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16 February 2021

Comments on EFRAG Draft Endorsement Advice on IFRS 17 'Insurance Contracts' as amended in June 2020

Dear Sir,

The Pan-European Conglomerate Club (PCC) welcomes the opportunity to comment on the Draft Endorsement Advice issued by ERAG.

PCC supports a high-quality standard for insurance contracts accounting; however, we believe that IFRS 17 as amended in June 2020 does not correctly reflect certain contracts issued by our members that represent long-term life-saving products managed under cash flow matching and, to a certain extent, participating contracts[1], through its measurement nor its presentation requirements.

We have shared previously with you the main accounting deficiencies that IFRS 17 has in our view in our letter dated 23 July 2020. The requirement for annual cohorts is the most transversal issue, for almost all entities that issue insurance contracts, that creates inconsistencies with how these contracts are actually managed. We would also like to emphasise that the accounting deficiencies not addressed by the IASB in the final standard will lead to negative consequences in the prudential field for financial conglomerates.

More particularly, what worries PCC financial conglomerates most is the consequences that endorsing IFRS 17 will have on their solvency ratios for the banking groups[2]. This is a significant issue that PCC already highlighted to EFRAG and the European Commission within its letter of 23 July 2020. A copy of this document is provided in Appendix 1 to this letter.

In this context, we support endorsement of IFRS 17 provided that there is (i) an appropriate prudential solution that addresses the negative impact and volatility arising in OCI for financial conglomerates and (ii) an accounting solution for the annual cohorts issue.

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[1] Hereafter referred as 'intergenerationally-mutualised contracts'.

[2] Financial conglomerates led by a bank have to measure two different solvency ratios:

a) The solvency ratio for the Banking Group: it is the banking solvency, based on CRR (reported to competent authorities through COREP and disclosed to market on a regular basis, including through the Pillar III report), and

b) The solvency ratio for the Financial Conglomerate: it is the solvency as a financial conglomerate based on FICOD (reported to competent authorities through ad-hoc reportings as stated by FICOD and disclosed to the market through the Pilar III Report).

Both issues must be resolved as part of the endorsement process, addressing the first issue as a change in the Capital Requirements Regulation (CRR), and both should not impact the 1 January 2023 effective date of IFRS 17.

Regarding the negative impact and volatility in OCI, given it is an issue arising from the application of IFRS 17 that affects prudential requirements for financial conglomerates, PCC requests that EFRAG recommend the European Commission to consider specific changes in the CRR made in conjunction with the IFRS 17 endorsement process. In this regard, in our responses to the 'Invitation to comment' we detail two different approaches on changes in the CRR that could be further analysed. One based in considering the CSM as eligible own funds and the other on defining a filter on the amounts recognised in OCI arising from particular type of contracts, such as those managed under cash flow matching techniques, net of the amounts arising from the backing assets to those contracts. However, other solutions may be explored.

Although both approaches are not mutually exclusive, if the first approach was taken its scope should at least include intergenerationally-mutualised contracts and contracts managed under cash flow matching techniques. In any case, the solution should allow phasing over time any potential negative impact at transition arising from the implementation of IFRS 17 as it was the case with IFRS 9 transitional arrangements[3].

Negative impact and volatility arising in OCI for financial conglomerates

There are several requirements in IFRS 17 that will lead to volatility in OCI for financial conglomerates. Whilst pure insurers will experience the same volatility in their equity, they will not have any consequences in terms of their solvency level.

However, the same will not happen for financial conglomerates. It is expected that life insurers may experience negative impacts and high volatility in OCI arising from different sources, some of them derived from the interaction between IFRS 9 Financial instruments and IFRS 17, while others come directly from IFRS 17 requirements. This volatility will arise even if insurers have implemented and use sophisticated asset-liability management techniques that under Solvency II are valid and accepted to mitigate asymmetries between the measurement basis of financial instruments and technical liabilities.

The above referred volatility arises mostly from the following sources:

- Changes in discount rates do not affect OCI for the Contractual Service Margin (CSM)
- There is not yet a common consensus among the Big Four companies on the availability to use macro hedge accounting on insurance contracts and its effectiveness.

PCC is aware that IFRS 17 seeks to significantly increase the comparability in accounting for insurance contracts between companies from different countries and business models, as well as to enhance the quality of financial information. We agree with achieving these objectives but not if this causes a significant prejudice to certain business models, as the case for financial conglomerates led by banks.

Only if there was an amendment in the CRR introduced by the prudential supervisor this volatility could be disregarded. In contrast, in the case of insurance companies or insurance-led groups, the same volatility in OCI will not impact their solvency ratios because they will be estimated under the Solvency II regime, which is disconnected from the IFRS balance sheet. PCC advocates for a level-playing field across any type of company that issues insurance contracts, so that one particular group is not prejudiced in terms of prudential requirements.

[3] ***REGULATION (EU) 2017/2395 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State***

Accordingly, we propose to address the negative impacts and volatility in OCI for financial conglomerates as a change or amendment of the requirements in CRR which should be addressed in parallel and in conjunction to the endorsement process, so that financial conglomerates are able to apply them once IFRS 17 enters into force.

In this regard, the following approaches could be further analysed:

1. Change in the CRR so that the CSM is considered as eligible own funds, at least in part,

2. Propose a filter on amounts recognised in OCI for particular type of contracts (to be applied on the net amount arising from these contracts and the changes in the value of the related financial assets also recognised in OCI). The scope could be aligned with the contracts that we are asking to be scope out from the annual cohort requirement.

Although both approaches are not mutually exclusive, if the first approach was taken its scope should at least include intergenerationally-mutualised contracts and contracts managed under cash flow matching techniques.

PCC is at the disposal of the European Commission and any other interested party to work together on solutions including how the CRR could be changed and explain the solutions that its members envisage to address the volatility in OCI issue.

Annual cohort requirement in IFRS 17

The second condition for PCC to be supportive of the endorsement of IFRS 17 in the European Union is that an adequate solution to the issue of 'annual cohorts' is provided as part of the endorsement process for cash-flow matched and intergenerationally-mutualised contracts. We envision a solution based on defining in the European Commission Regulation a scope exemption to the annual cohorts' requirement to reflect mutualization of long term life savings products and the intergenerationally-mutualised contracts. Such a solution should be optional so that companies that have to or will report under IFRS 17 as issued by the IASB are able to do it. We are aware that different groups of stakeholders and organisations have provided their views on how to define this scope exception. For instance the ICAC, ANC and CFO Forum provided separately their proposals to define in practice the exception. This material could be used as a starting point and we urge the European Commission to work closely with the insurance industry to fine tune the proposals and assess the most convenient way to define the type of contracts that should be optionally exempted.

Other accounting issues in IFRS 17

The final standard IFRS 17 as amended in June 2020 still contains a number of unresolved issues that PCC highlighted earlier. Under a strictly accounting point of view, from all of these issues, of particular importance is the application of annual cohorts to cash flow-matched and intergenerationally-mutualised contracts.

The other issues (including in particular amounts to be recognised in OCI at transition under the Fair Value Approach in IFRS 17 for contracts measured under the general model, separating components from an insurance contract, and the interaction between IFRS 17 and IFRS 9 when entities invest in equities), while they are priority topics for PCC and have not been resolved by the IASB in the final Standard issued in June 2020, they should not impact the endorsement process of IFRS 17 in the European Union, but rather be addressed by the IASB throughout a post implementation review, or sooner as part of other current on-going projects such as the Dynamic Risk Management new model for macro hedging.

If you would like to discuss our comments further, please do not hesitate to contact our coordinator Nicolas Patrigot (nicolas.patrigot@bpce.fr).

Signed by the following conglomerate groups belonging to the Pan-European Conglomerate Club:

1. Banca Intesa Sanpaolo,
2. BNP Paribas,
3. BPCE,
4. CaixaBank,
5. Crédit Agricole,
6. Crédit Mutuel,
7. DZ Bank,
8. La Banque Postale,
9. Société Générale.

Appendix 1: Letter submitted by Pan-European Conglomerate Club to EFRAG and European Commission

Pan-European Conglomerate Club

To
European Commission
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23 July 2020

IFRS 17 implementation – Annual cohorts and negative impacts on solvency ratios issues

Dear Sirs,

In the context of the upcoming IFRS 17 implementation decision in Europe, we consider that functioning of private solidarity mechanisms established by history and European culture as well as the life insurance sector's stable contribution to the financing of the economy through long-term investment in shares and bonds should not be weakened by a change in an accounting standard.

The IASB has issued its Amendments to IFRS 17 on 25 June 2020. Yet several major issues remain unresolved despite the repeated comments or proposals of many stakeholders.

The way life savings and retirement contracts are managed conflicts with the IASB obligation to group the contracts by annual cohorts

High in the list is the annual cohort requirement for contracts with intergenerational sharing of risks or cash flows. This is a major issue for life saving and retirement contracts in several European countries. In France and Italy, the legal and contractual frameworks require that the policyholders have the same potential right to the return of the underlying assets whatever their underwriting year. Broadly similar contracts exist in other jurisdictions such as Germany or Luxembourg. In Spain, the regulations require an asset-liability management for long term retirement contracts based on cash flow matching techniques, which provides for an intergenerational sharing of risks. Both cases are different, but the way they are managed conflicts with the obligation set by the IASB to group the contract by annual cohorts. This is detailed in the annual cohort appendix.

IFRS 9 and IFRS 17 will introduce artificial P&L and solvency ratio[4], volatility for the financial conglomerates requiring an amendment to CRR

Life saving and retirement contracts (but also long term P&C contracts) are based on a long term holding of the underlying assets. The simultaneous application of IFRS 9 and IFRS 17 conflicts with this business model. Under IFRS 9, equity investments are normally measured at fair value though P&L, because the alternative approach of fair value through OCI prohibits the OCI recycling upon disposal of the equity (we believe the OCI recycling upon disposal should be allowed again in order to stop penalising investments in equity assets). This introduces volatility in the P&L which is not compensated when insurance contracts are measured using the general model. When the saving and retirement contracts are measured using the variable fee approach (VFA), the sole measurement model in IFRS 17 which recognizes an asset-liability linkage, the mechanism of the VFA only provides for an efficient compensation of the change 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. An illustration is provided in appendix 2.

In addition, considering the long-term nature of the pension business, if insurers invest in debt instruments, changes in the fair value of the assets – regardless of whether they are measured at fair value through P&L or through OCI – will not have the same equivalent offsetting amount in the liability side for different reasons such as credit spread risk, liquidity risk, or because the estimated expected profit of these contracts is not remeasured over time, leading to significant amounts of volatility in other comprehensive income (OCI) or profit and loss.

On these volatility issues that will impact prudential ratios of financial conglomerates, we believe that a European solution should be developed. Such a solution may be based through exploring any alternatives to change the future requirements included in the CRR once IFRS 17 has been endorsed at European level. Any change should have as objective to portray the economics of the insurance contracts in terms of the solvency of the conglomerate.

Transition methods will have a negative impact on shareholders' fund and on the financial conglomerate solvency ratio at transition date

Additionally, the transition from the current standards to IFRS 9 and IFRS 17 creates specific issues. IFRS 17 provides for several transition methods (a full retrospective approach, a modified retrospective approach and a fair value approach). The second and third methods are supposed to alleviate the cost of the transition, yet some of the simplifications introduced may have a negative effect on the level of the shareholders' fund at transition date. An example is provided in appendix 3. From a higher perspective, the effect of the transition on the shareholders' fund creates a specific issues for financial conglomerates for which the banking solvency ratios are based on the IFRS consolidated accounts, and may be affected by the change in accounting standards. Pure European insurance groups are much less affected because their solvency margin requirements are based on Solvency 2, a regulatory

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[4] Financial conglomerates led by a bank have to measure two different solvency ratios:
a) The solvency ratio for the Banking Group: it is the banking solvency, based on CRR (reported to competent authorities through COREP and disclosed to market on a regular basis, including through the Pillar 3 report)
b) The capital adequacy for the Financial Conglomerate: it is the capital adequacy based on FICOD (reported to competent authorities through ad-hoc reportings as stated by FICOD and disclosed to the market through the Pilar 3 Report)
This letter refers to the effects on a) the solvency ratio for the banking group

standard distinct from the IFRSs whereas financial conglomerates are subject to the CRR banking regulation which is based on the IFRSs (all IFRS equity impacts translate into the Solvency ratio unless a filter is in place).

These unresolved technical issues will lead to massive disposals of equity portfolios and changes in the debt instruments investment strategy

The most probable effects of the major unresolved technical issues (i.e. annual cohorts for intergenerational mutualised insurance contracts and earnings/equity volatility, please refer to annexes) will lead to massive disposals of equity portfolios and divert life insurers from any current and future initiatives to strengthen the financial structure of European companies over the long term. Additionally, those insurers that invest in sovereign and corporate debt may be forced to change the type of insurance products currently being offered to limit themselves to those businesses that fit better under the accounting requirements of IFRS 17 and IFRS 9 in order to limit the volatility recognised in other comprehensive income (OCI) or profit and loss.

A European solution to the IFRS 17 annual cohorts' requirement is needed

Therefore, so as not to penalize the policyholders and not to create impediments to the financing of the economy that would be contrary to the European public good at a time when long term financing support towards our corporates is needed, we call for a solution to the annual cohorts requirement when endorsing IFRS 17. We would propose to provide an optional exemption from the annual cohorts' requirement for insurance contracts with intergenerational sharing of risks between policyholders and contracts that are cash flow-matched over different generations.

A CRR solution is also required to solve the negative impacts on the financial conglomerates' solvency ratio

We also remain at your disposal to jointly explore other complementary reliefs that may be provided in the context of reviewing the CRR for the referred volatility in OCI and P&L and negative impact issues on the solvency ratio of the financial conglomerate.

We hope these major concerns and the solution proposed will hold your attention and we would be pleased to provide any further information you may require.

If you would like to discuss our comments further, please do not hesitate to contact our coordinators: Michel Bilger (michel.bilger@credit-agricole-sa.fr) & Nicolas Patrigot (nicolas.patrigot@bpce.fr).

Signed by the following conglomerate groups belonging to the Pan-European Conglomerate Club:
1. Banca Intesa Sanpaolo,
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Pan-European Conglomerate Club

Issue 1 - The annual cohort issue for contracts with intergenerational sharing of risks between policyholders

In a nutshell, life and saving participating contracts can be split between :
(i) the unit-linked contracts (for which the policyholder holds identified units of designated assets),

(ii) the "euro" saving contracts (for which the policyholder has a right on the return of an identified pool of assets, but no specific right over any of these assets),

(iii) the "euro" annuities contracts (under which the beneficiary receives an annuity until death with a guaranteed interest rate; being part of them as a result of employer's pension commitments with their personnel).

Under IFRS 17, (i) and (ii) categories will be measured using the Variable Fee Approach, although their characteristics are very different, and (iii) will be measured under the General Model.

According to the IFRS 17, contracts should be grouped for measurement purpose by portfolios (similar risks managed together), profitability groups (onerous, few chance to be become onerous, and others), and by "annual cohorts" (the group should not include contracts issued more than one year apart).

'Euro' saving contracts

In the "euro" saving contracts, the policyholders share most of the returns of the same underlying items across generations, independently from their underwriting year. If some contracts provide for a minimum rate, this financial guarantee is usually deducted from the return available to the other policyholders sharing the same pool of assets, and thus implicitly financed by them.

Such contracts are including an intergenerational sharing of financial risks between policyholders. In France or Italy, the regulation require this intergenerational sharing of risks, and the assets are managed at portfolio level for all contracts sharing the same assets, whatever the fee structure or underwriting year.

For the "euro" contracts, applying the annual cohorts' requirement will be largely artificial and will not provide a relevant information to the users, as it will not appropriately model the economics of these contracts and their legal and contractual terms.

'Euro' annuities contracts

In addition to "euro" saving contracts, life annuities are also a widespread type of insurance contracts used to promote the long-term savings of European population, which can be both immediate and deferred annuities, and being promoted by the employees or subscribed directly by individuals.

Although life annuities may have different features across Europe, in certain countries like in Spain, insurers provide a long-term fixed guarantee on interest rate to policyholders that does not change over time even if the market interest rates change.

This guaranteed interest rate credited to the policyholder is set by companies based on the observable market yield of the investment portfolio assigned for the expected duration of the benefits (life expectancy in life annuities) when the contract is underwritten.

Considering the above pricing methodology, insurers earn an expected constant financial margin in these contracts that is the difference between the internal rate of return of financial assets and the guaranteed interest rate credited to the policyholder, while they are exposed to other non-financial risks (basically, deviation from the assumptions used in pricing in relation to longevity risk, to the risk margin or to operating expenses) that would determine the overall margin.

In the specific case of Spain, in order to provide the guaranteed interest rate along the life of the beneficiary the Spanish regulation incorporated financial immunization and asset-liability management (ALM) as methodologies for covering interest rate and spread risks for this type of contracts for more than 20 years ago. This has played an effective role in the control of the interest rate provided to the policyholder and the spread credit risk assumed by life insurance undertakings even through different macroeconomic environments (high and low interest rates, different phases in the business cycle…). It is relevant to mention that the losses incurred as a consequence of asset default would be assumed by the insurer. This is the reason that justifies the strong restrictions included in the Spanish regulation regarding which financial investments are eligible for this methodology. Only under exceptional circumstances, the policyholder will surrender. If this is the case, the amount of surrender will be closely linked with the market value of the underlying portfolio (i.e. insurance companies do not bear the underlying market risk in case of a surrender benefit payment).

Under cash flow matching techniques, insurers group contracts issued more than one year apart. The groups are mainly defined considering the aggregation of homogenous insurance and financial risks. The optimization of the asset and liability management mechanism and the underlying cash flows require that the size of these groups of assets and policies are big enough. The objective of these techniques is to ensure that the expected cash flows to be paid to policyholders match the future proceeds arising from the financial assets held by insurers (mainly fixed-debt instruments), in terms of timing, amount and currency. Calculations are prescribed by regulation and require monitoring the matching of the cash flows in monthly buckets until the extinction of the in-force group of contracts. There are also compulsory quarterly reviews to ensure there is not a mismatch. By applying these techniques, there is an intergenerational risk sharing among policyholders, in particular longevity and financial risks, which is also the basis on which the pricing of these contracts is based and how are built the internal actuarial statistical models used to estimate expected cash flows.

The management of the in-force contracts is consistent with how the contracts are grouped under the cash flow matching. Indeed, the above referred cash flow matching techniques are not only used for managerial and prudential purposes but also with an accounting perspective as financial reporting does not require to group contracts differently.

To sum up, based on the above descriptions the main features of the insurance contracts to which cash flow matching techniques are applied across generations are the following:
a) long-term life-saving contracts with a guaranteed interest rate which are only eligible to be measured under the general model,

b) managed under cash flow matching techniques which are regulated and compulsory for insurers if they want to provide a guaranteed interest rate,

c) there is intergenerational risk sharing of longevity and financial risk, but

d) they do not share the features described in paragraphs B67-B71, as the cash flows to be received by one policyholder are not affected by cash flows of other policyholders or contracts or affect them.

One last remark is that the contracts featured above have been granted a particular treatment under the prudential regime of Solvency II, using a matching adjustment when measuring the insurance contracts that permits insurers to adjust the risk-free rate term structure to avoid volatility in the Solvency II own funds. To be eligible for the matching adjustment, insurers must have in place robust and sound cash flow matching techniques, which reinforces the adequacy of these techniques to manage groups of contracts, and at the same time provide evidence that are generally accepted at European level.

IASB requirements

For the IASB, the annual cohorts are necessary to provide an information of the users of the financial statements on the profitability trend of the contracts, and to avoid combining profitable contracts in force with less profitable new business.

However, this assumption relies on the basis that the financial assets can be attached to each annual cohort. This is correct for the unit-linked contracts, but not for the "euro" saving contracts and "euro" annuities contracts where no such segregation of assets currently exists, and will have to be determined solely for applying the annual cohort requirement of IFRS 17.

This issue has been raised in several occasions by several stakeholders, including the EFRAG and the preparers (notably the CFO Forum). The ANC and the ICAC also submitted this issue to the IASB. Yet the IASB Board has refused to provide for a solution for the contracts with an intergenerational sharing of risk and has not considered this issue in the revised standard[5] issued on 25th June 2020. The last refusal dates 5 June 2020 after specific proposals had been submitted to the EFRAG and the IASB by the ANC, the ICAC and the CFO Forum.

We remain convinced that a solution for the annual cohort requirement can and should be found, with no material effect on the information provided by the standard. Otherwise, the allocation of the Contractual Service Margin by annual cohort to comply with IFRS 17 requirement may be costly, may not correctly reflect their economics and the way they are managed for legal and contractual purposes, and thus will be of little value for the users. In addition, the insurers may want to discontinue that kind of contracts, which are currently representing a large amount of the life and saving business in France, Italy and Spain.

A solution could be found by providing an option to apply or not this IASB annual cohorts requirement, as we understand those listed groups and companies that want to apply the requirement for different reasons (because of their implementation projects, to be fully compliant with IFRS).

Accordingly, in terms of the solution to be adopted by the European Commission we would propose to provide an optional exemption from the annual cohorts' requirement for insurance contracts with intergenerational sharing of risks between policyholders and contracts that are cash flow-matched over different generations.

Issue 2 - Impacts of IFRS 17 in crisis context

IFRS 17 requires insurers to use approaches consistent with current market conditions for liability valuation purposes.

The longer insurance obligations, the more likely they are sensitive to economic fluctuations. This is particularly true for life insurance obligations (savings and pensions).

[5] Although the IASB staff admitted in February 2020 that the cost of tracking "annual cohorts" are high, and expected benefits are low or reduced

IFRS 17 also deeply modifies performance measurement by the creation of a new indicator: the "CSM" (Contractual Service Margin). The purpose of the CSM is to prevent upfront profits, as a deferred profit liability concept. It is gradually allocated into the income statement as insurance or investment services are provided. It may not be negative: when an increase in the cash flows exceeds the carrying amount of the CSM, the CSM is reduced to zero. The excess is immediately recognized as a loss in the income statement (i.e. « loss component » in the terms of IFRS 17).

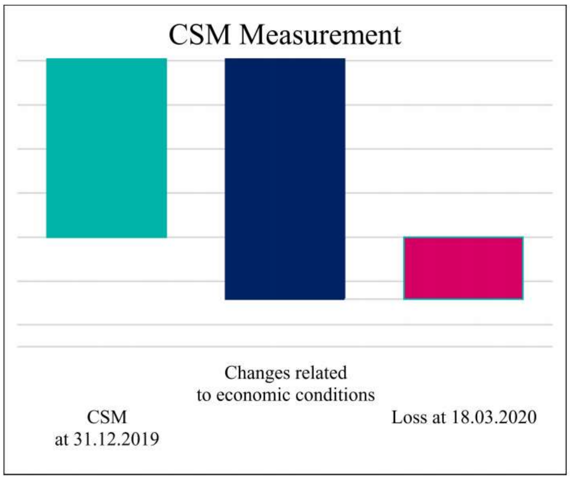
Every economic variation will subsequently affect the income statement or other comprehensive income statement until a potential improvement of the economic situation, making them particularly volatile. These impacts will affect the equity of the insurance undertaking and the solvency of its parent banking company.

The relevance of this point can be illustrated by two examples

Example 1 – equity as underlying financial assets

This example considers the financial conditions as of march 18th 2020 during the Covid-19 pandemic (fallout of European equity markets and ongoing low level of interest rates).

If IFRS 17 had been in force, the measurement of the CSM of a life insurance company would have taken into account these economic conditions. Changes in cash flows related to economic conditions between the last financial disclosure (i.e. December 31st 2019) and March 18th 2020 would have drastically impacted the level of CSM setting it to nil and even below. The excess amount would have been recognised as a loss, resulting in a significant impact of the income statement of the company. The IFRS accounting income would have been reduced by three times its current income.



IFRS 17 - CSM measurement due to economic variations

Example 2 – debt as underlying financial assets

This example is based on a life-long annuity product measured under the IFRS17 general model. Based on IFRS17 requirements the CSM is measured with the corresponding locked-in rates while the liability cash flows are re-measured based on actual rates. Based on high-level estimates, a parallel shift of 20bps interest rate decrease would lead to an increase of liabilities of c.a. 2.5%. This increase in the value of liabilities would be recorded in OCI leading to an Equity volatility which would, consequently, lead to a decrease in the Group´s available resources (i.e. CET1 ratio)

Issue 3. Transition – An illustration of negative impacts of the Fair Value Approach on the shareholders' fund for contracts measured with the general model

Regarding the Fair Value Approach ("FVA") at Transition, current IFRS17 requirements lead to an accounting mismatch in the accumulated amount of OCI for those products without direct participation features (i.e. business measured through IFRS17 BBA model) but managed under cash flow matching techniques as per local regulatory requirements (please see issue1). This accounting mismatch arises from the different treatment on the asset side (financial instruments whose changes are recorded in OCI) vs on the liability side (potentially no OCI impact at Transition where implementing the IFRS17 Standard) leading to a negative impact on Equity.

It is our belief that for these contracts, the locked-in rate to be used at transition should be based on the rate of the underlying assets. In more specific terms, our proposal is to amend paragraph C24(c) so this option under the FVA at Transition would also be available for contracts measured under the BBA model and managed through cash flow matching techniques and not only for insurance contracts with direct participation features to which paragraph B134 applies.

Issue 4. Interaction with IFRS9 Standard – Financial and operational impacts of the limitation to the Risk mitigation (hedging techniques under IFRS 17)

Current IFRS17 risk mitigation techniques are focused on participating products. However, long term savings business are managed through cash flow matching techniques, including the use of derivatives to mitigate interest rate risks and are measured through the general model. Derivatives may also be used to manage financial risk in other saving contracts.

The interaction between IFRS17 and IFRS9 presents some challenges when it comes to mitigate risks. Although there has been progress on the possibility to use fair value macrohedges on interest rate risk for some portfolios of insurance contracts (in a similar way as the referred "EU carve out" which is already being used by the banking sector), insurance companies are still assessing whether it is an effective alternative to manage volatility. Current analysis indicate that the risk mitigation options included in IFRS 9 might not be applicable to the whole universe of insurance contracts which are currently being measured under IAS39 and IFRS4.

We are concerned about not being able to offset the underlying impacts on the measurement of liabilities with the corresponding impacts on the asset side. Our aim is to protect the Profit and Loss and Other comprehensive income statements from any volatility arising from changes in the measurement of assets and liabilities.