This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Results of the Limited Update to the Case Studies
Detailed feedback Report

Objective

1 This paper provides a summary the results of the Limited Update to the Case Studies. Please note that for purposes of the discussion, the executive summary provides sufficient information, but the details are also provided for instances where EFRAG TEG members would find it helpful.

2 The EFRAG Secretariat notes that the operational issues reported by the participants can broadly be reconciled with the issues already covered in the DEA. For these issues, when new observations have been reported that provide more recent insights into the nature or magnitude of the expected impact of the new requirements, these new observations will be incorporated in the DEA once assessed by EFRAG TEG. An example of a new issue arising is the interaction between the impairment test on acquisition cash flows and the new requirements on reinsurance. Other new topics such as contracts that changed nature over time has been communicated to EFRAG TEG previously.

3 The next steps will be to complete the analysis following receipt of the rest of responses and then to revert with updates to the Appendices to the DEA as discussed with EFRAG IAWG.

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Executive summary

Overview of participants and their status of preparation

4 Twenty-three answers from participants were received. There is a large difference in timing between entities starting the implementation soon (H2 2016) or only very recently (2020). Most participants have planned to finish the implementation works by end 2021. Nevertheless, several participants mentioned they are re-planning their implementation works.

Insurance acquisition cash flows

5 Few participants noted a support for the IASB decision to defer acquisition costs over the period where new business is generated. Many participants noted that the application of acquisition cash flows was not applicable to their business or to the business lines discussed in the case study, or the impact was not material. For those where it was applicable and depending on the business identified, renewal lengths varied between 1 and 15 years.

6 The interaction between the impairment test of the acquisition cash flows and the application of reinsurance to onerous underlying contracts was raised as new issue coming from the requirements. Also, participants noted issues about presentation, disclosures, compliance costs of the requirements as well as the fact that the requirements were mandatory (and not optional).

Contractual service margin attributable to investment return and investment-related service

7 The quantitative results received are often inconclusive. Hence no useful indication can be derived from the answers about *the extent to which* the Amendments have resolved the issues that existed. It is difficult to estimate how large the population of contracts is to which the remaining comments relate to.

8 Participants provided the following information about how the CSM requirements, including the Amendments, do not allow them to reflect their business:

(a) The use of [investment] management fees assigned to internal asset managers are not reflected in the run-off of the CSM [these do not always correspond to an investment component]. Difficulties arise in aligning the solo profit of the investment manager and the profit of the solo insurer with the consolidated result;

(b) For immediate and deferred annuities, the TRG interpretation has linked insurance coverage to cash flows rather than to the sum assured (the latter being preferred);

(c) For UK annuities, the requirement to separately identify insurance and investment return services does not align with how the contracts operate in practice increasing the operational burden. In addition the requirement of an investment component or the policyholder option to withdraw an amount is too narrow to apply for deferred annuities and deferred capital products;

(d) For unit-linked contracts with several insurance riders it is difficult to determine the insurance coverage metric. This leads to costs and complexity;

(e) For reinsurance contracts, some products cannot be surrendered/transferred and do not contain any investment component, yet investment activities are performed for these contracts and this should be considered by the standard;

(f) The possibility to include costs related to investment activities, subject to conditions, even when not performing investment return services is welcomed. However, the requirement is subject to different interpretations and its application is unclear.

(g) The non-ability to apply the VFA approach to reinsurance contracts;

9 One participant was concerned about the removal of the option to provide only qualitative information in relation to the expected recognition in profit or loss of the CSM remaining at the end of the reporting period.

Reinsurance contracts held – recovery of losses on underlying insurance contracts

10 More than half of the participants welcomed the Amendments in relation to reinsurance contracts held.

11 Participants noted a number of issues that remain unsolved:

(a) It is prohibited to recognise the ceded loss liability in case the reinsurance treaty begins after the inception of the underlying contracts. As certain reinsurance coverages are retendered over the lifetime of the underlying contracts the remaining offset loss on the underlying contracts would be recognised. It is noted that this is not an economically faithful representation;

(b) Reinsurance contracts cannot be measured in accordance with the VFA;

(c) Contract boundary requirements will lead to accounting mismatches between direct contracts and the related reinsurance contract asset;

(d) The calculation of the net gain after reinsurance could be simplified by removing the text that requires the initial reinsurance CSM offset to be calculated as a product of the loss and proportion reinsured.

Risk mitigation option

12 Eleven participants indicated that the question was not applicable or that they have no view for a variety of reasons. One participant stated that risk mitigation cannot be achieved in Italy due to existing regulatory constraints and approaches.

13 Eleven participants welcomed and/or agreed with the proposed changes with some reservations:

(a) Not all mismatches have been resolved.

(b) Allowing the VFA for reinsurance contracts would have been a better solution.

(c) The changes do not resolve hedging of the variable fee itself.

(d) Including financial instruments at FVOCI as mitigating instruments would solve the mismatch relating to parts of VFA contracts being covered by general account assets in an operationally efficient way.

(e) Two participants mentioned the need for retroactive application of the risk mitigation approach.

(f) Risk mitigation should have been extended to general model contracts with references to the challenges of hedge accounting

14 One participant considers that including non-derivative financial instruments will help for contracts that change nature over time.

Transition modification and reliefs

Risk mitigation transition relief

15 Almost half of the participants indicated that the question is not applicable as they have no contracts with direct participation features under the VFA or do not apply the risk mitigation option or it is not material.

16 Six participants referred to the remaining mismatches on transition due to the prohibition on retrospective application of the risk mitigation. This means that the movement in the derivatives mitigating the risk will be taken to retained earnings

with impacts to shareholder equity as well as the underwriting result and consequently revenue post adoption.

17 One participant indicates that the treatment of equities would result in a mismatch for VFA whereas another considers that reinsurance contracts held for risk mitigation should be allowed to use the FVA approach at transition.

18 Another participant referred positively to the prospective application of the risk mitigation option from the transition date and believes the remaining accounting mismatches at transition would be negligible.

19 Another indicated that in the German market, underlying items comprise of all financial instruments and reinsurance contracts used so there are no additional risk mitigation instruments and transition is therefore not affected.

Use of fair value

20 Three participants indicated varying degrees of planned use of the FVA on transition:

(a) One participant indicated that for VFA contracts (other than unit-linked contracts), the FVA will be used for 28% of the total.

(b) Another participant intends to use fair value transition in all such cases.

(c) Another participant will apply the FVA to cohorts in force before 2020 or 2021.

21 Two participants acknowledge that where FVA is applied and risk mitigated with allowed instruments, the amendment reduces transition issues and one of these participants considers it a good alternative to the retrospective application of the risk mitigation option. Another participant is still in process of assessing the option but expects the residual mismatches to be insignificant.

22 One participant thinks that the use of the fair value approach would be limited to specific cases whilst another indicated that transition is not affected.

23 Two participants do not agree that the amendment changes the problems around risk mitigation as highlighted in the previous question. Another is still investigating the impact.

Early application

24 19 participants do not intend to adopt IFRS 17 from 2022 whereas 3 participants want to have the possibility of early adoption (i.e. 1 January 2022).

25 Final decisions on adoption date will be depend on the following:

(a) A common effective date across all entities in the group;

(b) Deferral would increase the implementation costs as the IFRS 4 systems would need to be maintained in addition to the IFRS 17 systems;

(c) A clear tendency within its peer group to early adopt or not;

(d) Level playing field: first mover advantages and disadvantages;

(e) Readiness of the organisation and alignment with auditors.

(f) Progress of the standard-setting process and delivery of software as the participant has already adopted IFRS 9 in a group context and IFRS 17 could alleviate mismatches currently experienced.

26 One participant considers uncertainty around the form of the final standard endorsed as well as the timing of endorsement puts European companies in an unfavourable position compared to global peers.

Other comments received

Contracts that change nature over time[1]

27 One participant provided detailed feedback on this issue and another referenced it as a significant remaining concern. All information relating to this topic formed part the paper discussed by EFRAG TEG that resulted in additions to Appendix II of the DEA.

Annual cohorts for intergenerational sharing of risks between policyholders

28 Three participants referred to this complex issue. [to be updated]

Annual cohorts for general model products

29 One participant commented that this remains a challenge and suggested that the challenges continue to be discussed in order to find an industry solution. [to be updated]

Credit and payment cards

30 One participant asks that the new scope exclusion should be included in the case study including a question around the impact of the decision. This forms part of DEA topics for discussion to be deliberated by the EFRAG Board.

Transition and other topics

31 Three participants mentioned complexities remaining with the retrospective approach due to the lack of principles and its highly restrictive nature. One participant also mentioned other concerns ignored by the IASB in the finalisation of the amendments such as the presentation for receivables or payables related to insurance contracts.

32 Concerns about the applicability of the MRA is part of the topics for discussion that will be deliberated by the EFRAG Board.

Coverage units and profit recognition

33 One participant highlighted a concern when stock markets have extreme volatility such as during the COVID 19 crisis. The interaction between the changes in time value of options and guarantees and value of the underlying items may result in onerous contracts. The participant suggests identifying a driver for the amortization of the CSM and smoothing of market assumptions when the insurer can demonstrate that it would hold on to the depressed assets. This may form part of the additional work under discussion by the EFRAG Board on COVID 19.

34 Another participant pointed out that defining and weighting services within a single contract for certain key products is unnecessarily complex.

Treatment of equity instruments

35 One participant is concerned that the lack of recycling under IFRS 9 for equity instruments.

Contract boundaries of reinsurance contracts held

36 Four participants consider that the difference in outcome of the contract boundary requirements to underlying insurance contracts and reinsurance contracts held gives rise to a potential accounting mismatch and adds to operational complexity.

Locked-in discount rate

37 Two participants regard the use of a locked-in discount rate on CSM for contract under the general model do not reflect the economic position.

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[1] This was discussed by the IASB at its February 2020 meeting.

Non-distinct investment components

38 One participant considers that these are not well defined for contracts without account balances and so the determination of revenue will be highly judgemental.

Scope of the VFA: para B107

39 One participant commented on this as a concern.

Risk mitigation or hedge accounting for general model contracts

40 This was addressed in the discussion on risk mitigation as well as the section on hedge accounting in Appendix III.

Setting OCI balances to nil

41 Two participants commented on this, but the topic forms part of the ongoing discussion by EFRAG Board.

Business combinations – contracts in settlement

42 Two participants highlighted their concerns on the topic and another participant highlighted the operational complexity of requiring use of the general model for contracts that could use PAA otherwise.

Comparatives

43 One participant referred to the inconsistency related to comparative information for IFRS 17 and IFRS 9 as requiring urgent attention.

Overview of participants and their status of preparation

Detailed answers

44 The following table provides an overview of the participants to this Limited Update to the Case Studies:

Country	Number of entities
France	2
Germany	3
Italy	6
Netherlands	3
Spain	3
Sweden	1
UK	5
Total	**23**

45 How far advanced are you in implementing IFRS 17 as amended? For example:

- Analysis of impact in progress – started [state date] and expected to be completed by [state date]

46 Twelve participants provided data related to this question. The answers are reflected as a range. No trend could be identified between larger or smaller entities, neither by geographical spread.

Impact analysis started	Impact analysis completed
H2 2016 – end 2019	Early 2017 – Q2 2022

- Implementation plan approved - [state date]

2 Nine participants provided an indication to this question. The answers are reflected as a range.

Implementation plan approved
Early 2017 – in progress

- Implementation in progress – started [state date] and expected to be completed by [state date].

47 Seventeen participants provided data related to this question. The answers are reflected as a range. Most participants have planned to finish the implementation works by end 2021. Nevertheless, several participants mentioned they are re-planning their implementation works.

Implementation started	Implementation completed
H2 2016 – 2020	2020 – H1 2023

Insurance acquisition cash flows

48 **For your business per product category, what is the estimated duration of the renewals?**

Introduction

49 Four participants mentioned support for the decision of the IASB to defer acquisition costs over the period where corresponding new business is expected to be generated. This avoids creating onerous contracts by excluding economically unrelated acquisition cash flows from the fulfilment cash flows of the existing contracts.

50 One participant noted that the allocation of acquisition costs may require judgement and therefore recommended not to require a mandatory allocation as for some business immediate expensing rather than deferring acquisition costs would lead to more reliable results (e.g. new products without sufficient experience on future renewals). [2]

51 One participant added the following thoughts.

(a) In practice, the topic is mainly relevant for the PAA, so primarily for the non-life short term business.

(b) For the groups of short-term (i.e. 1 year or less) contracts measured applying the PAA, the entity can either recognize an asset for directly attributable insurance acquisition costs or immediately expense these costs. The second option has the merit of being operationally simple as it does not require to manage the asset's release over time and its recoverability assessment. Conversely, the first option (i.e. recognition of an asset) is applicable:

(i) If renewals are expected;

(ii) If the ratio Acquisition costs / Premium is higher for the new business contracts than for renewals; and

(iii) Typically, for the growing businesses where the positive immediate P&L effect of the capitalisation exceeds the negative effect of the release of the previously recognized acquisition costs assets.

(c) It remains unclear at what level (entity or group of contracts) the choice between the two options above should be operated. Participants report that the accounting firms' views on this question are sometimes divergent, whereas the insurers believe that the standard allows to exercise the choice at the group of contracts level.

(d) Compared to IFRS 4, recognition of an asset for directly attributable insurance acquisition costs will have an immediate positive P&L effect (or an effect on retained earnings at transition) but also a negative future P&L effect over the duration of renewals; however, this future negative effect should be gradually alleviated at the global level as new groups of contracts will be recognized.

(e) Concerning the interim financial statements, when insurance premium is seasonal and concentrated on the first half of the year, the recognition of an asset for directly attributable insurance acquisition costs will allow avoiding a mismatch that would appear if the 'expense option' was chosen, given that the acquisition expense is immediate while the insurance premium is released over the year.

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[2] The EFRAG Secretariat is of the view that judgement cannot be applied in this case. Instead, a systematic and rational method is to be used to allocate acquisition cash flows to groups of insurance contracts.

Renewal lengths

52 Participants provided the following information about renewal lengths:

Type of business	Renewal length in years
Credit and bonding insurance, reinsurance ceded, reinsurance assumed	1
Motor	4 to 5,1
Household, short term healthcare	4 to 5,6
Unit-linked	5
Third party liabilities	4,4 to 8,7
Other non-life, health insurance	6 to 9,2
Legal protection	7
Premium savings life insurance	8
Disability workers compensation	5 to 10
Multi-risk	9
Cards insurance	10
Funeral insurance	12
Health and protection	15

53 One participant made a difference between external and internal acquisition cash flows.

External ACF:

54 We have identified cases which may correspond to the fact pattern because the intermediary received immediately 2 or more years of commissions in the following lines of business:

(a) Individual health and life short term contracts with tacit renewals;

(b) Some P&C individual products: motor, household, legal protection;

(c) Short Term Credit insurance linked to revolving credits.

55 Such a practice has been identified as an incentive for intermediaries but is not widespread. The duration for spreading the ACF would range around three years. This means that prepaid commissions corresponding to the fact pattern anticipate less than the usual duration of the renewals.

56 In some jurisdictions the participant has identified the case of commissions paid up-front base on business plan of future underwriting. They believe such practice may fit into the fact pattern, but limited to the first generation of contracts and its expected renewals. If such commissions are currently deferred under IFRS 4, and allocated to the new business, they expect that the business practice for such commissions will have to evolve to keep being deferred while complying with IFRS 17.

57 They have also identified commissions paid in advance on the basis of an estimate of the profitability of the future underwriting, but this is limited to the first generation of contracts and adjusted each year according to the profitability actually observed, which does not seem to fall within the scope of the amendment.

58 For other lines of business, discounted commissions can be paid at inception, and will be recovered through the future expected regular premiums included in the measurement of the fulfilment cash flows. This exists mainly for:

(a) Life and saving products: commissions based on regular premiums, or expected programmed premiums;

(b) Mortgage contracts: commissions paid on regular premiums, with or without “claws” in case of earlier termination of the cover.

59 Duration of renewal included between 2 to 6 years for term life insurance products (contract boundaries set to the next policy anniversary date). Mortgage contracts have usually the same duration as the underlying loan. These contracts are not in the scope of the amendment.

Internal ACF:

60 The participant has also analysed if the amendment should be applied to the internal costs for initializing new business. They expect to apply the amendment to the internal ACF only if such costs are material, if the information on the renewals is easily available, and if the renewals are limited.

Remaining issues

61 One participant noted the presentation of an asset for insurance acquisition cash flows as well as the related disclosure requirements are extremely burdensome. The resulting additional costs and efforts are not in a reasonable relation compared to the information generated. Furthermore, and assuming that the duration of the renewals remains rather constant over time, effects from setting up the “new” asset and amortization of the “already existing” asset over time will lead to compensatory effects after a couple of years.

62 One participant noted that the deferred acquisition cost impairment test does not appropriately interact with the revisions made to reinsurance. If the underlying contracts are onerous but the reinsurance contracts are profitable such that the net position is profitable, there is a requirement to write off the related DAC whenever the impairment test were performed. This would then mean that the reinsurance gain which can be reflected in the period immediately after the impairment test would be reduced, distorting the result. The financial impact of this distortion is related to the length of the underwriting process and the size of acquisition costs.

63 One participant believed that the allocation of costs to renewals should be optional. This to avoid the obligation each year to demonstrate, in case there is no allocation to renewals, that the expected renewals have effectively not been considered in the decision to incur in certain acquisition cash flows.

64 One participant expected significant accounting compliance costs in the following areas.

(a) Recognition of a separate asset for insurance acquisition cash flows for the groups of insurance contracts acquired in a business combination or in a transfer that does not form a business combination.

The proposed amendments require an entity that acquires insurance contracts in a business combination or in a transfer that does not form a business combination to recognise a separate asset for insurance acquisition cash flows measured at fair value at the acquisition date. Even it is consistent with the general measurement and accounting rules for the directly attributable insurance acquisition costs as set by IFRS 17, this requirement is likely to generate additional operational complexity.

According to the current 'purchase GAAP' accounting practice, the profits that are expected to be generated from future renewals of the insurance contracts acquired in a business combination are accounted for via corresponding customer intangible assets.

Following the new IFRS 17 requirements, the entities will be required to retrospectively identify, within such a customer intangible asset, the part corresponding to the asset for acquisition cash flows for future renewals. We assume the implementation of this requirement to be operationally complex while not expected to generate any material impact on the consolidated financial statements.

(b) Two-step recoverability test for insurance acquisition cash flows assets According to the proposed amendments, the recoverability of the acquisition cash flows assets should be assessed applying a twostep procedure that includes:

(i) an impairment test at the level of a group of insurance contracts (group level impairment test); and

(ii) an additional impairment test specific to insurance acquisition cash flows allocated to expected contract renewals (additional impairment test).

This approach appears to be complex and will imply higher costs. The additional impairment test will require a complex tracking of renewals for each individual annual cohort of new business. The information needed to perform this test is not easily available and the existing tools and procedures will need to be adapted in order to implement this additional impairment test. However, the operational burden is alleviated by the requirement to test an asset for insurance acquisition cash flows for impairment only when facts and circumstances indicate the asset may be impaired.

Acquisition cash flows not applicable

65 Ten participants noted the application of acquisition cash flows was not applicable to their business or to the business lines discussed in the case study, or the impact was not material.

Contractual service margin attributable to investment-return service and investment related service

66 **For your business per product category:**

(a) **Indicate to which extent the tentative decisions allow to show a CSM run-off representative of your business model (expressed as a percentage of total liabilities per product category and also as a percentage of total insurance liabilities of the entity). In doing so, differentiate between insurance contracts that are accounted for under the general model and the variable fee approach.**

(b) **For those insurance contracts where the tentative decisions do not allow you to show a CSM run-off representative of your business model (e.g. where coverage units represent only insurance coverage and no investment return), provide the following information:**

(i) **Importance of the business (expressed as a percentage of total product category liabilities and also as a percentage of total insurance liabilities of the entity);**

(ii) **Identify the elements that prohibit you from recognising an investment-return service or investment related service in accordance with IFRS 17 as amended;**

(iii) **Describe the service that you provide to policyholders and describe how, in your view, that service should be allocated to profit or loss.**

Detailed responses

67 The quantitative results received are often inconclusive with ranges between 0% and 100% depending on how participants have interpreted the questions. Hence, the table is not used in this summary.

68 Eight participants explicitly welcomed the proposals on recognition of the CSM and noted it would allow them to present profitability for most of their insurance contracts in a representative way.

69 Qualitatively, four participants provided the following information about how the CSM requirements do not allow them to reflect their business.

CSM run-off **not** representative		
Elements prohibiting profit recognition		Comments
Life and Health contracts without direct participation features	the not existence of an identified management fee applied by the insurer	Term insurance, Dread Disease and Long Term Care are strongly exposed to mortality and disability risks. There is not an underlying pool of assets detached from free assets. The Insurer is not interested in using the investment service run for coverage units because of its immateriality
Non-Life contracts - Health and Income Protection	the not existence of an identified management fee applied by the insurer for those contracts subject to GMM. Moreover, the most part is subject to PAA	Income protection and health: there is not an underlying pool of assets detached from free assets. The Insurer is not interested in using the investment service run for coverage units because of its immateriality. As regards the part of business under PAA, CSM does not exist.

Non-life contracts - others	the not existence of an identified management fee applied by the insurer for those contracts subject to GMM. Moreover, the most part is subject to PAA	For the little part under GMM, there is not an underlying pool of assets detached from free assets. The Insurer is not interested in using the investment service run for coverage units because of its immateriality. As regards the part of business under PAA, CSM does not exist.
Reinsurance ceded	This part of business is not subject to VFA as for IFRS17 requirements. For 20% of them, there is not an identified management fee applied by the insurer: these face term insurance, dread disease and LTC	Term insurance, Dread Disease and Long Term Care are strongly exposed to mortality and disability risks. There is not an underlying pool of assets detached from free assets. The Insurer is not interested in using the investment service run for coverage units because of its immateriality. As regards the part of business under PAA, CSM does not exist.
	B109 Reinsurance contracts issued and reinsurance contracts held cannot be insurance contracts with direct participation features for the purposes of IFRS 17.	The use of the VFA should be permitted for proportional reinsurance of VFA contracts. This would be more relevant in terms of presentation compared to the risk mitigation approach.
Reinsurance assumed	B109 Reinsurance contracts issued and reinsurance contracts held cannot be insurance contracts with direct participation features for the purposes of IFRS 17.	The use of VFA should be allowed when the ceding company benefit from the return of the underlying assets hold by the reinsurer through contractual arrangements.
Immediate and deferred annuities	Services are inappropriately defined by the standard and are excessively complex to operate. TRG interpretation of insurance coverage has inappropriately linked insurance	Economically, for both deferred and immediate annuities, investment and insurance services are provided for the whole duration of the contracts. This is reflected in the pricing metrics and the Solvency II regime. The IASB proposals split the service into non-economic portions of the real service incorporating artificial boundaries between the services such as the ability to surrender or the presence of investment components. The lack of a link to economics makes it impossible to earn CSM on an economic basis, distorting the overall profit recognition. The issues in the approach are exacerbated by: Difference in products lead to inappropriate results if consistent policies are applied

	coverage to cash flows rather than to sum assured.	Investment components are extremely complex to apply (particularly post ED) and don't tie to economics The use of an internal asset manager (which is common) creates clear inconsistencies in CSM amortisation. Whilst the recognition of investment management costs in the BEL provides a more economic result, it adds significant complexity where there is an internal asset manager: It creates a significant difference between Group and Solo reporting (creating different profitability tests and therefore units of account); and Solo profit of the investment manager + the solo insurer is significantly different to the Group consolidated view as the investment managers portion of the group CSM is reflected at a different rate to that required by IFRS 9. It is also noted that the TRG discussions on the recognition of CSM for insurance service within annuity contracts are inconsistent with other types of contract where the sum assured changes with time and therefore insurance cover is also not reflected appropriately for insurance services. We believe that investment service is earned over the whole contract duration and should reflect the pricing investment margin earned in line with the expected size of the backing asset portfolio. The insurance service should be earned over the contract duration reflecting the sum assured – ie. The expected future amount that would be lost if the insured event (death) where to occur. The IASB amendments do provide the opportunity to give an improved profit profile but they remain flawed for annuity contracts.
UK Annuities	The IASB's changes substantially address the issue regarding profit recognition in the deferred period of an annuity contract. However the theoretical approach taken in the standard to require coverage units to be identified separately for insurance and investment return services does not align with how the contracts operate in practice and so increases the operational burden to arrive at a suitable CSM run off that reflects the economics of the business.	Investment return service: The change which enabled profits to be recognised associated with an investment return service substantially mitigates the problem. However the revised approach remains operationally complex to implement and still does not fully reflect that in practice the insurance service and investment return service of an annuity are provided concurrently throughout the life of the contract and not for discrete periods which the IASB's solution envisages. Investment management expenses: IASB tentatively approved in February 2020 a requirement for fulfilment cash flows to include costs related to investment activities, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service. This will reduce the mismatch in profit recognition that would otherwise occur if these costs were recognised in profit as incurred, whilst the CSM run-off was recognised in profit only when the insurance coverage is provided.

70 In addition to the above, participants provided the following comments:

71 One participant noted that the CSM requirements make it difficult to reflect the business in case of contracts with multiple benefits. At its February 2020 meeting, the IASB decided to not allow a practical expedient for such contracts. This is a significant concern for their Asian business which writes unit linked contracts where

policyholders can choose from a menu of protection benefits provided through optional riders (e.g. accidental death, critical illness, hospital reimbursement benefits). These riders do not meet the IFRS 17 requirements for separation and, consequently, it is necessary to determine a single coverage unit metric to reflect the aggregate benefits provided under each contract. The cost and complexity arises from having to develop an approach to weight the different benefits at a contract level. This cost and complexity could be mitigated through a practical expedient allowing CSM to be recognised in profit or loss in accordance with the passage of time.

72 One participant noted that in many of their products the average period of time that elapses from when the customer is due to pay premium until they receive the service is long and, consequently, the financial performance is relevant in the price and margin of the product. For the same reason, the investment management service is a main component of the entity's expected result. This characteristic does not always correspond to the concept of an investment component, as defined in the amended IFRS 17. For this reason, they would consider desirable that the IASB revisits the definition of "the return on investment service" in paragraph B119B with the aim that investment component of these insurance products could be presented/disclosed as a part of the insurance result and not in the financial result. They believe that the "CSM run-off" as the investment component of these products should be included within the insurance service section.

73 One participant noted that in some reinsurance contracts the long-lasting final settlement of contractual obligations is combined with interest charges relating to reference investment portfolios which should not extend the provision of services beyond the economic substance of the contracts. They would have appreciated further extending the proposed amendment to cases where products cannot be surrendered/transferred and do not contain any investment component, but for which investment activities are also performed. This would avoid a different accounting treatment for economically similar primary insurance contracts.

74 One participant provided feedback on the following topics:

A) Disclosure of quantitative information about when the entity expects to recognise in PL the remaining CSM:

75 They are concerned about the removal of the option in paragraph 109 of IFRS 17 to provide only qualitative information in relation to the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period. As there is not a similar requirement of future performance disclosure in other industries this fact should be considered before removing this option under IFRS17.

B) Relative weighting of the benefits provided by insurance coverage and IRS:

76 They understand that the CSM arising from the investment return services should be calculated based on the spread of the locked-in rate minus the guaranteed interest rate multiplied by the Non-Distinctive Investment Component embedded in the portfolios. On the other hand, the CSM arising from the insurance services will be based on the insurance benefits paid to policyholders.

C) Products without an investment component

77 Paragraph B119B requires the existence of an investment component or the policyholder option to withdraw an amount in order to be able to recognize an investment-return service. They are concerned that this definition is too narrow since it does not cover the following type of contracts:

(a) Deferred annuities without payment on death in the accumulation phase or the payout phase (or in both), and

(b) Deferred capital during the term agreed (accumulation period) without death benefit.

78 One participant considered that the criteria for when insurance contracts without direct participation features may provide an investment-return service fixed in paragraph B119B of IFRS17 as amended remain unduly restrictive. In their opinion, applying these criteria will result in the inconsistency in measurement between economically similar insurance contracts providing both insurance and investment-return service. For example, a deferred annuity contract's measurement would be different depending on whether the policyholder has the ability to withdraw cash or transfer the account balance to another insurance provider in the accumulation phase.

79 The participant also welcomes the amendment that requires an entity to include, as cash flows within the boundary of an insurance contract, costs related to investment activities to the extent the entity performs such activities to enhance benefits from insurance coverage for the policyholder, even if the entity has concluded that the contract does not provide an investment-return service. However, this last amendment, as currently drafted, can be subject to different interpretations. Its scope is unclear and may, if strictly applied, be extended even to short-term P&C insurance contracts eligible to the measurement under the premium allocation approach. Even though there is a consensus to consider that for these contracts the investment activities could potentially generate premium reductions but not increase in payments to policyholders (that, strictly speaking, would not qualify for 'enhanced benefits from insurance coverage'), in order to avoid any misinterpretation, they believe that the IASB should clarify the wording currently drafted. Finally, they note that this amendment will potentially require some implementation processes to be adjusted and so increase implementation costs.

Reinsurance contracts held – recovery of losses on underlying insurance contracts

80 **Do you think that the IASB tentative decisions with regard to reinsurance will reduce the implementation issues in this field? Please explain**

Detailed answers

81 Fourteen participants welcomed the IASB tentative decisions or found them reasonable.

82 Five participants noted not to have any onerous underlying contracts which are covered by reinsurance contracts held or not in a material way.

83 Participants noted a number of issues that remain unsolved:

(a) Reinsurance contracts often meet the eligibility criteria for the VFA but are to be measured under the General Model (GM). This does not the economics and leads to accounting mismatches. Five participants

(b) Contract boundary requirements will in many cases result in reinsurance assets including direct contracts not yet written giving rise to accounting mismatches between the liability in respect of direct contracts and the related reinsurance contract asset. Six participants

(c) It is prohibited to recognize the ceded loss liability in case the reinsurance treaty begins after the inception of the underlying contracts, this will lead to accounting mismatches. In addition, certain forms of reinsurance coverage (such as risk premium reinsurance on protection business) may be retendered over the lifetime of the underlying contracts. When retendering occurs, as it stands, the remaining offset loss on the underlying contracts would be recognised. It is noted that this is not an economically faithful representation, and to the extent the % of claims on the underlying recoverable from the

reinsurance has not decreased, no loss should be recognised at this point. Five participants

(d) The calculation of the net gain after reinsurance could be simplified by removing the text that requires the initial reinsurance CSM offset to be calculated as a product of the loss and proportion reinsured. This would give additional flexibility to insurers in defining the approach to be used. One participant

Applicability of the risk mitigation option

84 **Do you think that the IASB tentative decision with regard to the scope of the risk mitigation option will reduce the implementation issues with regard to this option? Please explain.**

85 Seven participants indicated that the question was not applicable or that they have no view. Another participant indicated that it would not apply the risk mitigation option as its derivative instruments form part of the underlying items under the VFA. Two participants indicated that they do not use reinsurance contracts to hedge financial risks.

86 One participant supported the extension of the risk mitigation option to include non-derivative financial instruments accounted for at fair value through profit and loss (FVTPL), however, further analysis is required to see whether this resolves the mismatch for contracts under the VFA. The participant was referring to the mismatch that arises from changes in the effect of the time value of money and financial risks for cash flows that are not from participation in underlying items (which are taken to CSM) and changes in assets held to back these cash flows (which are recognised in P&L).While the extension is expected to be beneficial in resolving such accounting mismatch for accounting periods after the date of transition, the mismatch cannot be fully resolved without the ability to implement the risk mitigation option retrospectively (i.e. before the date of transition). The participant is not planning on using the OCI option and therefore extension of the risk mitigation option to contracts under the general model is irrelevant.

87 One participant agreed with the change and two other participants welcome the changes but, of these, one considers that allowing the VFA for reinsurance contracts would have been a better solution and the other thinks that while not all accounting mismatches are solved (not explained further), this is considerable progress.

88 Another participant welcomes the changes but indicates that these do not solve the core concerns and that they require the risk mitigation option to be available under the general model and such option should be available retrospectively when possible

89 One participant considers the changes helpful but considers the risk mitigation solution should have been extended to general model contracts as well.

90 Another participant agrees that the extension of the risk mitigation will reduce implementation issues but considers it should be extended to general model contracts. In particular, for partial hedges, financial changes in the liability would be recognised in OCI while the changes in the economic hedge derivatives would be in profit or loss.

91 One participant agrees that the changes are welcome but consider the extension of the scope of the risk mitigation approach merely alleviates the problem of reinsurance contracts not qualifying for VFA. Furthermore, the inclusion for non-derivative financial instruments will help for contracts that change nature over time and direct solutions would have been preferable

92 Currently one participant considers that the risk mitigation option will not be applied, but this will be confirmed in coming months for derivatives that do not form part of

underlying items. Furthermore, the extension of the scope of the risk mitigation increases the possibility to eliminate mismatches between the impact of changes in assets and liabilities recognised in profit or loss

93 Another participant considers that risk mitigation options are insufficient and does not expect to use these options but rather to use FVTPL to mitigate impacts in profit or loss.

94 A participant stated that risk mitigation cannot be achieved in Italy due to existing regulatory constraints and approaches. This is also applicable for the next two questions.

95 Another participant acknowledges that the IASB decision would reduce accounting mismatches but considers that the scope extension should also include non-derivative financial instruments measured at FVOCI as this would remove a mismatch in an operationally efficient way. This mismatch relates to VFA contracts being covered by general account assets including bonds measured at FVOCI.

96 One participant agreed that the amendments would reduce the related implementation issues, except for the ability to hedge the entity's variable fee. This is the same as the position under IFRS 4 where the volatility due to the hedging is managed through disclosure in the existing operating profit metric. The latest amendment around non-derivatives at FVPL does not deal with this situation.

97 Another participant supports the IASB's proposals to modify the scope of the risk mitigation option but considers the non-applicability of VFA contracts to reinsurance contracts results in accounting mismatches. Furthermore, the inability to apply the risk mitigation option in respect of reinsurance held retrospectively means that retained earnings, OCI and CSM are misstated. The participant also considers that the risk mitigation option should be expanded to include the general model as the hedge accounting requirements may be difficult to comply with as:

(a) Investment and insurance components of an insurance contract are highly interrelated, which may not be 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 policyholder 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 onerous to perform.

Therefore, hedge accounting would require recourse to the EU carve-out option to bypass some of the requirements in the standards and so the extension of the risk mitigation option with some modifications, is required for contracts under the general model

Transition modification and reliefs

Transition relief for risk mitigation

98 **Considering your VFA business indicate to what extent there are remaining accounting mismatches that are due to the use of derivatives, reinsurance and financial instruments at fair value through profit or loss.**

99 Seven participants indicated not applicable as they have no contracts with direct participation features under the VFA or do not apply the risk mitigation option or it is not material. One participant indicated that most of their products under the VFA are

unit-linked policies where no risk mitigation is done. For unit-linked policies with a death benefit further analysis will be done to ascertain any mismatches on transition.

100 Another participant referred to an accounting mismatch where the risk is mitigated by using a derivative hedging programme. However, an accounting mismatch arises due to the transition requirements where the impact of market movements on the cost of guarantees is taken to the CSM under the VFA, while the movement in the derivatives is taken to retained earnings. This will result in a misstatement of shareholder equity at the transition date with a consequential inappropriate level of underwriting result and revenue thereafter, thereby impacting the relevance of the financial statements.

101 This was echoed by another participant who indicated that in periods with rising interest rates such as during 2019, the effectiveness of derivatives mitigating interest rate risks may be highly efficient resulting in net unrealised gains and losses of approximately nil. However, as these gains are not recognised to CSM under the risk mitigation approach for the VFA, the CSM is underestimated. The final impact of this will depend on the changes in interest rates up to transition date.

102 One participant considers that non-retrospective application may result in accounting mismatches and that retrospective application of the risk mitigation would have been more relevant. Furthermore, it considers that reinsurance contracts held for risk mitigation should be allowed to use the FVA approach at transition to avoid accounting mismatches similarly to when FVA is used for insurance contracts.

103 Another participant added that the only significant remaining is the prospective application of the risk mitigation approach and its related impact on CSM and retained earnings.

104 Another participant agreed with that while not opposing the transitional reliefs announced. The participant considers the IASB is unduly penalising insurers that historically implemented efficient risk mitigation techniques compared to those who did not. The participant considers the option to apply the risk mitigation option retrospectively would be a better solution to reduce accounting mismatches.

105 One participant indicated that they are not able use the retrospective approach.

106 Another indicated that in the German market, underlying items comprise of all financial instruments and reinsurance contracts used so there are no additional risk mitigation instruments and transition is therefore not affected.

107 One participant stated that the remaining accounting mismatches stem mainly from derivatives that manage risk on contracts that fall under the general model

108 Another participant indicates that it does not expect to use the transition relief for the risk mitigation option given the nature of its VFA products and limited risk mitigation instruments used to manage the related risk.

109 One participant indicates that the inclusion of non-derivatives at fair value in the scope of risk mitigation reduces mismatches in this regard. However, it would prefer the risk mitigation option to be extended to the general model for the following reasons:

(a) Insurance the presentation option with respect to financial variables is not available for only a risk component, all the related gains or losses has to be recognised in profit or loss not just a component which could result in a mismatch if the related assets are recognised FVOCI.

(b) Operational burden in allocating derivatives between VFA and general model products as the current hedging programme is set up at a higher level covering all products exposed to similar risk types. This issue can be further

exacerbated when the programme is rebalanced due to mortality or policyholder behaviour.

110 Another participant referred positively to the prospective application of the risk mitigation option from the transition date and believes the remaining accounting mismatches at transition would be negligible.

111 One participant indicates that equities treatment would result in a mismatch for VFA.

Use of fair value approach in particular circumstances

112 **For your business, to which extent does application of the fair value approach to insurance liabilities where the risk mitigation option is applied resolves transition issues relating to risk mitigation?**

113 Eight participants indicated not applicable as they have no contracts with direct participation features under the VFA or do not apply the risk mitigation option.

114 One participant believes that the fair value option does not alleviate the mismatch mentioned in paragraph 100 as this approach is conceptually different to the two others and is expected in many cases to give a significantly different accounting outcome. According to them, this is particularly the case for contracts with equity exposure where such historically strong equity performance would result in a sizeable CSM under either of the retrospective methods but would not necessarily be replicated under the fair value approach.

115 Another participant considers that the FVA option for hedging of the insurer’s variable fee, does not resolve the issue around prospective application and that the FVA would lead to a misstatement of shareholder equity at the transition date. The prospective application of the risk mitigation option would also misstate CSM and retained earnings with the net effect that where that where adverse financial events have occurred pre-transition, shareholder equity on transition will be overstated, whereas where positive financial events have occurred pre-transition, shareholder equity on transition will be understated which the participant considers inappropriate

116 One participant indicated that for VFA contracts (other than unit-linked contracts), for 28% of the total, the fair value approach will be used whereas the retrospective approaches will be used for the remainder.

117 Another participant suggests that the setting the OCI balance to nil under the VFA should be extended to general model contracts where the business is managed with asset-liability management techniques.

118 One participant thinks that the use of the fair value approach would be limited to specific cases whilst as explained in paragraph 118 above, another indicated that transition is not affected.

119 Another participant is not clear yet to what extent the FVA could mitigate the issue of prospective application of risk mitigation as aspects of methodology is being resolved and the final outcome will reflect market conditions at transition date. This participant referred to a run-off portfolio with fulfilment cash flows of EUR 8.8bn where there are swaptions of EUR 290m and reinsurance contracts of EUR 192m currently, but the participant expects this to increase in future periods.

120 This is echoed by another participant who is in the process of assessing of using the option but expects residual accounting mismatches will not be significant if not fully eliminated as risk mitigation techniques are not always fully efficient. The participant considers that using the retrospective approaches provide the most useful information both at transition and in future reporting periods.

121 Another participant intends to use fair value transition in all such cases

122 One participant acknowledges that where FVA is applied and risk mitigated with derivatives, reinsurance contracts held or non-derivative financial instruments at FVPL, the amendment reduces transition issues.

123 Another participant indicates that the extension of the use of the risk mitigation option to general model products retrospectively is needed to solve problems such as the option to set to zero the accumulated amount in OCI for insurance liabilities for general model products without direct participation features. This may prevent companies from distributing dividends. The participant considers that the locked-in rate to be used at transition should be based on the purchase rate of the underlying assets (the same rate used to calculate OCI of the assets). The participant notes that determining the amount in OCI retrospectively results in a distortion of OCI for portfolios where the related assets have been restructured resulting in a significant change to the overall interest rate of the portfolio.

124 Another participant will apply the FVA to cohorts in force before 2020 or 2021.

125 One participant would not oppose retrospective application of the risk mitigation option, however, the IASB's tentative decisions is a good alternative. For contracts where the participant applies FVA other than due to impracticability, i.e. where the risk mitigation option would be applicable results in a workable transition CSM.

Early application

126 **Do you intend to early apply IFRS 17 (as from 2022)?**

127 19 participants do not intend to adopt IFRS 17 from 2022

128 One participant indicated that they are still deciding on whether to early adopt IFRS 17 and 9, i.e. 1 January 2022. The decision will depend on the following:

(a) A common effective date across all entities in the group;

(b) Deferral would increase the implementation costs as the IFRS 4 systems would need to be maintained in addition to the IFRS 17 systems; and

(c) A clear tendency within its peer group to early adopt or not.

129 Another participant agreed stating that they were working toward 2021 and then 2022 and still have to evaluate the situation based on the following:

(a) Additional budget and opportunity costs related to an extended parallel run phase;

(b) Level playing field: first mover advantages and disadvantages;

(c) Comparability with peers; and

(d) Readiness of the organisation and alignment with auditors.

130 This participant nevertheless supports an early application option to have the flexibility to adopt in 2022 as this its planning scenario. Furthermore, the participant has a strong interest in a timely finalised endorsement process as it wants to know whether IFRS 17 is endorsed and in which form as soon as possible. Uncertainty around effective date produces additional costs and puts European companies in an unfavourable position compared to global peers.

131 Another participant indicated that it is considering early adoption as it has followed its parent and adopted IFRS 9 already. Therefore, IFRS 17 is expected to mitigate current accounting mismatches, but the decision will be based on the progress of the standard-setting process and delivery of software.

132 One participant considers that while it would not want a deferral beyond 2023 due to cost reasons, it considers the inconsistency related to comparative information for IFRS 17 and IFRS 9 requiring urgent attention. Specifically, that where insurers

decide to restate the comparative for IFRS 9, it will have to apply both IFRS 9 and IAS 39 in the comparative period (the latter in respect of financial instruments derecognised during 2022). The participant considers that optional full retrospective application for IFRS 9 could be incorporated into the annual improvement framework to reduce the standard-setting burden.

133 One participant did not answer the question.

Other comments received

Contracts that change nature over time[3]

Background

134 The full response of one participant was dedicated to this issue. The relevant product is with-profits savings contracts that contain a guaranteed annuity option ("GAO") where the policyholder can take an annuity at a guaranteed rate similar to IFRS 17 paragraph B24. The contract would meet the definition of VFA at inception, but after the option has been exercised, if a reassessment were done, it would fall under the general model.

135 For the participant, the total for with-profit savings contracts with an unvested[4] GAO is around £2.4bn and its total annuity portfolio (i.e. with both open market annuities and those vested from savings contracts with GAOs) is approximately £12bn.

136 The participant notes that this is a common type of product in the UK market and indicates that there may be similar products in other jurisdictions, such Asia and the US which may be relevant to European insurance groups.

Concerns

Accounting mismatches

137 As IFRS 17 does not allow re-assessment of the contract for changes due to time, it could result in such a contract being treated under the VFA even though for a significant part of the life of the contract there will be no underlying items or participation features. The participant mitigates its exposure to discount rates with appropriate assets to achieve a well matched position, but under the annuity phase, as the assets are not underlying items, the changes with respect to financial risk is not recognised in CSM (as would happen for the insurance liability) and so volatility would exist. This would not be the case, if for this phase, the contracts would fall under the general model. The general model would not be appropriate if the contract does not qualify for the VFA[5] given the participation features during the accumulation phase.

138 On transition, the FVA may be followed due to lack of reasonable and supportable information of conditions at inception date. At such a date the with-profit accumulation phase will make a smaller proportion of the contract meaning that the contract may not qualify for the VFA.

[3] This was discussed by the IASB at its February 2020 meeting.

[4] i.e. the policyholder has not yet exercised its option under the contract.

[5] Note: the participant comments that given the length of the annuity phase, the contract may not meet the VFA requirements in paragraph B101 as the portion paid to the policyholder may not be a substantial portion of the fair value changes of the underlying items. The EFRAG Secretariat accepts for purposes of this paper that the accounting requirements for the VFA is met as not enough information has been provided. However, this is an area of significant judgement and could have a significant impact on the accounting outcomes. Furthermore, it may warrant disclosures per IAS 1 on accounting judgements and estimates.

Inconsistent treatment of annuities

139 Where the annuities are purchased by the policyholders, these do not have an accumulation phase with participation features and so these would fall under the general model. As discussed above, the participation features in a contract with a GAO may fall under the VFA.

140 This would impair comparability of economically the same contracts within the same entity and the participant envisages needing the use of alternative performance metrics in order to explain the results internally and externally. This would lead to greater costs on implementation and on an ongoing basis.

Reduced availability of options at transition

141 For contracts that have converted already to an annuity, the participant would need to identify the inception date and not the conversion date for the fully retrospective approach on transition. The current systems only record the date the savings contract was changed into an annuity and not the original inception date.

142 The participant suggests that under the MRA it may be able to assess for VFA eligibility at the transition date due to a lack of reasonable and supportable information to assess at inception date and given the conversion to annuities, these would fall under the general model on transition. However, as there is no such specific relief in the MRA, further analysis would be required to determine whether the history of the accumulation phase can be ignored. This would add to implementation costs and effort and would be disruptive to the implementation programme.

Operational concerns

143 The systems are set-up to facilitate current accounting treatment and so have separate policy administration systems for the accumulation and annuity phases. However, the contract boundary requirements under IFRS 17 would require significant changes and will be disruptive to the IFRS 17 implementation programme. The participant would also need to develop methodology and modelling solutions for the treatment of annuity contracts under the VFA or the accumulation phase under the general model.

144 Furthermore, as there is no data as to whether current annuities were purchased or are the result of exercise of an option ending the accumulation phase, if the participant is unable to conclude that an annuity did not result from a GAO, these annuities may also have to follow the fair value option at transition. This could potentially result in the whole annuity portfolio and not those resulting from vested GAOs having to be fair valued at transition. The participant believes that this would impair the usefulness of the information.

Suggested solutions

145 The participant considers that EFRAG should request the IASB to reconsider its position and amend the standard to allow the contract boundary to ‘reset’ at conversion. A European or UK carve-out would not be desirable as the participant is an SEC filer and such a solution would undermine the benefit of a consistent global standard.

IASB tentative decision

146 The IASB staff in a paper for the February 2020 IASB meeting considered the following suggestions to amend IFRS 17 to:

(a) Exclude the resulting cash flows from the exercise of some options from the contract boundary;

(b) Provide an accounting policy choice to separate some components of an insurance contract; or

(c) Make the requirements around financial guarantees in B113 (b) optional.

147 The IASB agreed with the staff that such adjustments would touch on the key aspects of IFRS 17 and there could be unintended consequences from such changes. Furthermore, more options would further reduce the comparability across insurers and increase the complexity of IFRS 17. Additionally, one of the suggested solutions relating to the inclusion of non-derivative financial instruments at fair value through profit and loss in the risk mitigation option has already been agreed by the IASB.

148 Another participant referred to the problem having provided detailed information to IAWG that was included in the issues paper to EFRAG TEG for the May 2020 meeting.

Annual cohorts for intergenerational sharing of risks between policyholders

149 One participant commented that for contracts with an intergenerational sharing of risks, the annual cohort is the main issue, specifically for the contracts under the VFA. In France or Italy (two countries where the bank insurers represent a large part of the life reserves), the regulation require this intergenerational sharing of risks. 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 and the requirement should therefore be removed for these contract. Otherwise, the allocation of the Contractual Service Margin by annual cohort to comply with IFRS 17 requirement will 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.

150 Another participant expressed appreciation for EFRAG's highlighting of the issue and the significant investment to find a potential issue. However, it would prefer a resolution on a global level rather than a Europe-only solution. Furthermore, it believes, the discussions need to end now in the context of different views and that global standards requires compromises. In 2019 it tested IFRS 17 systems with more than 80% of its life insurance segment with a significant portion of European subsidiaries and the numbers were in line with expectations. Operationally, the test reflects that implementation of IFRS 17 is challenging but feasible and on the whole, the participant believes that IFRS 17 is fit for endorsement in the EU.

151 Another participant considers this to add operational complexity as it does not align with management of mutualised business with intergenerational sharing of profits and the cost/benefit test is not met.

Annual cohorts for general model products

152 The implementation issues relating to annual cohorts for general products remain after the IASB's re-deliberations for one respondent. Therefore, it suggests continuance of discussing the challenges to find an industry solution

Interim reporting

153 One participant appreciates the resolution of the issue by the IASB.

Credit and payment cards

154 One participant asks that the new scope exclusion should be included in the case study including a question around the impact of the decision.

Proportional reinsurance held with underlying VFA contracts

155 One participant considers that permitting to use of the VFA for proportional reinsurance held when the underlying contracts are measured using the VFA would be more cost effective and provide a more relevant information, compared to the risk mitigation option now allowed by the IASB. For assumed reinsurance, the use

of the VFA may be relevant if the ceding insurer benefits from the return of the underlying assets held by the reinsurer.

156 Another participant agreed that this creates mismatches and operational difficulties.

Transition and other topics

157 Some improvements have been provided to make the transition easier. Yet the modified retrospective approach remains excessively complex and rules based. A more principle-based approach would avoid disproportionate costs. Finally, the IASB has rejected several mismatches or presentation issues which have been pointed out by the respondents to the ED, such as the presentation for receivables or payables related to insurance contracts, the boundaries of reinsurance contracts held (which may differ from that of the underlying contracts), or the treatment of liabilities for incurred claims in business combinations or portfolio transfers.

158 Another two participants consider that use of the modified retrospective approach remains highly restrictive and unachievable which creates inconsistency on transition

Coverage units and profit recognition

159 For one participant, in its "euro" saving contracts, the policyholders' participation is based on the financial and technical results as arising in the French (or Italian) statutory accounts, which is fully mutualized between the generations. The policyholders will only benefit from gains and losses on financial instruments when they are realized. Therefore, the amortization of the CSM should reflect the investment-related service provided in these contracts, where gains or losses are only definitively allocated to the policyholders when they have been realized. If a sudden decrease in the fair value of the assets occurs (as it is the case with the Covid 19 crisis), there is a risk that some contracts may be presented as onerous under IFRS 17, due to the double effect on the CSM of the change in the fair value of the underlying assets, and the change in the Time Value of Options and Guarantees (TVOG). The participant believes more work is required to determine a driver for the amortization of the CSM, and also if some kind of smoothing on market assumptions could be found to avoid the volatility of the CSM when the insurer can demonstrate that he has the capacity to hold the underlying assets (avoiding forced sales in a depressed market). As an illustration, if 18 March 2020 (the day when the French CAC 40 dropped by –5.94% and extreme equity volatility was observed) had been a reporting date under IFRS 17, support to the measures in favour of the French economy would certainly have been hampered.

160 Another participant pointed out that defining and weighting services within a single contract for certain key products is unnecessarily complex.

Treatment of equity instruments

161 One participant is concerned that the lack of recycling under IFRS 9 for equity where increases to policyholders are expensed but there is a lack of offset from the gains realised on the assets. An alternative would be to allow an equity instrument at fair value through OCI be a hedging instrument in terms of IFRS 9.

162 The lack of a solution may result in Spanish insurers no longer investing in equities (currently for the participant 10-30% of the related assets) for these types of products (about 33% of the Spanish market).

Contract boundaries of reinsurance contracts held

163 Two participants consider that the difference in outcome of the contract boundary requirements to underlying insurance contracts and reinsurance contracts held gives rise to a potential accounting mismatch and adds to operational complexity.

Locked-in discount rate

164 Two participants regard the use of a locked-in discount rate on CSM for contract under the general model do not reflect the economic position.

Non-distinct investment components

165 One participant considers that these are not well defined for contracts without account balances and so the determination of revenue will be highly judgemental.

Scope of the VFA: para B107

166 Another participant considers the amendment to require the assessment of eligibility for the VFA on individual contract level rather than group level to be inconsistent with recognition and measurement requirements of the standard. The amendment is also disruptive that requires system changes and will be challenging to explain to users where the portfolios of business are accounted for under more than one measurement model.

Risk mitigation or hedge accounting for general model contracts

167 One participant noted that Spanish long-term savings business is managed through cash flow matching techniques, including the use of derivatives to mitigate interest rate risks. The interaction between IFRS 17 and IFRS 9 Standards present some challenges and therefore the participant wants an extension of the fair value macro hedges to these insurance contracts (including the “EU carve out”) to be able to offset these changes

Setting OCI balances to nil

168 One participant points out the mismatch for contracts under the general model where the assets are carried at FVOCI, but the OCI on the liability may be set to zero. If this were to be implemented as a local gaap it could restrict the distribution of dividends. The participant suggests that the locked in rate to be used at transition should be based on the purchase rate of the underlying assets for contracts under the general model and managed through cash flow matching techniques. Where the OCI is determined retrospectively, this distorts OCI where the underlying assets have been restructured during the life of the policies.

Business combinations – contracts in settlement

169 One participant highlighted their concerns around the treatment of contracts in settlement period and that insurance revenue would be recognised twice as well as inconsistent treatment of the presentation of portfolios of contracts acquired in their settlement period compared to portfolios issued by the insurer as well as reduced comparability with other entities.

170 Another participant highlighted the operational complexity of requiring use of the general model for contracts that could use PAA otherwise.

Participants

If P&C Insurance Group	Sweden
Prudential	UK
Lloyds Banking Group	UK
Aviva Italia	Italy
Mapfre	Spain
GBFA	France
Munich Re	Germany
R+V	Germany
NN Group	The Netherlands
Poste Vita	Italy
Legal and General	UK
Phoenix Group	UK
Reale Mutua	Italy
VidaCaixa	Spain
ASR	The Netherlands
Aegon	The Netherlands
Grupo Catalane Occidente	Spain
Intesa SanPaolo	Italy
Cattolica	Italy
Allianz	Germany
AXA	France
Aviva	UK
Generali	Italy