EFRAG
European Financial Reporting Advisory Group

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:

German Insurance Association (GDV)

Gesamtverband der Deutschen Versicherungswirtschaft e. V.

Wilhelmstraße 43 / 43G, 10117 Berlin, Germany

(b) Are you a:

☐ Preparer ☐ User ☒ Other (please specify)

An insurance association

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

The German Insurance Association (GDV) is the federation of private insurers in Germany. Its about 460 member companies offer comprehensive coverage and retirement provisions to private households, trade, industry and public institutions, through 446 million insurance contracts. With an investment portfolio of approx. 1.670,4 billion EUR, insurers play a leading role for investments, growth and employment in the German economy.

(d) Country where you are located:

Germany

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

Gesamtverband der Deutschen Versicherungswirtschaft e. V. (GDV)
German Insurance Association
Wilhelmstraße 43 / 43G, 10117 Berlin, Germany

Department: Accounting / Risk Management / Internal Audit

Phone: + 49 30 2020 - 5000

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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 intergenerational 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 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

[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.

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.

No further comments.

(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

IFRS 17 as amended in June 2020 by the IASB is an acceptable compromise and the entire standard as a package meets the EU endorsement criteria.

While the implementation of the standard would be indeed less challenging without the annual cohorts' requirement, we believe that IFRS 17 as a package provides significant incremental benefits in terms of the additional level of transparency and comparability. And while additional discretion might be necessary to apply the annual cohorts' requirement, its adoption does not prevent the resulting additional information of being relevant and reliable.

Exercising discretion is inherent to the insurance business model and compatible with the measurement approach in the standard. The accounting for insurance contracts at large is based on current cashflows' forecasts, including assumptions about future entity's decisions regarding the allocation of the discretionary participating features, where required or necessary.

Therefore, we have the view that IFRS 17 as a package brings sufficient benefits despite the concerns raised in the past on annual cohorts' requirement. And we are also supportive of the view that on balance the annual cohorts' requirement provides an acceptable conventional approach to grouping of contracts to meet the reporting objectives of IFRS 17.

(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.

IFRS 17 as issued and amended by the IASB and being here subject to the endorsement assessment neither refers to "cash-flow matched contracts" nor determines such category of insurance contracts.

Unfortunately, also the present DEA does not provide a clear scope definition of such type of contracts. While the spectrum of the "intergenerationally-mutualised contracts" is specifically determinable in the DEA because of the existing references to IFRS 17.B67-71, the "cash-flow matched contracts" are described only in reference to the contracts existing in the Spanish market only.

Hence, we are not able to provide any robust assessment in this regard.

(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?

The standard IFRS 17 - issued in May 2017 and amended in June 2020 - is a compromise package of principles and rules the IASB had developed at the global level for insurance contracts accounting in response to various stakeholders concerns and comments over more than 20 years of the history of this project. The annual cohorts' rule is an essential element, but also only one element of this

> package and the important standard should be assessed on the holistic basis. It applies specifically for the purpose of the EU endorsement process where the assessment as a package is pivotal.

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.

> No further comments.

- 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

> Considering the essential benefits, the standard IFRS 17 is providing in terms of transparency and comparability within the industry and across industries we fully

share the view that the entire standard as a package is conducive to the European public good.

IFRS 17 as a compromise package includes the annual cohorts' requirement. But it should not be assessed differently for this reason. Therefore, we assess the requirement to apply annual cohorts to intergenerationally-mutualised contracts being an element of the compromise package as also 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 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.

IFRS 17 as issued and amended by the IASB and being here subject to the endorsement assessment neither refers to "cash-flow matched contracts" nor determines such category of insurance contracts.

Unfortunately, also the present DEA does not provide a clear scope definition of such type of contracts. While the spectrum of the "intergenerationally-mutualised contracts" is specifically determinable in the DEA because of the existing references to IFRS 17.B67-71, the "cash-flow matched contracts" are described only in reference to the contracts existing in the Spanish market only.

Hence, we are <u>not</u> able to provide any robust assessment in this regard.

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.

No further comments.

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 exceed 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.

No further comments.

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.

No further comments.

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.

No further comments.

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.

No further comments.

(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.

No further comments.

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

☒ Yes ☐ No

[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.

(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.

No further comments.

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.

No further comments.

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.

No further comments.

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.

No further comments.

(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.

No further comments.

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.

No further comments.

(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.

No further comments.

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.

No further comments.

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.

No further comments.

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.

No further comments.

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.

> No further comments.

(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.

> The German market has supported the early adoption option provided by the standard to be available at EU level in due time. And as a matter of fact, we continue to have the view that early adoption option should be in place at EU level for the early adoption of IFRS 17 starting at the 1 January 2022.
>
> Overall, we appreciate the EFRAG's commitment to the endorsement timeline for IFRS 17. Achieving a good progress along the endorsement timeline is essential for all European insurers, specifically because of the requirement to provide restated comparative information when applying IFRS 17 for the first time. It would be problematic when the parallel run of systems in the preceding year would need to be initiated by entities without the legal certainty about the outcome of the endorsement process. And this desirable stage can only be achieved once the EU endorsement process is successfully completed. A final positive endorsement advice submitted to the EC without any further undue delay would be an appreciated contribution of EFRAG to help to achieve this important objective.

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.

> No further comments.

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.

- intergenerationally-mutualised contracts

  As a matter of fact, almost all life insurance contracts written in the German market are subject to the intergenerational-mutualisation as defined in IFRS 17.B67-B71. The estimates provided by our key members aggregate on an average to 98%. The same applies for the health insurance business, of which 99% is mutualised. Some part of the German P&C business is mutualised likewise, the average number we obtained is 12%.

  [*The numbers are reflecting the relative weight of the mutualized business in the German market in relation to respective total insurance liabilities as of 31.12.2019.*]

- cash-flow matched contracts

  n. a. We are not aware of such types of insurance contracts in the German market.

(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.

The German market favors the timely implementation of the global standard at EU level irrespective of the high score of the mutualised business effected by the annual cohorts' issue. And irrespective of the IASB's decision to retain the annual cohorts' requirement unchanged we fully support the EU endorsement of the standard in due time. The German insurers are set up to implement the annual cohorts' requirement as required by the global standard. Hence, the annual cohorts' requirement is not considered a significant issue in the context of the fundamentally negative meaning as used in the present DEA.

Therefore, we disagree with putting the German market on spot in context of significant concerns related to the annual cohorts' issue potentially wrongly implying an opposition against the endorsement of IFRS 17 as a package including annual cohorts' requirement. Consequently, we would like to ask EFRAG to remove the related references to the German market in paragraph 1 (d) of Annex 1 to the Cover letter of IFRS 17 DEA and similarly in paragraph 8 (c) of Annex A within Annex 1 to the Cover letter of IFRS 17 DEA. Should these references in the DEA remain, we would recommend an additional explanation preventing any misunderstanding regarding the purpose of this reference to the German market in the context of the final endorsement advice to the Commission.

(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 German insurers' implementation will be compliant with the annual cohorts' requirement as prescribed in the standard, i.e. with the convention in paragraph 22 of IFRS 17. In addition, the general principle of materiality will apply. The respective implementation approach applied by German insurers adopting IFRS 17 will be reviewed by the statutory auditor subsequently.

(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.

IFRS 17 as issued and amended by the IASB and being here subject to the endorsement assessment neither refers to "cash-flow matched contracts" nor determines such category of insurance contracts.

Unfortunately, also the present DEA does not provide a clear scope definition of such type of contracts. While the spectrum of the "intergenerationally mutualised contracts" is specifically determinable in the DEA because of the references to IFRS 17.B67-71, the "cash-flow matched contracts" are described only in reference to the contracts existing in the Spanish market only.

Hence, we are neither able to conduct any robust survey nor provide an estimation in this regard.

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

n. a., see our rationale provided to (d) above.

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?

From our perspective the Covid-19 pandemic will make the essential benefits of IFRS 17 even more visible. In a case of vulnerable entities issuing and/or holding onerous insurance contracts IFRS 17 will require a proper recognition of such losses in the income statement and transparent disclosures regarding the development of any loss component overt time will provide an additional level of insight for users of financial statements. Specifically, the required use of the updated assumptions and current estimates when determining the current fulfilment cash flows aligned with the recognition of the contractual service margin (CSM) will be very useful for users in times of difficult market conditions. The CSM is set up to represent at the reporting date the unearned profit the entity expects to recognise as it will be providing insurance contracts services to the policyholders. Changes in the entity's expectations are therefore impacting the CSM as the key measure of entity's future profit capability, while the presentation of these changes might defer between entities depending on the respective contracts' features.

Therefore, we have the view that the unfortunate Covid-19 situation is indeed providing an additional rationale why the comparable, transparent, meaningful, and instructive financial reporting for insurance contracts is essentially necessary. IFRS 17 can make the difference in this regard. Its current measurement model (including the modifications) is respectively responsive to changes in market conditions while the important elements of its design absorb the exaggerated volatility where necessary and responsible (e.g. CSM, OCI presentation option, risk mitigation option, an alignment of the reinsurance contracts held accounting with the treatment of the underlying insurance contracts).

(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.

The German insurers established their implementation projects for IFRS 17's adoption in due time. And they continue to be set up to go live with the IFRS 17's reporting systems accordingly in due time.

As of today, we are not aware of any major obstacles resulting from the Covid-19 pandemic on the IFRS 17/IFRS 9 projects. Indeed, working remotely internally and with respective service providers and advisors provided the additional proof for the entities that their systems are robustly designed, and the established reporting processes are running stable. Hence, there is also no evidence that Covid-19 pandemic would undermine the relevance or reliability of the information provided.

The only recent disruption for the projects of the German insurers has been caused however by the delay of the originally decided effective date (i.e. 1 January 2021) which had already led to an increase in the one-off project costs. This is in line with the feedback EFRAG received during the Limited Update to the Case Studies.

Overall, from the German market's perspective we are not aware that the Covid-19 pandemic would provide any evidence that it causes an additional need for any further delays of going live with the IFRS 17's adoption as envisaged and according to its global effective date. On the contrary, any additional uncertainty in this regard would be absolutely very disruptive for all the ongoing and well-advance IFRS 17's implementation projects being in the stage of near completion. Based on the recent evidence provided by our members we can notify a very advanced stage of completion for the IFRS 17's adoption projects. It highlights once again the high importance for the timely completion of the endorsement of IFRS 17 at EU level.

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

No further comments.

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?

The GDV is fully supportive of the EFRAG's tentative conclusion that **the global standard IFRS 17**, as issued and amended by the IASB, on balance generally fulfills the qualitative endorsement criteria, is not contrary to the true and fair view principle and is conducive to the European public good. We strongly back this comprehensive assessment. From the GDV's perspective the annual cohorts' requirements shouldn't be treated differently and shouldn't be assessed in isolation. This requirement should be treated as an inherent element of the important global standard and its reporting objectives. The standard has been positively assessed, as an acceptable compromise package, and needs **to be endorsed in the EU in due time and in full**, i.e. without any modifications at EU level. Hence, the GDV recommends an unqualified positive endorsement advice to the European Commission on IFRS 17 as issued and as amended by the IASB.

Nevertheless, being aware of the intensive discussions regarding the annual cohorts' requirement in some other European markets, the GDV would like to highlight the **critical importance of the timely endorsement of the standard in the EU**. **Any EU-modification** of the standard as issued by the IASB to address the annual cohorts' issue for the intergenerationally-mutualised contracts or cash-flow matched contracts has to be **optional** and **temporary in nature**. The German insurers should be always able to apply the global standard in full, i.e. as issued by the IASB. In addition, any solution should not impact the effective date of 1 January 2023. In this context we fully back the respective compromise position expressed by Insurance Europe in its joint comment letter with European Insurance CFO Forum.

Finally, the German insurers greatly appreciate the considerable efforts undertaken by all EFRAG's committees and the EFRAG's staff to contribute to an efficient finalisation of the EU endorsement procedure in due time, and hence to provide for legal certainty for all insurers being fully committed to the adoption of IFRS 17 in due time at EU level.