Fédération Française de l'Assurance

DIRECTION DES AFFAIRES FINANCIERES, PRUDENTIELLES ET COMPTABLES

Mr. Jean-Paul Gauzès
EFRAG Board Chair
35 square de Meeûs
B-100 Brussels
Belgium

Paris, 26 January 2021

Re: Draft endorsement advice of IFRS 17

Dear Mr Gauzès,

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

We welcome the opportunity to comment on the draft endorsement advice prepared by EFRAG on IFRS 17 Insurance contracts (hereafter the "DEA").

We appreciate the extensive work performed by EFRAG in analysing the provisions and issues raised by this new standard and in reflecting the views and conclusions of its stakeholders.

14 years after IFRS 4, a temporary standard addressing the insurance contracts' accounting, IASB issued IFRS 17 in May 2017. This version however raised many concerns that led to reconsider more than twenty topics and defer by two years the first implementation. In a letter dated 2 September 2019, the FFA supported reopening the standard on these topics which mainly covered the most crucial concerns for the French and European insurance industry. We thus contributed to the debate by commenting on the most relevant issues and suggesting solutions.

We believe that, except for the annual cohorts' requirement, on balance, the amended version of IFRS 17 is an improvement compared to its previous version (and to IFRS 4) and its first-time application should therefore not be postponed beyond 1st January 2023.

Level of aggregation

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

According to our statistics of the French Insurance market, insurance liabilities as of 31/12/2019 amounted to € 2,138 bn of which 92% in life insurance (€ 1,969 bn). More than 81% of the life insurance contracts are intergenerationally-mutualised contracts for which the French insurance industry - in line with other stakeholders - still considers that the annual

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cohorts' requirement is not relevant. For those contracts, we assess that the requirement neither meets the technical endorsement criteria, nor it is conducive to the European Public Good.

Therefore, we continue to believe that the issue should be immediately addressed. We support an immediate standard-setting solution as a part of the European endorsement process instead of postponing it to the Post-Implementation Review (PIR). We believe that such a solution would prevent heterogeneous interpretations and applications of the requirement to intergenerationally mutualised contracts.

We still consider - in line with other European insurance stakeholders - that principle-based solutions are possible. Such solutions have already been suggested to the IASB but finally rejected, even if they adequately address the issue raised by intergenerationally mutualised contracts.

Various proposals have been addressed to IASB and EFRAG in order to define the scope of an exception to the annual cohorts' requirement for intergenerationally mutualised contracts. As previously mentioned in our letter dated 24 September 2019, we consider that the annual cohorts' requirement should be removed for contracts eligible to the variable fee approach that share a significant part of the return on common underlying items across generations. Accordingly, we agree with the French accounting standards setter (ANC) proposing to define this scope as embedding contracts (i) with cash flows that affect or are affected by cash flows to policyholders of other contracts (as outlined in IFRS17.B67-B71), (ii) with direct participation in a common pool of assets and (iii) that meet the VFA criteria. We alternatively consider, as the CFO Forum, that the scope of an exception could be defined replacing (iii) the VFA criterion by the requirement in (i) that "cash flows substantially affect or are affected by cash flows to policyholders of other contracts", the "substantial" feature being the same as required in the current definition of the VFA (IFRS 17.B101).

We reiterate our strong support to the implementation of IFRS 17 on 1st January 2023 at the latest and believe that, if the European Union introduces the previously defined exception, this exception should apply to all intergenerationally mutualised contracts irrespective of their geographical origin but limited to those contracts (preventing tainting to other contracts) and be temporary until IASB itself amends the standard.

Other topics

All in all, we agree with the EFRAG´s assessment that, on balance, except for the provisions relating to annual cohorts, IFRS 17 requirements meet the criteria for endorsement. However, we would like to draw your attention to the following topics that, even if not compromising the endorsement, deserve being addressed as a part either of the PIR of IFRS 17 (at the latest) or of other standard maintenance projects:

- Interactions with IFRS 9: As long-term investors, French insurers are especially concerned by the prohibition to recycle other comprehensive income (OCI) for equity instruments measured at fair value through OCI. They consequently support the suggestions made by EFRAG to the European Commission on Long Term Equity Investments. Moreover, we note that hedge accounting is not easily applicable to insurance contracts.
- Reinsurance contracts: Their non-eligibility to the variable fee approach remains a concern for reinsurance contracts sharing financial risks and returns with the underlying insurance contracts. In addition, including in the contract boundaries the projected reinsurance cash flows relating to underlying contracts not yet issued is costly for no material benefit.

- Business combinations/portfolio transfers: Liabilities of insurance contracts acquired in their settlement period have to be fully released in insurance revenue upon payment even though the original insurance services (except coverage for the adverse development of claims) have been rendered before acquisition. This reduces the intelligibility and the comparability with similar insurance contracts issued by the entity.
- Presentation of receivables, payables, and collateral deposits: Not separately presenting these elements from the carrying amount of insurance and reinsurance contracts requires significant implementation costs without providing relevant information.

Finally, when first implementing at the same time IFRS 9 and IFRS 17, insurance entities will have to fully restate the comparative period (i.e. 2022) applying IFRS 9 except for financial instruments derecognised during the comparative period before the implementation date. This will require applying simultaneously IFRS 9 and IAS 39 and thus reduce comparability and generate a huge operational effort for no benefit. We believe that this issue can still be mitigated by introducing (through an annual improvement) an optional full retrospective application for IFRS 9 for IFRS 17 first applicants.

We have included our responses to your ‘Invitation to comment’ in Appendix 1.

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

Yours sincerely,

Christine Tarral
Director of Financial, Prudential and Accounting Affairs

Precision regarding our detailed responses

We had difficulties to answer a clear “Yes” or “No” to several questions. While we do not fully agree with EFRAG’s assessment with regard to all issues other than annual cohorts (reasons set out above) which would lead to a ‘No’ response to the questions, we do agree with EFRAG’s assessment that topics should not block the endorsement of IFRS 17 in the European Union in time for the 2023 effective date. In this context, we choose to answer ‘Yes’ and we have added comments to better explain our position. The comments are therefore not only to be taken into consideration with regard to the answers “No” but also to “Yes” answers.

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:

Fédération Française de l’Assurance (FFA)

(b) Are you a:

☒ Preparer ☐ User ☐ Other (please specify)

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

French insurance Federation

(d) Country where you are located:

France

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

christine.tarral@ffa-assurance.fr; claire.berchatsky@ffa-assurance.fr

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’[1], 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

[1] 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.

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.

(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.

All in all, we agree with the EFRAG´s assessment that, on balance, except for the provisions relating to annual cohorts, IFRS 17 requirements meet the technical criteria for endorsement.

Without qualifying that agreement, we would like to draw your attention to the following topics that we believe should be addressed at the post-implementation review or earlier.

<u>Non eligibility of reinsurance contracts to the variable fee approach</u>

The non-eligibility of reinsurance contracts held and issued to the variable fee approach when the underlying insurance contracts are eligible to the variable fee approach remains a significant concern for some contracts in the French market that share the financial risks and returns and have the characteristics of contracts with direct participation features.

For reinsurance contracts held, an accounting mismatch arises between underlying insurance contracts measured under the variable fee approach and corresponding reinsurance contracts that are prohibited from using this measurement model. Even if the extension of the risk mitigation option to the reinsurance contracts held partially addresses the issue (except for the transition), we still believe that the possibility to apply the VFA for the reinsurance contracts held where the underlying insurance contracts are measured under the VFA would constitute an economically proper and operationally simple solution that would faithfully represent the economy of reinsurance operations.

As for reinsurance contracts issued, some of these contracts share the financial risks and returns and so display the characteristics of contracts with direct participation features. We consider that applying the general measurement model for such contracts will not reflect their economic substance and, thus, the prohibition to apply the variable fee approach for these contracts is arbitrary.

Contracts acquired in their settlement period

IFRS 17 requires accounting for contracts acquired in their settlement period as a liability for remaining coverage as they are considered to provide coverage for the adverse development of claims. This will distort the P&L presentation because the release of the expected claims and expenses in insurance revenues will relate to services already provided before the insurance contracts were acquired. Also, the acquired contracts will not be comparable to other similar insurance contracts issued by the entity, reducing the usefulness of financial information provided to users.

Presentation of collateral deposits

When a reinsurer provides funds as a collateral deposit with the ceded insurer, these funds will be offset with the reinsurance liability (for the reinsurer) and with the underlying insurance liabilities (for the ceding entity). This does not fairly portray the economics of these deposits, because from a contractual point of view, these amounts correspond to funds transferred as guarantees to cover a risk of default by the reinsurer, and not to an advance payment. Moreover, the amount of such collaterals might be higher than the related liabilities so that the net amount could be presented as an asset in the accounts of the reinsurer and a liability in the accounts of the insurer. We do not think that such a presentation improves intelligibility or provides useful information.

(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

With regards to intergenerationally mutualised contracts, annual cohorts do not provide information that is relevant, reliable or prudent because it is not possible to determine objectively the entity’s share of returns to be allocated to each cohort.

Such allocation would neither reflect the legal and economic features of these contracts nor the way they are monitored by the entity.

When the cash flows are contractually or legally determined jointly for all policyholders, there is no reason to track the profitability of contracts at a lower level of granularity because no annual cohort within the portfolio is contractually or legally entitled to the returns of a dedicated subset of the underlying items. When contracts are jointly entitled to a share of the overall returns of the same pool of underlying assets, new policyholders would benefit (or suffer) from changes in conditions in which the premiums of previous generations were invested as compared to current market conditions, because those changes would increase or decrease the returns shared between all the policyholders. All contracts in the portfolio would benefit from the contractual profit share independently of whether these contracts already existed or whether they were newly underwritten in the year (on a pro-rata basis within the year).

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

In addition, under intergenerationally mutualised contracts, management exercises discretion regarding the timing and amount of the profit shares allocated to policyholders. In these contracts, the discretionary cash flows are determined based on the profits of a common pool of underlying assets and jointly shared among policyholders, including future policyholders. The annual cohorts' requirement does not provide relevant information for these contracts because the fungibility of the profit sharing cash flows makes it impossible to objectively determine the profitability on a cohort by cohort basis.

The standard allows for transferring FCF among groups of contracts that are mutualised. The standard however does not address how FCF transfers between groups of contracts should be determined in practice. The entity´s share in the fair value returns of new contracts mostly depends on discretionary assumptions made before these contracts were issued. This demonstrates an inappropriate CSM measurement at cohort's level after initial recognition and does not reflect profitability trends expected by the entity. In this context, it is difficult to understand the relevance and added value of the information obtained through the CSM decomposition by annual cohort because the only relevant information about profitability is the cumulative CSM of all contracts in the portfolio.

The allocation of changes in the fair value of underlying items among intergenerationally mutualised contracts for the sole purpose of determining a CSM by cohort generates an information at the cohort's level that will be highly arbitrary. There is no methodology that could define precisely the cash flows credited to the annual cohorts had mutualisation not been applied because this information does not exist in the companies processes and management reporting or activities. In the current accounting, regulatory and economic framework, such a methodology has not been developed as there is no reason for entities to monitor the assets invested by generation of contracts because there is no contractual link between any subset of the portfolio of underlying items and a generation of contracts.

According to IFRS 17, the entity´s share in the fair value of underlying items has to be released to the P&L over the coverage period of the annual cohort to which the fair value relates. The CSM encompasses the entity´s share in both realised and unrealised gains or losses whereas, in some jurisdictions (such as France or Italy), policyholders are solely entitled to the portion of the fair value returns that relates to gains realised according to local GAAP, at the entity's discretion. Allocating the entity´s share in unrealised returns over the coverage period of the existing annual cohorts (disregarding future contracts) will lead to an accelerated release of the corresponding gains or losses. Moreover, a CSM release based solely on the existing cohorts does not reflect the service provided to the possible future policyholders and therefore lacks relevance and possibly prudence. We believe that the initial impact of new contracts on the profitability of the in-force portfolio reflected in the CSM reconciliation in the notes is very useful. This information is however independent from the existence of cohorts and not provided at this granularity. We are therefore wondering which "unacceptable loss of information" would generate an exception to annual cohorts for mutualised contracts.

We believe it is of high importance that a solution is found at the European level because the features described above apply to insurance participating products sold in France and many other European countries (especially in Italy, Germany, Denmark, Luxemburg,…).

(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

n.a., no such contracts in France

(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 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?

n.a.

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.

We only partly agree with EFRAG´s assessment that IFRS 17 requirements other than those related to annual cohorts will reach an acceptable cost-benefit trade-off, because we believe that the requirements in IFRS 17 are highly complex and that the objective of more consistency in financial reporting amongst insurers could have been achieved at a much lower cost. Meanwhile, we find it very difficult to quantify the benefits of IFRS 17.

We would like to draw your attention to the following topics that we believe should be addressed at the post-implementation review or earlier.

Boundaries of reinsurance contracts

The requirement to include the cash flows from future contracts the entity expects to issue in the boundaries of reinsurance contracts held might create accounting mismatches and will be overly complex to implement and monitor. Before any cash flow occurs and any service is received, the carrying amount of the reinsurance contract held is nil. Projecting reinsurance cash flows relating to underlying contracts not yet issued represents a significant change as compared to existing practices and will require to build new and costly actuarial models for no benefit.

Presentation of insurance/reinsurance payables and receivables and collateral deposits

Not separately presenting insurance/reinsurance payables and receivables (such as premium receivables, claims payables, and collateral deposits) from the carrying amount of insurance and reinsurance contracts requires significant implementation costs for revamping IT systems and data flows without providing relevant information compared to the current presentation.

- 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

The standard allows for transferring FCF among groups of contracts that are mutualised. However, the implementation of such requirements would be highly costly and would imply a significant level of subjectivity. The identification of amounts to be reclassified between the groups of contracts requires a specific allocation pattern and an extensive historic follow-up while it will eventually not reflect the management expectations as these are in practice defined at a higher level than the annual cohorts.

At the end of the day, the profitability of substantially mutualised contracts should remain the same at annual cohort or at aggregated level, and no cohort can become onerous unless all contracts in the mutualised population also become onerous. Applying the standard's requirements would thus require complex processes to be developed for no benefit.

There is a consensus within the insurance market that the implementation of annual cohorts will come at a certain cost. It is important to remind that those costs will impact the insurance companies at many levels. In the case of intergenerationally mutualised contracts we have demonstrated in our comments to question 2b, that the annual cohorts' requirement does not result in relevant and reliable information. Accordingly, these implementation and operational costs will not provide any benefit to such contracts.

The operational costs related to the application of the annual cohorts are non-negligible during the implementation phase and would remain important after the standard application is effective. These costs might affect the pricing of these insurance contracts or the level of participating cash flows of the policyholders.

The volume of data to be managed if long-term contracts are aggregated by generation would require increased infrastructure capacities to store and process these data with possibly very costly upgrades to existing tools and interfaces.

In addition, closing activities related to the preparation and control of input/output data of both actuarial and accounting processes would be multiplied and would continue to increase continuously over time as new groups of contracts emerge, requiring additional resources and costs to be allocated in order for the companies to secure their processes.

Any attempt to track the cash flows by generation would be unduly complex and artificial for intergenerationally mutualised contracts. If companies were constrained to do so for pure accounting purposes, the negative impact on the European public good should not be underestimated.

Consistent with the annual cohort's requirement, an asset-liability management performed at the level of a generation of contracts would require major changes to asset modelling tools with high implementation costs and would result in a significant efficiency loss because it has no economic or contractual substance. In addition, a portion of the additional costs from changes to the asset-liability management might ultimately affect the profitability of insurance contracts or be supported by the policyholders. Finally, the performance of the entity would be difficult to explain when decomposing the profitability of contracts by generation and trying to link it to individual assets on which policyholders have no direct share.

Besides, the current terms and conditions offered by intergenerationally mutualised contracts reflect fundamental societal choices made to transfer wealth across generations and allow to provide the policyholders community a stable stream of revenues. Over the long term, the annual cohorts' requirement could influence the way insurance coverage system is organised and lead to a change in the pricing and/or in the design of insurance products for sole accounting purposes.

We have not identified any benefit of applying the annual cohorts' requirement to intergenerationally mutualised contracts. The information obtained at this level of granularity is not visible in any of the IFRS 17 disclosures requirements and will not be part of the financial communication of insurance companies. The IFRS 17 indicators of the annual cohorts will not be useful for these contracts because they result from an artificial allocation of cash flows below the portfolio level. An accounting that ignores the economic consequences of the legal and contractual terms will most likely be of no interest to investors and analysts.

The disclosure about the impacts of new business is not contingent on a calculation at annual cohorts' granularity because this information will be available in the actuarial systems and can be identified as a separate step of the IFRS 17 analysis of movements of insurance assets / liabilities. The complexity of determining the new business impacts is a pure actuarial methodology issue which will need to be addressed similarly whether the annual cohorts' requirement is maintained or not.

Finally, if no solution is introduced in the standard, the possibility of not applying the annual cohorts' provisions to contracts "that fully share risks" (according to IFRS 17.BC 138) might be assessed differently across jurisdictions and countries and would ultimately reduce comparability.

(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, 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

n.a., no such contracts in France

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.

On the whole, IFRS 17 provides better financial information than IFRS 4. However, some issues are still to be solved as expressed in § 2(d)and § 3(b): - Reinsurance contracts: non eligibility to VFA and contract boundaries; - Contracts acquired in their settlement period; - Presentation of insurance/ reinsurance receivables and payables and collateral deposits.

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.

We only partly agree with EFRAG´s assessment that IFRS 17 requirements other than those related to annual cohorts will reach an acceptable cost-benefit trade-off, because we believe that the requirements in IFRS 17 are highly complex and that the objective of more consistency in financial reporting amongst insurers could have been achieved at a much lower cost. Meanwhile, we find it very difficult to quantify the benefits of IFRS 17. In particular, we would like to draw your attention to the following topics for which expected implementation and operational costs outweigh potential benefits. We believe that the standard should be amended on these points during the IFRS 17 post-implementation review or sooner: **Boundaries of reinsurance contracts** The requirement to include the cash flows from future contracts the entity expects to issue in the boundaries of reinsurance contracts held might generate accounting mismatches and will be overly complex to implement and monitor. Before any cash flow occurs and any service is received, the carrying amount of the reinsurance contract held is nil. Projecting reinsurance cash flows relating to underlying contracts not yet issued represents a significant change as compared to existing practices and will require to build new and costly actuarial models for no benefit. **Presentation of insurance/ reinsurance receivables and payables** Not separately presenting insurance/reinsurance payables and receivables from the carrying amount of insurance and reinsurance contracts requires significant implementation costs for revamping IT systems and data flows without providing a relevant information compared to the current presentation.

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 paragraphs 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.

The volatility linked with key features of IFRS 17 (i.e. a current and prospective measurement model) may not adequately reflect the behaviour of long-term contracts under specific and temporary economic conditions. This would be the case for direct participating contracts in stressed market conditions where the changes in the value of options and guarantees will immediately reduce the amount of the contractual service margin. In that regard, downside volatility is procyclical.

These drawbacks are described and acknowledged in the DEA. However, we do share the view of EFRAG, that, "on balance", benefits mitigate these drawbacks. EFRAG's DEA refers to improved transparency and comparability in balance sheets (§ 478-479) making possible to investors to more timely react to current market conditions and avoiding an accounting reflection "too little-too late". We do not see how these arguments (which are partially disputable regarding presentation issues, as discussed above in § 5) address and mitigate volatility and procyclicality.

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.

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[2] EIOPA quantitative thresholds).

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

☒ 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 agree with this statement except for the annual cohort's provisions and their possible effect on the fundamental societal choices made to transfer wealth across generations and allow to provide the policyholders community a stable stream of revenues as expressed above in §3(b).

(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.

We agree with this statement except for the annual cohort's provisions and their possible effect on investments in equity and equity-like instruments as expressed below in § 11(i)(a)(ii).

(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.

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?

[2] 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.

☐ Yes ☒ No

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

As already mentioned above in § 2(d) and 3(a), we believe that not separately presenting insurance/reinsurance payables and receivables from the carrying amount of insurance and reinsurance contracts requires significant implementation costs for revamping IT systems and data flows without providing relevant information compared to the current presentation of the balance sheet.

Similarly, when a reinsurer provides funds as a collateral deposit with the ceded insurer, these funds will be offset with the reinsurance liability (for the reinsurer) and with the underlying insurance liabilities (for the ceding entity). This does not fairly portray the economics of these deposits, because from a contractual point of view, these amounts correspond to funds transferred as guarantees to cover a risk of default by the reinsurer, and not to an advance payment. Moreover, the amount of such collaterals might be higher than the related liabilities so that the net amount could be presented as an asset in the accounts of the reinsurer and a liability in the accounts of the insurer. We do not think that such a presentation improves intelligibility or provides useful information.

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.

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.

We agree with EFRAG that there is no indication that the application of IFRS 17 in isolation would lead to any significant change in European insurers' decisions on asset allocation. However, the combined application of IFRS 17 and IFRS 9 might lead to such changes. As long-term investors, we support (i) the reintroduction of the recycling for equity instruments measured at fair value through other comprehensive income (FV OCI) together with (ii) an appropriate impairment model and (iii) the eligibility of equity-like instruments to the same accounting approach i.e. to measurement methods different from fair value through profit and loss (FVPL). Indeed, investment can be held either directly or indirectly through funds, and we see no conceptual reason to account them differently. In that regard, we reiterate our support to the suggestions made by EFRAG to the European Commission on Long Term Equity Investments that provided workable solutions to these issues. We encourage EFRAG to reiterate these solutions as part of the post-implementation review of IFRS 9 that the IASB has just started.

The prohibition of recycling hampers the depiction of the performance of equity instruments measured at FVOCI and creates accounting mismatches with any insurance contracts valuated using other measurement methods than the VFA. This prohibition creates a strong incentive to measure equity instruments at fair value through profit or loss even if assets are not held for trading and the entity does not intend to sell them.

This introduces volatility in the P&L which is not compensated when insurance contracts are measured using the general model. Even for the saving and retirement contracts measured using the variable fee approach (VFA), the sole measurement model in IFRS 17 which recognises an asset-liability linkage, the mechanism of the VFA only provides for an efficient compensation of the changes in the fair value of the underlying assets if the contractual service margin remains positive. This means that sudden brutal unfavourable financial markets evolutions may trigger an immediate loss on the liability side, even if this loss is only temporary and will not affect the fulfilment of its obligations by the insurer.

As such, IFRS 9 is detrimental to the investment in equity and equity-like instruments particularly for P&C and protection activities or for portfolios in representation of own funds. Accordingly, we cannot exclude the possibility that some stakeholders may envisage to withdraw from these categories of assets to protect their future P/L performance at the very time where long term investment is of key importance for Europe as expressed in the EFRAG positions and supported by the insurance industry.

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

☒ 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 agree with EFRAG that the current and prospective measurement model of IFRS 17 may create a more volatile result that may not appropriately reflect the profitability pattern of certain long-term contracts overtime. This would be the case for direct participating contracts in stressed market conditions where the changes in the value of options and guarantees will drastically reduce the amount of the contractual service margin.

In our opinion, the negative effects on the Solvency 2 measurements for the Life & Saving business observed in the early stages of the Covid-19 crisis could be seen as an illustration of what may have happened under IFRS 17 in the same conditions.

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.

The mechanism of hedge accounting under IFRS 9 / IAS 39 is not fully adapted for insurers, as some hedge accounting requirements are difficult to comply:

a) Investment and insurance components of an insurance contract are highly interrelated: that is not consistent with the requirement for the hedged item to be separately identifiable and reliably measurable.

b) Both hedged items and hedging instruments constantly change over the hedge term, so hedging is regularly carried out dynamically;

c) Variables related to the policyholders' behaviour and market trends (e.g. lapses, surrenders, mortality, new business sales) are intertwined with the impact of financial market variables and cannot be isolated from the hedging relationship;

d) The hedge effectiveness requirements to qualify for hedge accounting are operationally burdensome.

In summary, IAS 39 hedge accounting is not well suited for the insurance and its use would require recourse to the EU carve-out option to bypass some existing hedge accounting rules.

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

☐ 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 do not agree with the EFRAG's conclusion that OCI balances and risk mitigation at transition will not, on balance, negatively impact the usefulness of the resulting information. Indeed, current transition requirements in that regard are complex to implement and provide no demonstrable benefit. However, at this stage, (i) it is not an issue for further debate at the risk of postponing the implementation date and (ii) it is not an issue to be followed up after implementation either. We therefore refrain from encouraging EFRAG to address these issues.

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.

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.

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.

As mentioned above in § 2(d) and § 3(a)3(b), contract boundaries and the non-eligibility to VFA for reinsurance contracts are still to be solved.

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.

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

☒ 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.

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.

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. 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.

French market

According to our statistics of the French Insurance market, the total amount of insurance liabilities as of 31/12/2019 amounted to € 2,138 bn of which 92% in life insurance (€ 1,969 bn). (All entities reporting either under French standards or IFRS standards).

Of the life and health contract liabilities, most of 76% are contracts with direct participation features (including with-profit contracts) * whereas insurance contracts where financial risk is borne by policyholders (unit-linked) represent 21 %. Other life and health contracts (without direct participation features) represent 3% of life insurance liabilities.

* If IFRS Classification was applied to the whole French market

French IFRS preparers

The major part of the French market stems from entities issuing IFRS financial statements. Amounts extracted from French groups publishing IFRS financial statements corroborate these proportions. The total amount of their insurance liabilities in and out of France (under IFRS 4) amounted to € 1,858** bn as of 31/12/2019, of which 8% relate to non-life insurance (€ 152 bn**) and 92% to life insurance (€ 1,706 bn**).

Of the life and health contract liabilities, 81 %** are with direct participation features (including with-profit contracts) whereas insurance contracts where financial risk is borne by policyholders (unit-linked) represent 19%**.

Other life and health contracts (without direct participation features) represent less than 1%** of life insurance liabilities.

Overall assessment

Based on their characteristics, most of the life and health contract liabilities with direct participation features are intergenerationally-mutualised contracts (except for the unit linked part of combined euro and unit-linked contracts).

* Best estimate of data, some French subsidiaries of foreign groups do not publish individual accounts under IFRS.

(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.

As mentioned above, nearly all French life insurance contracts meet the VFA criteria and more than 80 % are intergenerationally-mutualised contracts with direct participation features for which the requirement for annual cohort is considered a significant issue.

(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).

As mentioned above in § 2(b) and 3(b), we believe any approach defined to implement the annual cohorts for intergenerationally mutualised contracts would be arbitrary and artificial, so that an exception is required (see below § 20). Thus, we cannot comment on the implementation approach.

(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.

n.a.

(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?

There is a possible risk of procyclical effects of IFRS 17 in adverse market conditions. The market conditions observed at the beginning of the Covid 19 crisis (mid-march 2020) would have led to a significant deterioration of results had IFRS 17 been applied at that date. Such an impact would have so deteriorated the accounts that insurers would have been limited in their financial support to public mitigation measures taken in favour of the French economy.

(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.

Although the Covid outbreak has added complexity to some implementation projects, it is not to the point of requiring a further postponement of the first-time application of IFRS 17.

(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?

(a) **Annual cohorts**

We agree with the three objectives set to annual cohorts (proper allocation of margin over time, timely identification of onerous contract, reflecting trends in profitability); however, we do not believe that a segmentation by annual cohort would capture a faithful information about the profitability of intergenerationally mutualised contracts. We continue to think that other solutions should be envisaged to reach the targeted result and would better reflect the economic features of these products and avoid undue complexity.

Various proposals have been addressed to IASB and EFRAG in order to define the scope of an exception to the annual cohorts' requirement for intergenerationally mutualised contracts.

As previously mentioned in our letter dated 24 September 2019, we consider that the annual cohorts' requirement should be removed for contracts eligible to the variable fee approach that share a significant part of the return on common underlying items across generations.

Accordingly, we agree with the French accounting standards setter (ANC) proposing to define this scope as embedding contracts (i) with cash flows that affect or are affected by cash flows to policyholders of other contracts (as outlined in IFRS17.B67-B71), (ii) with direct participation in a common pool of assets and (iii) that meet the VFA criteria. We alternatively consider, as the CFO Forum, that the scope of an exception could be defined replacing (iii) the VFA criterion by the requirement in (i) that "cash flows substantially affect or are affected by cash flows to policyholders of other contracts", the "substantial" feature being the same as required in the current definition of the VFA (IFRS 17.B101).

In conclusion, we are convinced that the definition of the scope of an exception is relevant and feasible without undue complexity or unintended consequences on the modalities under which the standard requirements would apply.

Also, we believe that a standardised exception to annual cohorts for intergenerationally mutualised contracts is preferable to interpretative practical expedients accommodating local contractual specificities, first because it would level the playing field and second because the reasons for an exception are not geographic but due to the specific contractual features of these products.

In our opinion, the exception for intergenerationally mutualised contracts should be provided not because such contracts are very common in Europe, but because of the limitations of the current rules-based requirements when applied to these specific products.

We reiterate our strong support to the implementation of IFRS 17 on 1st January 2023 at the latest and believe that, if the European Union introduces the previously defined exception, this exception should apply to all intergenerationally mutualised contracts irrespective of their geographical origin but limited to those contracts (preventing tainting to other contracts) and be temporary until IASB itself amends the standard.

(b) **Other IFRS 9 related issues**

(i) Comparative information

We are satisfied with the IASB's decision to extend the temporary exemption from applying IFRS 9 to annual periods beginning on or after January 1, 2023, in order to enable qualifying insurers to adopt IFRS 9 and IFRS 17 simultaneously. However, on this last point, inconsistencies persist concerning the comparative information required by both standards.

When first implementing at the same time IFRS 9 and IFRS 17, insurance entities will have to fully restate the comparative period (i.e. 2022) applying IFRS 9 except for financial instruments derecognised during the comparative period before the implementation date. This will require applying simultaneously IFRS 9 and IAS 39 and thus reduce comparability and generate a huge operational effort for no benefit.

We disagree with the IASB's analysis when referring to the banks IFRS 9 transition: since bank did not face simultaneously the IFRS 17 transitional constraints.

We believe that this issue can still be mitigated by introducing an optional full retrospective application for IFRS 9 for IFRS 17 first applicants. This option could be added through an annual improvement without unduly overburden the standard setting process.

(ii) Long-term investment

As described above in § 11(ii), on long-term investment, we support the reintroduction of the recycling for equity instruments measured at fair value through other comprehensive income (FV OCI) together with an appropriate impairment model and the eligibility of equity-like instruments to the same accounting approach. In that regard, we reiterate our support to the suggestions made by EFRAG to the European Commission on Long Term Equity Investments that provided workable solutions to these issues.