before the comparative period for IFRS 17 starts and this may be challenging for some entities; and
- c) Entities that would like to apply IFRS 17 earlier would be able to do so.

(10) Please refer to our response to question 7 in Annex 1.

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#### Question H (Paragraph 94-95)— Transition modifications and reliefs

*Do Constituents agree with the approach suggested by EFRAG, i.e. to prefer retrospective application of paragraph B115 instead of supporting the two consequential amendments? Please explain why.*

*If you expect to apply the risk mitigation retrospectively under the approach proposed by EFRAG, how would you find the required evidence in practice? What would be the starting point for collecting the evidence and what process would you use?*

(11) No comment provided.

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#### Question I (Paragraph 99-105)— Minor amendments

*Do Constituents consider that there are any unintended consequences arising from the minor amendments? Please explain.*

*EFRAG has heard two concerns which are described in the following paragraphs.*

*B128 of the amended IFRS 17*

*Paragraph B128 of the amendments to IFRS 17 clarifies that changes in the measurement of a group of insurance contracts caused by changes in the fair value of underlying items should be treated as changes in investments and hence as changes in the time value of money and financial risk. The concern is that there would be a misclassification between insurance service result and finance result requiring the presentation of non-financial items in the financial result.*

*Paragraph 28 of the amendments to IFRS 17 and paragraph 22 of IFRS 17*

*Paragraph 28 of the amendments to IFRS 17 indicate that in recognising a group of insurance contracts in a reporting period an entity shall include only contracts that individually meet one of the criteria set out in paragraph 25 of the amendments to IFRS 17. That is, based on:*

- a) the beginning of the coverage period of the group of contracts;
- b) the date when the first payment from a policyholder in the group becomes due; and
- c) for a group of onerous contracts, when the group becomes onerous.

*However, in paragraph 22 of IFRS 17, an entity shall not include contracts issued more than one year apart in the same group.*

*Using the issue date in paragraph 25 of the amendments to IFRS 17 instead of the recognition date for the grouping would have implications on, for example, for the discount rate and could create difficulties in terms of data availability causing operational issues and undue costs.*

*If you agree with either of the above two issues, please explain why this is an issue for you and the prevalence of the issue, including volumes and jurisdictions where the issue arises?*

(12) No comment provided.

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## Question J (Paragraph 110)—Terminology

*Do Constituents consider that there may be any unintended consequences arising from the proposed change in terminology? Please explain.*

- (13) Please refer to the second item in Annex 3.

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## Question K (Paragraph 140-143)—Annual cohorts

*For contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts:*

- a) *EFFRAG is suggesting to the IASB to provide an exception to the requirement to restrict the grouping of contracts using the annual cohorts. Would Constituents agree with this proposal? Please explain why or why not.*
- b) *Please provide fact patterns - and their prevalence - for which the application of the annual cohorts requirement results in added complexity that is not justified and, as a consequence, should be captured in such an exception. For example:*
  - i. *Contracts to which the VFA applies compared to other contracts;*
  - ii. *Contracts with full sharing of risks compared to other contracts that only share a substantial or significant part of the risks;*
  - iii. *Contracts that share all risks or only particular risk types; and*
  - iv. *Contracts with sharing of asset returns of underlying pools compared to other contracts.*

*As reported in paragraph 129, the exception should meet the reporting objectives of IFRS 17 (i.e. depicting profit trends over time, recognising profits of contracts over the duration of those contracts and timely recognising losses onerous contracts).*

*With reference to the pattern of recognition of the CSM, EFFRAG in its case study received mixed results as to whether the resulting information would be impacted by the removal of the annual cohorts.*

*In your opinion, how would you ensure that the CSM release pattern would be in line with the IFRS 17 stated objectives? Do you envisage any loss of information as contemplated by the IASB in paragraph BC177 of the ED? If so, how would you address that loss of information?*

*Are there other types of contracts in the life insurance business, other than the contracts with cash flows that affect or are affected by cash flows to policyholders, that create similar complexity?*

*Some have observed that when a grouping approach broader than annual cohorts is applied, there is a benefit in providing additional information about trends in profitability. Such disclosure could include:*

- a) *Reconciliations for the CSM of those groups from the opening to the closing balances (according to paragraph 101 of IFRS 17)*
- b) *Disclosure on profitability trends by presenting the CSM effect of new business joining the groups, extracted from (a), as a series of historical data (for example, the last 3 years);*
- c) *Disclosure of the actuarial techniques applied for computing the CSM effect of new business joining the group as well as disclosure about the method used for assessing the profitability referred in (b).*

*Would Constituents consider it appropriate to include these additional disclosures?*

- (14) Accountancy Europe agrees with the overall IASB's reporting objectives of the level of aggregation requirements in IFRS 17, i.e. i) recognition of CSM based on service provided, ii) timely recognition of losses from onerous contracts, and iii) information on profitability trends.

- (15) We also understand that the annual cohorts' approach is a simplification to achieve these overall reporting objectives put forward by the IASB as set out in the paragraph above.
- (16) Accountancy Europe share the concerns raised by the preparers that the costs related to the implementation of such requirement, especially for smaller players, could be significant.
- (17) We acknowledge the position outlined in EFRAG's DCL, i.e. EFRAG believes that it is worth re-considering whether in certain cases the annual cohorts' requirement is justified. EFRAG indeed considers that the requirement leads to unnecessary cost in some fact patterns, in particular for contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts, as described in IFRS 17 B67 (i.e. the major part of the European life 'traditional with profits' insurance business). We also acknowledge that EFRAG recommends that the IASB considers developing an 'exception' for such contracts, starting from paragraph IFRS 17 BC138; the exception should be reflective of the reporting objectives of the level of aggregation requirements in IFRS 17, as set out in paragraph (14) above.
- (18) Accountancy Europe concurs with EFRAG position. However, acknowledging that the IASB has already provided specific reasons for rejecting certain requests on annual cohorts, we recommend that EFRAG builds further arguments and considerations, perhaps supported by numeric examples, to substantiate EFRAG DCL's request for re-consideration, starting by rebutting and challenging the IASB's rationale outlined in the level of aggregation section of the basis of conclusions of the Exposure Draft.
- (19) Accountancy Europe agrees with EFRAG that it could be useful in this context to elevate IFRS 17.BC138 to the main body of the Standard, provided that the calculation of CSM according to annual cohorts and selected alternative methods does not result in material differences in the reported amounts. Nevertheless, we do believe that, in case an alternative model is developed, further comprehensive guidance will be needed in order to avoid a wide variety of practices and different degree of judgement adopted by preparers. In its absence, it would pose additional challenges for the profession in terms of effort and related audit costs.

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#### Question L (Paragraph 155)—Transition: Modified retrospective approach and fair value approach

*Please provide specific prevalent fact patterns where the application of the modified retrospective approach is proving particularly challenging in practice. This would assist EFRAG in understanding better the interpretation difficulties arising in obtaining reasonable and supportable information and in estimating missing information that is required to apply the modified retrospective approach.*

- (20) Accountancy Europe concurs with EFRAG's views reflected in its DCL regarding the Modified Retrospective Approach (MRA) at transition. We recommend that the IASB acknowledges in the main text of the final standard that the use of estimates is allowed, including those needed to approximate missing information. Accountancy Europe also suggests that the IASB clarifies that the 'reasonable and supportable information' criterion is not intended to change the judgement ordinarily required in IAS 8 to make estimates.



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**Question M (Paragraph 161)— Balance sheet presentation: Non-separation of receivables**

*Do Constituents support the presentation of separate information about premiums receivable?*

*If so, should information about premiums receivable:*

- a) be mandatory?*
- b) be based on a predefined definition of “premium receivables” and , in this case, how should premiums receivable be defined?*
- c) be provided on the face of the balance sheet or in the notes?*
- d) be separated by insurance portfolio?*

- (21) Accountancy Europe would like to flag that IAS 1 currently already allows disaggregating additional line items in the statement of the financial position.

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**Question N (Paragraph 172-174)— Reinsurance contracts: contract boundary**

*Do Constituents support the IASB’s tentative decision not to amend IFRS 17 for the contract boundary of reinsurance contracts held?*

*Do Constituents that are Users consider that CSM for the reinsurance contracts held which reflects future expected contracts would provide useful information? Please explain.*

*EFRAG understands that there is no material impact on the balance sheet and probably not a significant impact on profit or loss (until certain events occur as explained in paragraph 169 above). Please explain the prevalence of holding reinsurance contracts that relate to underlying contracts that have not yet been issued, including volumes and the jurisdictions where the issue arises.*

- (22) No comment provided.

## ANNEX 3: OTHER IFRS 17 RELATED COMMENTS

### INTERIM REPORTING

- (1) IAS 34 *Interim Financial Reporting* requires an entity to use a 'year-to-date' approach (i.e. IAS 34.28), which is largely based on the requirement to report the entity's financial position as at the interim reporting date, but for which certain estimates and measurements are based on the expected financial position of the entity at year-end.
- (2) A key provision of IAS 34 is that an entity should use the same accounting policy throughout a single financial year and the frequency of the entity's reporting should not affect the measurement of its annual results. IFRS 17 expressly introduces an exception from the principle of IAS 34.28 in paragraph B137.
- (3) Accountancy Europe considered large preparers' concerns regarding the introduction of a specific exception for insurers. We acknowledge that there are practical challenges of implementing B137, especially for the primary life insurance industry applying the Variable Fee Approach (VFA). The estimation technique of most life insurance contracts (especially under the VFA) typically involves the development of projections based on expected yearly investment yields. By introducing a 'discrete approach' to achieve an interim result, both quarters, half-year and year-end figures will not have the accuracy which can be achieved by preparing a year to date (including some true-up of the contractual service margin (CSM) release).
- (4) Furthermore, we believe that B137 would imply a significant practical burden without improving the level of precision of the estimates due to the limitations as set out above. Therefore, in order to provide some operational relief for preparers, B 137 could be made optional.

### APPLICATION GUIDANCE REGARDING CHANGES IN THE CARRYING AMOUNT OF THE CONTRACTUAL SERVICE MARGIN (CSM) FOR INSURANCE CONTRACTS WITH DIRECT PARTICIPATION FEATURES (IFRS17.B113(B))

- (5) Although it is not one of the areas addressed by the IASB in the ED we would like to draw the attention to an issue we have encountered with the accounting of certain non-participating elements in certain contracts that are eligible for the VFA. It concerns contracts which qualified for the VFA approach by applying the tests stipulated in IFRS 17.B101 at inception, but which also contain cash flows from certain non-participating elements that are not covered by underlying items.
- (6) The issue may arise as well for some participating products with significant non-participating risk riders and can be described as follows: IFRS 17.B113(b) requires the CSM to be unlocked for changes in the time value of money not arising from underlying items, while the mirroring approach in IFRS 17.B134 only applies to the underlying items. Paragraph B113(b) explains that changes in the time value of money, not arising from underlying items, relate to future service and adjust accordingly the CSM. The investment result from general account investments backing the non-variable future cash flows directly flows into profit or loss in the current period. The respective changes in the time value of

money however unlock the CSM, instead of being recognised in 'insurance finance income or expense'. As a result, there is a greater risk that the contract might become onerous since effects of interest rate changes adjust the CSM without an offsetting effect from investment returns from the general account assets. The current period investment returns do not unlock the CSM considering that the respective investments are not underlying items.

- (7) We believe it is challenging to split the contract into two components and proceeds, as if they existed independently of each other, given the current wording of IFRS 17.
- (8) We understand that the reference made in IFRS 17.B113(b) to changes that relate to future service, was not intended to be applied to contractual cash flows which are conceptually separate from the underlying items as covered in the fact pattern above. The reference was indeed only included regarding minimum guarantees that are embedded in contracts with direct participating features, since these relate to future service. For those contractual cash flows not covered by underlying items, it is not explainable why they should relate to future services, and therefore, in our view, the general unlocking mechanics of the general measurement model should apply (IFRS 17.44).
- (9) In addition, some interpret IFRS 17.B113(b) as including the effect of unwinding of the discounting of relevant fulfilment cash flows. We are concerned that this interpretation will cause distortions in the financial statements, particularly as a result of the unwinding of the discounting of the insurance contract liabilities being included in the CSM. We believe this interpretation is conceptually incorrect, as the time value of money effect arising purely as a result of the passage of time (i.e. unwinding of the discounting of the liability) relates to current service and should be included in insurance finance expense for the period.
- (10) The IASB should clarify that IFRS 17B113(b) is intended to cover guaranteed cash flows which are not covered by risk mitigation (IFRS 17.B115) but does not concern non-participating contractual cash flows which are not covered by underlying items. This paragraph could otherwise give rise to accounting consequences, which may not have been anticipated when the wording of the standard was developed.