FEA on IFRS 17:

Note from EFRAG TEG to EFRAG Board on the EFRAG TEG vote

1. This note has been prepared according to EFRAG's internal rules, to inform the EFRAG Board meeting of 29 March 2021 about the EFRAG TEG vote on the IFRS 17 FEA.
2. EFRAG TEG members met on 23 March 2021 in order to discuss and express a vote on the recommendation to the EFRAG Board of the final endorsement advice of IFRS 17 Insurance Contracts (IFRS 17 FEA).
3. Appendix I, II and III had previously been recommended to the EFRAG Board by EFRAG TEG at its meeting on 3-4 March 2021. All EFRAG TEG members that voted agreed with the contents of Appendices II and III as a technical basis for the assessment and conclusion of all the other requirements of IFRS 17 (the analysis of the requirement to apply annual cohorts to the intergenerationally mutualised and cashflow matched contracts was not in Appendices II and III) and they agreed to recommend the appendices to the EFRAG Board for issuance.

Discussion and vote on Annex 1

4. EFRAG TEG members provided additional editorial suggestions on the Appendices and on Annex 1. Under the premise that Annex 1 has been drafted in order to provide a neutral illustration of the technical merit of the two existing views on annual cohorts, all EFRAG TEG members that participated to the vote agreed with the contents of Annex 1 and they agreed to recommend the Annex 1 to the EFRAG Board for issuance.

Discussion and vote on the Cover Letter of the FEA

5. EFRAG TEG members were asked to express their support to the issuance of the FEA as prepared (Ana Cortez provided her written inputs). The cover letter of the DEA has been assumed as a basis for EFRAG TEG vote. The following is the result of the vote:
   (a) Eight EFRAG TEG members supported the issuance of the FEA as currently drafted. These members expressed their views as follows:
      (i) One EFRAG TEG member [Erlend Kvaal] positioned himself in the group that supports the application of the annual-cohorts requirement to the intergenerationally-mutualised and cash-flow matched contracts.
      (ii) Seven EFRAG TEG members [Chiara Del Prete, Ana Cortez (in writing), Geert Ewalts, Tommaso Fabi, Emmanuelle Guyomard, Vincent Louis, Olivier Scherer] positioned themselves in the group that does not support the application of annual-cohorts requirement to the intergenerationally-mutualised and cash-flow matched contracts.
   (b) Six EFRAG TEG members [Nicklas Grip, Jens Berger, David Procházka, Christoph Schauerte, Ambrogio Virgilio, Jed Wrigley], while supporting a positive endorsement of the standard as issued by the IASB (and resulting from the Amendments), dissented from the approval of the Cover Letter as drafted. Their dissenting opinion is based on the following reasons:

(i) The descriptions of the impact of the application of annual cohorts to intergenerationally mutualised and cash-flow matched contracts is (even in the positive of the two views) too negative given the current wording "… despite the *concerns* on annual cohorts."

(ii) The conclusion on the endorsement criteria is unfair as it is described as "on balance *all the other requirements* of IFRS 17 meet the qualitative characteristics" implying that the requirement to apply the annual cohorts to intergenerationally mutualised and cash-flow matched contracts does not meet the criteria (page 2 of the Cover Letter).

(iii) The overall advice presented at the end of the letter sounds like an "except for caveat when recommending endorsement" when considering the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts.

(iv) The advice to the European Commission as drafted in the Cover Letter may sound like an implicit statement proposing the endorsement of IFRS 17 with a carve-out for annual cohorts. Therefore, they recommend that the EFRAG Board reviews this wording, as EFRAG TEG has not discussed any intention to propose a carve-out and they did not think that the EFRAG Board had such an intention in mind. They also believe that EFRAG does not have conclusive evidence about the negative consequences of annual cohorts, to make such a strong statement in the advice section.

6. One of the seven members that approved the Cover Letter and is in the group of members that does not support the application of annual cohorts [Ana Cortez], agrees with the supporting arguments presented in the Cover Letter for this view, except for procyclicality, as she does not believe that the requirement may produce pro-cyclical reporting effects.
7. Jenny Carter did not participate to the meeting.
8. Olivier Scherer clarified that he was providing his personal view while his firm supports the requirement to apply annual cohorts.

Non-Editorial suggestions for the EFRAG Board to consider

9. Non-editorial drafting suggestions made by EFRAG TEG members for the EFRAG Board to consider:

(a) Cover Letter: in the description of the view of those that support the requirement to apply annual cohorts to intergenerationally mutualised contracts. Two EFRAG TEG members that expressed a dissenting vote recommend[1] that the EFRAG Board members in this group consider mentioning in their reasoning the relevance of annual cohorts to the EU public good. This is because they believe that it is the public interest to apply this requirement as it results in relevant information about the performance of the insurance portfolios:

(i) They do not consider the transparency, per se, results in procyclicality and changes in product range. If transparency changes the product offering, this is positive and in the public interest. Further, procyclicality comes from the Solvency II requirements that forces a measurement at current value for all asset and liabilities. That is the binding restriction for the product offering, not accounting rules.

(ii) In addition, they believe that cost/benefit considerations on balance are positive.

[1] This remark is unchanged from the Note to EFRAG TEG to EFRAG Board on the DEA Vote of 3 September 2020.

(b) Three EFRAG TEG members [Jens Berger, Christoph Schauerte, Jed Wrigley], suggested to include in the arguments supporting the view of the EFRAG Board members that support the requirement to apply annual cohorts that (1) the German application example as set out in paragraph 23 of Annex 1 shows that a workable approach exist to implement the requirement and (2) international auditing firms and Accountancy Europe consider that the annual cohort requirement can be audited.

(c) Six EFRAG TEG members that support the application of annual cohorts [Nicklas Grip, Jens Berger, David Procházka, Christoph Schauerte, Ambrogio Virgilio, Jed Wrigley], considered that the arguments for an exemption for cash flow matched contracts with respect to annual cohorts are weaker than for those relating to intergenerationally-mutualised contracts.