

European Financial Reporting Advisory Group
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EFRAG's Draft Comment Letter on the IASB's Exposure Draft ED/2019/4 'Amendments to IFRS 17' ('Exposure Draft')

This letter has been drafted by the European Insurance CFO Forum ("CFO Forum"), a body representing the views of 23 of Europe's largest insurance companies and Insurance Europe, representing 95% of the premium income of the European insurance market. Accordingly it represents the consensus view of the European insurance industry.

Our members continue to support a high quality standard for insurance contract accounting and have contributed significant efforts to the earlier EFRAG testing of IFRS 17 'Insurance Contracts'. In July 2018, the CFO Forum summarised the significant issues identified by its members during the EFRAG field test and in October 2018, proposed solutions to those issues through proposed track change edits to the standard.

We would like to thank EFRAG for its extensive work on IFRS 17 and for considering our issues and the related solutions. We believe that EFRAG's efforts have significantly contributed to the ongoing process to improve the standard.

We appreciate the efforts by the IASB in considering the concerns raised by the insurance industry and others about IFRS 17 'Insurance Contracts', which resulted in the changes proposed in the Exposure Draft. The proposals in the Exposure Draft represent welcome improvements in a number of areas, such as the scope exclusion for certain credit-based contracts, recognition of acquisition expenses on renewals and the presentation of insurance contracts as assets or liabilities at the portfolio level. However, the IASB has chosen not to propose amendments for several other identified important issues and for other issues has proposed less effective amendments. As a result, we believe that further changes to IFRS 17 are needed to obtain a high quality standard that can be implemented at a reasonable cost.

In this context, we welcome the opportunity to comment on EFRAG's Draft Comment Letter on the IASB's ED/2019/4 'Amendments to IFRS 17'.

The appendices to this letter include our responses to the IASB on the Exposure Draft, our comments on EFRAG's draft comment letter to the IASB and our responses to the questions raised by EFRAG to its constituents. The comments in the appendices cover the three issues with the largest impact that we communicated earlier, changes that are proposed in the Exposure Draft but do not fully resolve the issues identified in the EFRAG testing, other issues for which no changes are proposed in the Exposure Draft and certain other proposed changes that have unintended consequences. Furthermore, the comments in the appendices also cover the proposed effective date.

Issues with the largest impact

In our efforts to continue to work towards a high quality accounting standard, whilst recognising the limitation for fundamental changes in this phase of the project, we have already highlighted the three issues that are most widespread amongst our members and that have the largest impact on the operational complexity and costs of implementing the standard. We have summarised these three issues below as they have not been resolved through the proposals in the Exposure Draft:

- **Level of Aggregation** – Whilst we continue to believe that the requirement for annual cohorts in general is not aligned to the fundamentals of insurance business, we believe that **at a minimum** annual cohorts

should not be used for contracts in the variable fee approach with significant mutualisation and for all contracts at transition. This will significantly reduce operational complexities without significantly affecting the outcome. See our response in Question 3 for more information.

- **Transition** – We believe that the current limitations in the modified retrospective approach unduly limit the ability to utilise this transition method and will result in too much default to the fair value approach, even where this is less appropriate. We believe that the criteria for the modified retrospective approach should be more principles based. In addition, we believe that transitional relief is required for the risk mitigation approach (to be applied retrospectively), for OCI at transition (to be aligned for assets and liabilities in the general measurement model) and for historical business combinations. See our response in Question 8 for more information.
- **Presentation** – We believe that changes should be made to remove the inconsistency between group and solo reporting that is solely due to differences in reporting frequency as this results in unnecessary costs of dual accounting. Furthermore, we believe that the requirement to present comparatives at transition should be removed to align with IFRS 9 and to provide further relief in implementation time and costs. See our responses in Question 5 for more information.

Our detailed comments on these three issues are included in the appendices.

Proposed changes in the Exposure Draft that do not fully resolve the issues identified

In the appendices, we have also commented on a number of proposed changes in the Exposure Draft that do not resolve the identified issues. In this respect we would like to highlight the following:

- Risk mitigation is a critical element of insurance business. As such, our comments in the appendices propose an extension of the risk mitigation option to include non-derivative financial instruments and to be applicable to all insurance contracts – not only contracts accounted for under the variable fee approach. See our responses in Question 6 for more information.
- Whilst we welcome the objective of the proposed changes to accounting for proportional reinsurance in the Exposure Draft, we are concerned that the proposed definition of proportionate provides little relief in practice and still would create significant accounting mismatches. See our responses in Question 4 for more information.
- We are concerned that the proposed amendments on investment-return services do not capture economically similar products that include an insurance and investment return service but do not meet the criteria, as the contract cannot be surrendered nor transferred. In our view the proposed criteria for recognition of investment-return services need further consideration. See our responses in Question 3 for more information.

Other issues for which no changes are proposed in the Exposure Draft

In addition, we have commented in the appendices on other important issues identified in the EFRAG field testing that are not addressed by the proposals in the Exposure Draft. These comments are included in our responses to the relevant questions under the section “Other issues”.

Other proposed changes that have unintended consequences

Furthermore, we have identified amendments proposed in the Exposure Draft that introduce unintended consequences. These include for example the amendment to the guidance on the level at which eligibility for the variable fee approach should be assessed. This is a significant change which could result in disruption to implementation programmes. See our responses in Question 9 for more information.

Proposed effective date

European insurers are working hard to implement IFRS 17 in accordance with the currently proposed effective date (1 January 2022). However, there are significant concerns on the tight deadlines, both in relation to the time needed to make the necessary improvements to the standard and the time needed for a high quality implementation. The European endorsement process will likely not result in an endorsed standard until late in 2021, which creates a great deal of uncertainty. We do not see this as purely a European endorsement issue, as

we strongly believe that there should be one consistent global effective date of an endorsed standard. Taking into account the above, many in the industry see a need for a delay to the global effective date of IFRS 17 and IFRS 9 for insurers until 1 January 2023, while others see the need to retain a 2022 effective date.

In summary, we welcome the changes proposed in the Exposure Draft as these represent a significant improvement, but we believe that additional changes (as set out above and in the appendices) are still required. We appreciate the opportunity to provide input for resolving these remaining issues and would be pleased to discuss these further with you.

Yours faithfully,



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