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**IFRS Technical Committee**

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Berlin, 25 January 2021

Dear Jean-Paul,

**Draft Endorsement Advice – IFRS 17 Insurance Contracts**

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to contribute to EFRAG's Draft Endorsement Advice Letter on *IFRS 17 Insurance Contracts*.

We consider that the Standard meets the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, leads to prudent accounting, and that it is not contrary to the true and fair view principle. We also agree that the Standard is conducive to the European public good.

We therefore like to emphasize that we clearly and fully support the endorsement of IFRS 17 as issued by the IASB, i.e. with no changes, and in a timely fashion. A swift endorsement is crucial for preparers in order to provide clarity to market participants by communicating changes to the financial position and performance reported under the current standard and to enable timely application no later than 1 January 2023.

Regarding EFRAG's technical assessment of the accounting requirements in the Standard we summarize our views as follows:

- As regards "all the other requirements", we take the clear view that all endorsement criteria have been met. Hence, we fully agree with EFRAG's positive assessment.
- As regards "the annual cohort requirement", we retain and reiterate our positive assessment conveyed at TEG and Board level. In our view, the majority of the negative arguments that have been raised against this requirement are neither robust nor specific to annual cohorts (esp. when it comes to exercising judgment and developing policies in order to meet the Standard's requirements). Further, we reiterate our known position that the annual cohorts requirement represents an acceptable compromise; so far, we have not been presented with an alternative that would be better in addressing the IASB's criteria and in terms of leading to better information and/or lower costs. The alternatives we have seen and discussed address the allocation mechanism from a different starting point (the policyholder rather than the shareholder of the insurance entity). We therefore take the clear view that the annual cohort requirement may not be the conceptually best solution as regards a level of aggregation requirement, but it clearly meets all the endorsement criteria.

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Regarding EFRAG's overall assessment of the Standard we do not concur with the approach to the messaging taken in the draft endorsement advice, which, in fact, does not contain any advice as it lacks a conclusion as to whether to endorse or not endorse IFRS 17 *as a package*. In particular, the current position taken by EFRAG appears inappropriate as there is no conclusion as to whether IFRS 17 shall be endorsed *despite* the criticisms on the annual cohort requirement or not be endorsed *because of* those reservations. We have always understood the endorsement advice process leading to a binary decision, positive or negative, that *pertains to the entire standard and not only to portions of it*.

To sum up, we underline our clear view that the reservations raised in the draft endorsement advice are not sufficient to justify not endorsing IFRS 17 as issued by the IASB in full. We therefore clearly advocate an unreserved positive statement and urge EFRAG to express an overall positive advice for endorsing IFRS 17.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

*Sven Morich*

Executive Director

## INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRS 17 INSURANCE CONTRACTS AS AMENDED IN JUNE 2020

Once filled in, this form should be submitted by 29 January 2021 using the 'Comment publication link' available at the bottom of the respective news item. All open consultations can be found on EFRAG's web site: [Open consultations: express your views.](#)

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 17 *Insurance Contracts* as amended in June 2020 ('IFRS 17' or 'the Standard'). In order to do so, EFRAG has been carrying out an assessment of IFRS 17 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of IFRS 17 is set out in Appendix I.

Before finalising its assessment, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interests of transparency, EFRAG will wish to discuss the responses it receives in a public meeting, so it is preferable that all responses can be published.

**In order to facilitate the EFRAG process, it is strongly recommended to use the structure below in your responses.**

**EFRAG's initial assessments, summarised in this questionnaire, will be updated for comments received from constituents when EFRAG is in the process of finalising its *Letter to the European Commission* regarding endorsement IFRS 17.**

### Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Accounting Standards Committee of Germany

- (b) Are you a:

Preparer  User  Other (please specify)

Standard Setter

- (c) Please provide a short description of your activity:

National Standard Setter for Accounting and Financial Reporting

- (d) Country where you are located:

Germany

- (e) Contact details, including e-mail address:

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**Part I: EFRAG's initial assessment with respect to the technical criteria for endorsement**

**Note to the respondents:** *Appendix II presents EFRAG's reasoning with reference to all requirements in IFRS 17 apart from the application of the annual cohorts requirement to some contracts specified in paragraph 6 of Annex A within Annex 1 (those contracts are conventionally referred to in this questionnaire, in the Cover Letter, in its Appendices and Annex as 'contracts with intergenerationally mutualisation and cash-flow matched contracts'<sup>1</sup>, or 'intergenerationally mutualised and cash flow matched contracts'. Annex 1 presents content of this requirement that contribute positively or negatively to the technical criteria on this matter.*

2 EFRAG's initial assessment of IFRS 17 is that:

- The EFRAG Board has concluded on a consensus basis that, apart from the requirement to apply annual cohorts to intergenerationally-mutualised and cash-flow matched contracts, as explained in the attached Cover Letter, on balance, all the other requirements of IFRS 17 meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support 'economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting. EFRAG has concluded that all the other requirements of IFRS 17 are not contrary to the true and fair view principle.
- EFRAG Board members were split into two groups about whether the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts meet the qualitative characteristics described above.
  - (i) Nine EFRAG Board members consider that overcoming in a timely manner the issues of IFRS 4 brings sufficient benefits despite the concerns on annual cohorts. They believe that, in the absence of an alternative principles-based approach to grouping of contracts, on balance the annual cohorts requirement provides an acceptable conventional approach that enables to meet the reporting objectives of the level of aggregation of IFRS 17.
  - (ii) Seven EFRAG Board members consider that in many cases in Europe the requirement to apply annual cohorts for insurance contracts with intergenerational mutualisation and cash-flow matched contracts will result in information that is neither relevant nor reliable. This is because the requirement does not depict an entity's rights and obligations and results in information that represents neither the economic characteristics of these contracts nor the entity's underlying business model. These EFRAG Board members also consider that this requirement is not conducive to the European public good because it (i) adds complexity and cost and does not bring benefits in terms of the resulting information, (ii) may lead to unintended incentives to change the way insurers cover insurance risks and (iii) may produce pro-cyclical reporting effects.

EFRAG's reasoning and observations are set out in Appendix II, Annex 1 and the Cover Letter regarding endorsement of IFRS 17.

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<sup>1</sup> For a description of the affected contracts please refer to paragraphs 8 to 28 of Annex A to Annex 1 of the endorsement package relating to IFRS 17.

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- (a) Do you agree with this assessment for all the other requirements of IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts?

**Yes**     **No**

If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

n/a

- (b) Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to intergenerationally-mutualised contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above, does the requirement to apply annual cohorts to intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17) meet the qualitative characteristics described above? Please explain your technical reasons for supporting your view.

**Yes**     **No**

Most of the negative arguments that are raised against "reliability" as well as against "relevance" are neither robust nor specific to annual cohorts. We object to the findings that profitability is not measurable (at cohort level) and that allocation of profits to cohorts distorts presentation of profitability. Moreover, (dis)aggregating profits is a compromise on any level of aggregation. Disaggregation is neither costly nor impossible in absolute terms, but is a relative method to achieve more (or less) granular presentation of profitability at more (or less) costs.

As far as presenting profitability on a cohort level would, to a certain degree, distort the economics, IFRS 17 allows for applying appropriate methods that would reflect mutualisation effects.

Entities are experienced in disaggregation on an annual cohort level for contract pricing, controlling and management purposes, and entities are accustomed to also do this for accounting purposes. As of today, the aggregation of annual cohorts represents an acceptable compromise; lastly, so far no alternative has emerged that we would deem to be superior in terms of better information and/or lower costs.

This said, we take the view that the requirement to apply annual cohorts to intergenerationally-mutualised contracts meets the qualitative characteristics.

- (c) Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to cash-flow matched contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above, does the requirement to apply annual cohorts to cash-flow matched contracts meet the qualitative characteristics described above? Please explain your technical reasons for supporting your view.

**Yes**     **No**

We refer to the general messages (1<sup>st</sup> and 3<sup>rd</sup> paragraph) in our answer on Q2b, which are equally valid for cash-flow matched contracts.

- (d) Are there any issues that are not mentioned in Appendix II, Annex 1 and the Cover Letter regarding the endorsement of IFRS 17 that you believe EFRAG

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should take into account in its technical evaluation of IFRS 17? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We do not think that there are further issues that are lacking an evaluation and therefore believe that the analysis provided is complete.

## Part II: The European public good

**Note to the respondents:** EFRAG's reasoning and conclusions with reference to all the other requirements of IFRS 17 is presented in Appendix III, apart from the observations on the requirement to apply annual cohorts to intergenerationally mutualised and cash flow matched contracts, which are presented in Annex 1 (refer to the section titled Appendix III in Annex 1).

3 In its assessment of the impact of IFRS 17 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix III and Annex 1 regarding the endorsement of IFRS 17.

- The EFRAG Board has on a consensus basis assessed that, apart from the requirement to apply annual cohorts to intergenerationally-mutualised and cash-flow matched contracts, all the other requirements of IFRS 17 would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified any other requirements of IFRS 17 that could have major adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that all the other requirements in IFRS 17 are, on balance, conducive to the European public good.

(a) Do you agree with this assessment for all the other requirements apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts?

Yes     No

If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

n/a

- EFRAG Board members were split between two groups, as described in the Cover Letter and above, with reference to the requirement to apply annual cohorts for contracts with intergenerational mutualisation and cash-flow matched contracts.

(b) Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to intergenerationally-mutualised contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above, is the requirement to apply annual cohorts to intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17) conducive to the European public good? Please explain your technical reasons for supporting your view.

Yes     No

Most of the negative arguments that are raised in assessing the effects on "business models" as well as in assessing "costs and benefits" equal the negative arguments raised against the Technical Criteria (in particular "reliability" and "relevance").

With reference to our explanation in our answer to Q2(b) above, we consider the requirement to apply annual cohorts being conducive to the European public good.

(c) Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to cash-flow matched contracts, as described in Annex 1, and having considered the two views from the

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EFRAG Board above, is the requirement to apply annual cohorts to cash-flow matched contracts conducive to the European public good? Please explain your technical reasons for supporting your view.

**Yes**     **No**

We refer to our answer on Q3b



**Part III: The questions in Part III relate to all the other requirements in IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts**

**Notes to the respondents:** In this Part, "IFRS 17" or "requirements in IFRS 17" or "the Standard" is intended to be referred to all the other requirements in IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts (your views on the latter requirement are to be covered in Part IV).

The European Commission and the European Parliament asked EFRAG to provide its views on a number of specific matters, that are presented below.

*Improvement in financial reporting*

- 4 EFRAG has identified that, in assessing whether the endorsement of IFRS 17 is conducive to the European public good, it should consider whether the Standard is an improvement over current requirements across the areas which have been subject to changes (see paragraphs 15 to 27 of Appendix III). To summarise, for all the other requirements in IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts, EFRAG considers that they provide better financial information than IFRS 4.

Do you agree with this assessment?

Yes  No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Costs and benefits*

- 5 EFRAG's initial assessment is that taking into account the evidence obtained from the various categories of stakeholders, the benefits of all the other IFRS 17 requirements in IFRS 17 exceeds the related costs.

Do you agree with this assessment?

Yes  No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Other factors*

*Potential effects on financial stability*

- 6 EFRAG has assessed the potential effects on financial stability based on the ten criteria set out in the framework developed by the European Central Bank "Assessment of accounting standards from a financial stability perspective" in December 2006. Based on this assessment, EFRAG is of the view that, on balance, IFRS 17 does not negatively affect financial stability (Appendix III para 428 to 482).

Do you agree with this assessment?

Yes  No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Potential effects on competitiveness*

(Appendix III paragraphs 227 to 286)

- 7 EFRAG has assessed how IFRS 17 could affect the competitiveness of European insurers taking into account the diversity in their business models vis-à-vis their major competitors outside Europe.

EFRAG concludes that the underlying economics and profitability will always be more decisive in taking up a business in a particular region or a particular insurance product than changes to the accounting that is used to report on it.

Do you agree with this assessment?

Yes  No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Potential impact on the insurance market (including impact on social guarantees)*

- 8 EFRAG has assessed the potential impact on the insurance market in Appendix III paragraphs 287 to 325.

EFRAG commissioned a study from an economic consultancy. This study ('Economic Study') stated that entities may re-consider both their pricing methodologies and product offers when applying IFRS 17 for the first time. The effect on pricing may be more significant than the effect on product offers. However, EFRAG does not have any quantification of the extent of changes in pricing or product design that would result from it.

As per the Economic Study, a majority of stakeholders interviewed (i.e. supervisory authorities, insurers and external investors) agreed that IFRS 17 alone would not impact the asset allocation of insurance undertakings, because this activity is more driven by risk management and/or asset/liability management.

Furthermore, EFRAG has considered how IFRS 17 could affect small and medium-sized entities (SMEs). EFRAG concludes that the number of small insurers that would be affected by IFRS 17 in producing their individual financial statements is very limited (between 27 and 35 depending on the option chosen based on the proposed<sup>2</sup> EIOPA quantitative thresholds).

(a) Do you agree with the assessment on pricing and product offerings?

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<sup>2</sup> Reference is made to EIOPA's publicly consulted Consultation Paper on the Opinion on the 2020 review of Solvency II to amend the thresholds for applying Solvency II.

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Yes     No

- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

n/a

(b) Do you agree with the assessment on asset allocation?

Yes     No

- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

n/a

(c) Do you agree with the assessment on SMEs?

Yes     No

- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

n/a

*Presentation of general insurance contracts*

- 9 EFRAG is of the view the presentation requirements of IFRS 17 would provide relevant information. EFRAG also concludes that providing separate information for contracts that are in an asset, from those in a liability, position would provide useful information to users. (Appendix II paragraphs 118 to 125, 360 to 362).

Do you agree with this assessment?

Yes     No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Interaction between IFRS 17 and Solvency II*

- 10 EFRAG concludes that in implementing IFRS 17, there are possible synergies with Solvency II, but the extent of such synergies varies between insurers. In addition, no synergies are expected for building blocks that are specific to IFRS 17 such as the contractual service margin which is not an element of the measurement approach for insurance liabilities under Solvency II. Synergy potential is available in areas that have a high degree of commonality under the two frameworks, i.e. the building blocks for the measurement of the insurance liability needed to establish

the cash flow projections, and actuarial systems to measure insurance liabilities. The potential depends, to an extent, on the differences in the starting position of insurers and the investments already made in the implementation of Solvency II. It also depends on the amount of effort to adapt existing actuarial systems, that were developed for the Solvency II environment, to the IFRS 17 reporting requirements. (Appendix III paragraphs 401 to 412).

Do you agree with this assessment?

Yes     No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Impact of the new Standard on financial stability, long-term investment in the EU, procyclicality and volatility*

- 11 On financial stability, refer to the conclusions in paragraph 6 of this Invitation to Comment.

On long-term investment in the EU, EFRAG's view is that asset allocation decisions are driven by a variety of factors, among which external financial reporting requirements might play some part but do not appear to be a key driver. There is no indication that IFRS 17 in isolation would lead to any significant changes in European insurers' decisions on asset allocation or holding periods (Appendix III paragraphs 96 to 123).

On procyclicality and volatility, EFRAG believes that IFRS 17 has mixed effects on procyclicality. IFRS 17 may result in more volatile financial performance measures because of the use of a current measurement. However, from the evidence collected, it is not likely that this volatility has the potential to play a specific role in producing pro-cyclical or anti-cyclical effects. EFRAG also assesses that IFRS 17 does not have the potential to reinforce economic cycles, such as overstating profits and thus allowing dividends and bonus distributions in good times, as there is no linkage between the accounting equity (cumulative retaining earnings) and amounts available for distributions, which are defined within the requirements of Solvency II or within the requirements at national level, independently from the IFRS accounting. Finally, EFRAG notes that the transparent nature of the IFRS 17 information has the benefit for investors to be able to react timely to any changes at hand, thereby avoiding cliff-effects. (Appendix III paragraphs 483 to 507).

(a) Do you agree with the assessment on long-term investment?

Yes     No

- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

n/a

(b) Do you agree with the assessment on procyclicality and volatility?

Yes     No

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- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

n/a

*IFRS 17 and IFRS 9*

- 12 EFRAG is of the view that mismatches reported by preparers that contributed to EFRAG's assessment do not arise solely from the application of IFRS 17 and IFRS 9 but are mostly economic in nature. EFRAG considers that reporting the extent of the economic mismatches in profit or loss provides useful information.

In EFRAG's view, asset allocation decisions are driven by a variety of factors and disentangling the impact of accounting requirements from other factors is difficult. When defining the accounting for financial assets under IFRS 9, an insurer would not apply business models determined in isolation, but rather business models that are supportive of or complementary to their business model for managing insurance contracts. EFRAG notes that the interaction between each of an entity's internal policy decisions will determine the importance of any accounting mismatches remaining in the financial statements and this may differ largely from one insurer to another.

EFRAG has assessed the different tools that both standards offer to mitigate accounting mismatches. EFRAG assesses that:

- (a) there is no conceptual barrier against the application of hedge accounting in the context of IFRS 17. However, given the lack of experience and systems by the industry, it would require significant investment both in time and systems development to achieve hedge accounting in this context (Appendix III, Annex 5);
- (b) the treatment of OCI balances and risk mitigation at transition will not, on balance, negatively impact the usefulness of the resulting information.

(a) Do you agree with the assessment on the application of hedge accounting?

Yes     No

- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

With regard to 12(a), we believe that the issue may less be attributed to an entity's experience and system and more to the restrictions pertaining to macro hedging in IFRS requirements (in IAS 39 and IFRS 9 likewise, but not in IFRS 17). From our perspective, it may be worth flagging this issue with the IASB, who is currently undertaking further work in its "macro hedging project" aiming at bringing hedge accounting more in line with risk management activities.

(b) Do you agree with the assessment on the treatment of OCI-balances and risk mitigation?

Yes     No

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- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

n/a

*Application of IFRS 15*

- 13 In some instances, an entity (including insurers) may choose to apply IFRS 15 instead of IFRS 17 to contracts that meet the definition of an insurance contract but that have as their primary purpose the provision of services for a fixed fee. EFRAG concludes that this option would probably be made by those entities that do not operate in the insurance business. EFRAG concludes that for these entities accounting for these contracts in the same way as for other contracts would provide useful information and that applying IFRS 17 to these contracts would impose costs for no significant benefit (Appendix III paragraphs 68 to 76).

Do you agree with this assessment?

Yes     No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Implications of transitional requirements*

- 14 Considering the extent of the information available for each particular group of insurance contracts at transition, EFRAG assesses that the existence of three transition approaches does not result in a lack of relevant information. The alleviations granted under the modified retrospective approach are still leading to relevant information as they enable achieving the closest outcome to a full retrospective application without undue cost or effort. In addition, EFRAG acknowledges that the possible use of three different transition methods may affect comparability among entities and, for long-term contracts, over time. However, the practical benefits of the modified retrospective and fair value approach, which were introduced by the IASB to respond to operational concerns of the preparers, may justify the reduced comparability (Appendix II paragraphs 129 to 155, 228 to 237, 300 to 303, 372 to 374, 398 to 400).

Do you agree with this assessment?

Yes     No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Impact on reinsurance*

- 15 EFRAG concludes that the separate treatment under IFRS 17 of reinsurance contracts held and underlying direct contracts reflects the rights and obligations of different and separate contractual positions. Furthermore, EFRAG acknowledges that reinsurance contracts issued or held may meet the variable fee criteria even though IFRS 17 states that they cannot be insurance contracts with direct participation features. However, EFRAG assesses that the risk mitigation option would largely address the accounting mismatches, thereby balancing relevant information. In addition, for reinsurance contracts held that are used to recover losses from the underlying contracts, EFRAG considers that the Amendments provide relevant information as they aim at reducing accounting mismatches which is present under the original version of the Standard (Appendix II paragraphs 63 to 74, 210 to 216, 274 to 275, 349 to 352, 395 to 397).

Do you agree with this assessment?

**Yes**     **No**

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

n/a

*Implementation timeline*

- 16 Feedback from the Limited Update to the Case Studies shows that the delay to the effective date of IFRS 17 to 1 January 2023 results in higher one-off implementation costs for preparers. However, the delay is also helping preparers to adjust their project approaches to the operational difficulties of the Covid-19 crisis. EFRAG understands from preparers that they may choose to avoid these costs by revisiting solution designs or may make more use of internal (cheaper) resources. Furthermore, according to the Limited Update to the Case Studies and other feedback from insurance associations, most of the participants did not intend to early apply IFRS 17, whereas a small minority wanted to have this possibility. EFRAG is not aware of any European insurer having taken a firm commitment to early apply the Standard. Finally, EFRAG notes that IFRS 17 requires a presentation of restated comparative information when applying the Standard for the first time. However, IFRS 9 does not have similar requirements for financial assets and liabilities (Appendix III paragraphs and 609 to 613).

(a) Do you agree with the assessment relating to delay of IFRS 17 implementation till 2023?

**Yes**     **No**

- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

We note that a swift endorsement is crucial for preparers, in order to provide clarity to market participants and to enable timely application no later than 1 January 2023.

(b) Do you agree with the assessment relating to early application?

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**Yes**     **No**

- (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.
- (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

We note that the German insurance entities have almost completed their implementation projects and are looking to release the resources and have deployed to other tasks. Any delay in finalising the endorsement to meet the 2023 deadline means having to retain the resources and keeping them available in order to be able to react quickly should the European institutions decide not to align the contents of the standard (including annual cohorts), the effective date and the transition requirements for EU purposes.

- 17 Do you agree that there are no other factors to consider in assessing whether the endorsement of the Standard is conducive to the European public good?

**Yes**     **No**

If you do not agree, please identify the factors, provide your views on these factors and indicate how this could affect EFRAG's endorsement advice.

n/a



**Part IV: The questions in Part IV aim at collecting constituents' inputs (Questions to constituents in Annex 1) and views relating to the requirement in IFRS 17 to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts**

**Notes to the respondents:** Respondents are reminded that responses to this Invitation to Comment will be made public on EFRAG's website. EFRAG is also inviting respondents to share quantitative data and to allow confidentiality of this information, constituents are kindly invited to submit these data separately from the Invitation to Comment. Such quantitative data can be sent to [ifrs17secretariat@efrag.org](mailto:ifrs17secretariat@efrag.org). Only aggregated resulting data will be made public in the subsequent steps of the due process and will be presented in an anonymous way.

The intergenerationally-mutualised and cash-flow matched contracts are specified in paragraph 6 of Annex A within Annex 1.

18 As stated in paragraphs 5 to 9 of Annex 1:

- (a) What is the portion of intergenerationally-mutualised contracts and cash-flow matched contracts of all life insurance liabilities and all insurance liabilities? Please report the results for these two types of contracts separately where relevant.

Nearly 100% of all life (and health) insurance liabilities, and within a range of 1/2 to 2/3 of all insurance liabilities.

- (b) Please indicate the proportion of contracts with intergenerational mutualisation (within the context of paragraphs B67-B71 of IFRS 17) for which the requirement around annual cohorts is considered a significant issue. Please specify the share that would qualify for VFA.

All contracts mentioned under (a) are intergenerationally mutualised in the context of IFRS 17.B67-71. However, that does not mean that insurers in our jurisdiction regard this fact as "a significant issue". All have found and implemented solutions to this end. The share that would qualify for VFA would be 100%.

- (c) Please describe the approach you envisage to implement the annual cohorts requirement to contracts with intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17).

The annual cohort requirement must always be seen in conjunction with the fact that separating mutualisation effects must be possible. When performing this separation, the annual cohort split can be seen as one additional granularity requirement that has to be added to and included in the measurement approach. Whilst this separation can be explicitly performed at initial recognition, an allocation logic needs to be established to meet the required split for subsequent measurement.

*Initial recognition:*

At initial recognition, the CSM is explicitly calculated for the annual new business cohort. For subsequent measurement, interactions between groups of contracts for mutualised business – and, thus, also for different cohorts – are reflected in the determination of unlocking the CSM. At initial recognition, mutualisation occurs between the existing portfolio and the new business written. The expected future cash flows before taking into account mutualisation will be determined for the new business (annual) cohort. In addition, the mutualisation effects at initial recognition between existing and new business can be quantified explicitly with the projection models and can be assigned to the new business as an additional cash inflow or

outflow for the new business reporting. This is common practice already today for determining the new business value in embedded value reporting. In summary, the new business CSM will be determined individually for each group of contracts taking into account annual cohorts.

*Subsequent measurement:*

For subsequent measurement, however, neither the effects of mutualisation nor the required cohort split can be determined directly but need to be derived by using reasonable and consistent allocation algorithms. This is also in line with the solution for similar granularity challenges, as fulfilment cash flows under the VFA are usually determined at the level of mutualisation units and must then be assigned to the required, more granular level. The following approach can be used to achieve the required annual cohort split and to separate mutualisation effects:

1. Stochastic cash flows for subsequent measurement are determined at a higher granularity level than groups of contracts.
2. The unlocking of the CSM is determined at the level at which mutualisation occurs.
3. An amount of CSM is allocated to each group of contracts. The allocation reflects mutualisation effects between groups of contracts and also needs to take the required annual cohort split into consideration.
4. The CSM release is determined at a group of contracts level allowing for annual cohorts.

Thus, the task is to develop an appropriate allocation procedure that assigns the mutualisation effect among the groups while also taking the cohort split into account.

- (d) Please indicate the proportion of cash-flow matching contracts for which the requirement around annual cohorts is considered a significant issue. Please specify how the features of the contracts compare with the description provided in Annex A of Annex 1.

In our jurisdiction, there are no such "cash-flow matching contracts" (ie. all insurance contracts affected qualify for the VFA and, therefore, constitute contracts with intergenerational mutualisation).

- (e) Please describe the approach you envisage to implement the annual cohorts requirement to cash-flow matched contracts.

n/a

**Part V: Questions to Constituents raised in Appendix III**

19 As stated in paragraphs 532 to 534 of Appendix III:

- (a) In your view, how will the Covid-19 pandemic affect the impacts of IFRS 17 on the insurance market (see a description of some expected impacts in paragraphs 518 to 527 in Appendix III) and indirectly, on the European economy as a whole?

We do not see Covid-19 negatively impacting the current IFRS 17 accounting methodology. Any (additional) Covid-19 claims to be covered by the insurance industry could be appropriately accounted for under the existing IFRS 17 model.

- (b) Is the Covid-19 pandemic affecting your implementation process for IFRS 17 and IFRS 9? Please explain in detail the impacts such as project ambitions, budget for implementation and ongoing costs, resources, speed of implementation. Please also explain whether this relates to the IT systems implementation, or rather the actuarial or accounting aspects of implementation.

Despite Covid-19 related practical burdens (home office etc.), the pandemic has not impaired existing implementation schedules or budgets. We therefore strongly argue for staying with the application date of 1 January 2023.

- (c) Are there other aspects around the implications of Covid-19, not yet addressed in the DEA that you want to expand on?

n/a

**Part VI: EFRAG's overall advice to the European Commission**

20 Do you have any other comment on, or suggestion for, the advice that EFRAG is proposing to give to the European Commission?

We do not concur with the overall approach to the messaging taken in the endorsement advice, which, in fact, does not contain any advice as it lacks a conclusion as to whether to endorse or not endorse IFRS 17.

As per EFRAG's statutes, an endorsement advice is binary and can only be positive or negative, but not "mainly positive" or "positive except...". The endorsement advice is thus an overall assessment over the entire standard and not over part of the standard. Those that feel strongly as regards the annual cohort question need to state that they regard this issue as so important and so disadvantageous for Europe that they cannot support endorsement of the standard.

We take the clear view that the reservations raised (by a part of the EFRAG Board members) are not sufficient to justify not endorsing IFRS 17 as issued by the IASB in full. We therefore clearly advocate an unreserved positive statement and urge EFRAG to express a "overall positive advice" for endorsing IFRS 17.