Your details

1 Please provide the following details:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

Groupement Français des Bancassureurs (GFBA)

(b) Are you a:

☒ Preparer ☐ User ☐ Other (please specify)

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

GFBA is the professional association of French bank insurers. Six companies among the members of the GFBA participated in the previous EFRAG case studies and in the present answer: Assurances du Crédit Mutuel, BNP Paribas Cardif, CNP Assurances, Crédit Agricole Assurances, Natixis Assurances and Société Générale Insurance.

(d) Country where you are located:

France

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

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Part I: EFRAG's initial assessment with respect to the technical criteria for endorsement

Note to the respondents: *Appendix II presents EFRAG's reasoning with reference to all requirements in IFRS 17 apart from the application of the annual cohorts requirement to some contracts specified in paragraph 6 of Annex A within Annex 1 (those contracts are conventionally referred to in this questionnaire, in the Cover Letter, in its Appendices and Annex as 'contracts with intergenerationally mutualisation and cash-flow matched contracts'[1], or 'intergenerationally mutualised and cash flow matched contracts'. Annex 1 presents content of this requirement that contribute positively or negatively to the technical criteria on this matter.*

2 EFRAG's initial assessment of IFRS 17 is that:

- The EFRAG Board has concluded on a consensus basis that, apart from the requirement to apply annual cohorts to intergenerationally-mutualised and cash-flow matched contracts, as explained in the attached Cover Letter, on

[1] For a description of the affected contracts please refer to paragraphs 8 to 28 of Annex A to Annex 1 of the endorsement package relating to IFRS 17.

balance, all the other requirements of IFRS 17 meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support 'economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting. EFRAG has concluded that all the other requirements of IFRS 17 are not contrary to the true and fair view principle.

- EFRAG Board members were split into two groups about whether the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts meet the qualitative characteristics described above.

  (i) Nine EFRAG Board members consider that overcoming in a timely manner the issues of IFRS 4 brings sufficient benefits despite the concerns on annual cohorts. They believe that, in the absence of an alternative principles-based approach to grouping of contracts, on balance the annual cohorts requirement provides an acceptable conventional approach that enables to meet the reporting objectives of the level of aggregation of IFRS 17.

  (ii) Seven EFRAG Board members consider that in many cases in Europe the requirement to apply annual cohorts for insurance contracts with intergenerational mutualisation and cash-flow matched contracts will result in information that is neither relevant nor reliable. This is because the requirement does not depict an entity's rights and obligations and results in information that represents neither the economic characteristics of these contracts nor the entity's underlying business model. These EFRAG Board members also consider that this requirement is not conducive to the European public good because it (i) adds complexity and cost and does not bring benefits in terms of the resulting information, (ii) may lead to unintended incentives to change the way insurers cover insurance risks and (iii) may produce pro-cyclical reporting effects.

EFRAG's reasoning and observations are set out in Appendix II, Annex 1 and the Cover Letter regarding endorsement of IFRS 17.

(a) Do you agree with this assessment for all the other requirements of IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts?

☒ Yes ☐ No

If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

In overall, we agree with the EFRAG´s assessment that, on balance, IFRS 17 requirements meet the technical criteria for endorsement, except for the issue regarding annual cohorts.

Notwithstanding this agreement, we would like to draw your attention to the following topics that, in our opinion, should not prevent the endorsement of IFRS 17, but should be carefully followed up and addressed as part of the Post-Implementation Review (at the latest) of the standard, or other standards maintenance projects.

Non eligibility of reinsurance contracts to the variable fee approach

Reinsurance contracts held and issued are not eligible to the variable fee approach (VFA), even if the underlying insurance contracts are eligible to this approach. For proportionate treaties (either held or issued) which by construction transfer a financial risk to the reinsurer, this generates an accounting mismatch with reinsured participating contracts measured using the

VFA. This accounting mismatch is not solved by the risk mitigation option and does not reflect the economic conditions of related reinsurance schemes.

This is why we still believe that the possibility to apply the VFA for reinsurance contracts (at least those held) where the underlying insurance contracts are measured under the VFA would constitute an easier solution from an operational point of view, which would also correctly represent the economy of reinsurance operations, at least for simple quota-share treaties.

Presentation of insurance receivable and payables, and collateral reinsurance deposits

Not separately presenting receivables and payables from the carrying amount of insurance and reinsurance contracts on the face of the balance sheet requires costly modifications to the existing policy management systems and projection models, without providing useful information to the users of financial statements.

This issue is also applicable to collateral deposits related to reinsurance contracts, which correspond to a guarantee and not to a prepayment, and thus should not be treated as such.

Contracts acquired in their settlement period in a business combination or portfolio transfer

For business combinations and portfolio transfers, IFRS 17 requires accounting for contracts acquired in their settlement period as a liability for remaining coverage, as these contracts are considered to provide coverage for the adverse development of claims. This will require to re-create a contractual service margin for contracts where the insurance service has already been provided, and thus artificially modify the insurance revenue. This reduces the comparability with similar insurance contracts issued later by the entity and between entities growing organically and those growing through acquisitions.

(b) Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to intergenerationally-mutualised contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above does the requirement to apply annual cohorts to intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17) meet the qualitative characteristics described above? Please explain your technical reasons for supporting your view.

☐ Yes ☒ No

IFRS 17 recognises the existence of intergenerationally-mutualised contracts for determining the fulfilment cash flows (FCF), yet refuses to extend this mutualisation principle to the contractual service margin of the same contracts.

For intergenerationally-mutualised contracts, the requirement to divide them into annual cohorts does not provide information that is relevant, reliable or "prudent" because it is not possible to determine objectively how the entity's share of returns should be allocated to each cohort.

Such allocation would neither reflect the legal and economic features of these contracts nor the way they are monitored by the entity.

When the contracts of a portfolio are contractually or legally sharing the overall returns of the same pool of underlying assets, new policyholders acquire rights in the assets purchased with the premiums of the existing policyholders, and conversely the existing policyholders have rights in the return of the new assets paid by the premiums of the newcomers. For such contracts, there is no reason to follow the profitability at a lower level of granularity than the portfolio, such as an annual cohort, because every contract within the portfolio is contractually or legally entitled to the returns of the same underlying items whatever the underwriting date. Conversely, no subset of contracts becomes onerous until the portfolio as a whole becomes onerous. This is why a division into cohorts will not be relevant or "prudent".

Since these contracts, according to regulatory requirements and contractual terms, are monitored as a whole, there is currently no established mechanism of allocation by cohort, and no basis to do so. Thus, setting up such a mechanism would be artificial, and not reliable.

This is why we believe that the contractual service margin of these contracts should be determined at the level of the portfolio, overriding the current requirement of §22, so as to achieve the accounting objective of IFRS 17 which "is to ensure that an entity provides relevant information that faithfully represents those contracts".

Because the majority of our life and savings portfolios correspond to intergenerationally-mutualised contracts (either in France, Italy or Luxemburg), this issue is extremely important for us, and we consider that a European solution to this issue should be proposed as part of the European endorsement process, so that it should not delay the implementation of IFRS 17 on 1st January 2023 at the latest.

The solution may be based on the proposals already provided by the French standard setter (ANC), or the CFO Forum, or on a new one, if it correctly addresses this issue.

(c) Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to cash-flow matched contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above does the requirement to apply annual cohorts to cash-flow matched contracts meet the qualitative characteristics described above? Please explain your technical reasons for supporting your view.

☐ Yes ☐ No

N/A, we do not issue such contracts.

(d) Are there any issues that are not mentioned in Appendix II, Annex 1 and the Cover Letter regarding the endorsement of IFRS 17 that you believe EFRAG should take into account in its technical evaluation of IFRS 17? If there are, what are those issues and why do you believe they are relevant to the evaluation?

N/A

Part II: The European public good

Note to the respondents: *EFRAG's reasoning and conclusions with reference to all the other requirements of IFRS 17 is presented in Appendix III, apart from the observations on the requirement to apply annual cohorts to intergenerationally mutualised and cash flow matched contracts, which are presented in Annex 1 (refer to the section titled Appendix III in Annex 1).*

3 In its assessment of the impact of IFRS 17 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix III and Annex 1 regarding the endorsement of IFRS 17.

- The EFRAG Board has on a consensus basis assessed that, apart from the requirement to apply annual cohorts to intergenerationally-mutualised and cash-flow matched contracts, all the other requirements of IFRS 17 would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified any other requirements of IFRS 17 that could have major adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that all the other requirements in IFRS 17 are, on balance, conducive to the European public good.

(a) Do you agree with this assessment for all the other requirements apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts?

☒ Yes ☐ No

If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

We do not fully agree with EFRAG´s assessment that IFRS 17 requirements other than those related to annual cohorts will reach an acceptable cost-benefit trade-off, because we believe that many of the requirements of IFRS 17 are highly complex and that the objective of more consistency in financial reporting amongst insurers could have been achieved at a much lower cost. As preparers, we have a good view both of the implementation and running costs of the standard. However, we find it very difficult to quantify prospectively the expected benefits of IFRS 17 either for us, or for the users of financial statements.

We also would like to highlight the following topics, which should not prevent the endorsement of IFRS 17, but should be carefully followed up and addressed as part of the IFRS 17 Post-Implementation Review (at the latest) or other standards maintenance projects:

- Reinsurance of direct participating contracts is excluded from the Variable Fee Approach (VFA). For proportionate treaties (either held or issued) which by construction transfer a financial risk to the reinsurer, this generates an accounting mismatch with reinsured participating contracts measured using the VFA. This accounting mismatch is not solved by the risk mitigation option and does not reflect the economic conditions of related reinsurance schemes. In addition, including in the reinsurance contract boundaries the projected reinsurance cash flows relating to underlying insurance contracts not yet issued is costly for no material benefit.
- Not separately presenting receivables and payables from the carrying amount of insurance and reinsurance contracts on the face of the balance sheet requires costly modifications to the existing policy management systems and projection models, without providing useful information to the users of financial statements. This issue is also applicable to collateral deposits related to reinsurance contracts, which correspond to a guarantee and not to a prepayment, and thus should not be treated as such.
- We concur with EFRAG that the current and prospective measurement model of IFRS 17 may create a more volatile result that may not appropriately reflect the profitability pattern of certain long-term contracts over time. For insurance contracts measured under the VFA, the change in the measurement of options and guarantees (the "Time Value of Financial Options and Guarantee (TVOG)"), which is accounted for against the Contractual Service Margin (CSM), tends to overestimate the short-term

effect of the profitability based on the current actuarial methodologies. We remain convinced that this does not adequately reflect the behaviour of long-term contracts under specific and temporary economic conditions. We have observed that, in stressed market conditions, the increase in the TVOG will immediately reduce the CSM of direct participating contracts, overriding their long-term profitability. In that regard, such a downside volatility is procyclical. As already mentioned in our 3 June 2020 letter, had we have to apply IFRS 17 in our interim accounts for the first quarter of 2020, the result arising from those financial statements would probably have limited our financial support to the measures in favour of the French economy. As a consequence, we believe that the accounting treatment of the TVOG required by the standard should be further investigated in connection with in-depth actuarial studies focusing on technical reserves modeling, in order to determine a measurement better reflecting the performance assessment of the insurance savings business.

- Liabilities of insurance contracts acquired in their settlement period in a business combination or a portfolio transfer have to be fully reclassified as liabilities for remaining coverage. This reduces the comparability with similar insurance contracts issued later by the entity and between entities growing organically and those growing through acquisitions.

- EFRAG Board members were split between two groups, as described in the Cover Letter and above, with reference to the requirement to apply annual cohorts for contracts with intergenerational mutualisation and cash-flow matched contracts.

(b) Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to intergenerationally-mutualised contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above, is the requirement to apply annual cohorts to intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17) conducive to the European public good? Please explain your technical reasons for supporting your view.

☐ Yes ☒ No

The standard allows for transferring FCF among groups of contracts that are mutualised (see B70). However, the implementation of such requirements would be highly costly and would imply a significant level of subjectivity. The identification of amounts to be reclassified between the groups of contracts requires a specific allocation pattern and an extensive historic follow-up, while it will eventually not reflect the management expectations as these are in practice defined at a higher level than the annual cohorts.

Because the profitability of intergenerationally-mutualised contracts should remain the same at annual cohort or at aggregated level, and no cohort can become onerous unless the whole mutualised portfolio becomes onerous, applying the requirements of §22 would require setting up complex allocation mechanisms for no benefit.

There is a consensus within the French insurance market (and other countries concerned by the issue) that the implementation of annual cohorts will come at a certain cost. Ultimately, there is a risk that this cost will affect the policyholders, without providing a relevant information to the users.

The operational costs related to the application of the annual cohorts are material both at implementation and in the running phase, because of the volume of data to be managed. These are long-term contracts, which can stay in force over several decades, thus storing and processing the corresponding data by cohort will require a significant increase in IT capacities.

Closing activities related to the preparation and control of input/output data of both actuarial and accounting processes would be multiplied accordingly, and would increase continuously over time as new groups of contracts are underwritten, requiring more resources and more costs.

Monitoring the profitability of intergenerationally-mutualised contracts by annual cohort for pure accounting purposes would be costly, complex and artificial.

Consistent with the annual cohorts' requirements, asset-liability management may be performed at the cohorts' level, and would result in a significant efficiency loss because it has no economic or contractual substance.

The performance of the entity would be difficult to explain when decomposing the profitability of contracts by generation and trying to link it to individual assets on which policyholders have no direct share.

Ultimately, the negative impact on the European public good should not be underestimated since part of the additional costs may affect the policyholders.

It should be reminded that the current legal and contractual terms and conditions governing intergenerationally-mutualised contracts, as issued in France and some other countries, reflect the willingness of the regulator and of the insurers to share equitably the return of the underlying assets across generations. Over the long term, the annual cohorts' requirements could influence for sole accounting purposes the design of insurance products, modify the financial asset management policy and the current coverage system, which has been designed to provide a safe and stable framework to the policyholders to manage long-term savings and retirement benefits.

We have not identified any practical benefit of applying the annual cohorts' requirements to intergenerationally-mutualised contracts. None of the IFRS 17 disclosures requirements has this level of granularity, and they will not be part of the financial communication of insurance companies. The IFRS 17 indicators of the annual cohorts will not be useful for these contracts because they result from an artificial allocation of cash flows below the portfolio level. An accounting requirement that ignores the economic consequences of the legal and contractual terms will most likely be of no interest to investors and analysts.

(c) Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to cash-flow matched contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above, is the requirement to apply annual cohorts to cash-flow matched contracts conducive to the European public good? Please explain your technical reasons for supporting your view.

☐ Yes ☐ No

N/A, we do not issue such contracts.

Part III: The questions in Part III relate to all the other requirements in IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts

Notes to the respondents: *In this Part, "IFRS 17" or "requirements in IFRS 17" or "the Standard" is intended to be referred to all the other requirements in IFRS 17 apart from the* *requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts (your views on the latter requirement are to be covered in Part IV).*

The European Commission and the European Parliament asked EFRAG to provide its views on a number of specific matters, that are presented below.

Improvement in financial reporting

4 EFRAG has identified that, in assessing whether the endorsement of IFRS 17 is conducive to the European public good, it should consider whether the Standard is an improvement over current requirements across the areas which have been subject to changes (see paragraphs 15 to 27 of Appendix III). To summarise, for all the other requirements in IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts, EFRAG considers that they provide better financial information than IFRS 4.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

In overall, IFRS 17 provides better financial information than IFRS 4. However, we still consider that some issues need to be solved as mentioned in § 2(d) and § 3(b):

- Non eligibility of reinsurance contracts to the VFA and reinsurance contracts boundaries.
- Presentation of insurance/reinsurance receivables and payables and collateral deposits.
- Contracts acquired in their settlement period.

As mentioned in § 3(a), we also believe that the changes in the measurement of the TVOG should be further investigated.

Costs and benefits

5 EFRAG's initial assessment is that taking into account the evidence obtained from the various categories of stakeholders, the benefits of all the other IFRS 17 requirements in IFRS 17 exceeds the related costs.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

We do not fully agree with EFRAG´s assessment that IFRS 17 requirements other than those related to annual cohorts will reach an acceptable cost-benefit trade-off, because we believe that many of the requirements of IFRS 17 are highly complex and that the objective of more consistency in financial reporting amongst insurers could have been achieved at a much lower cost. As preparers, we have a good view both of the implementation and running costs of the standard. However, we find it very difficult to quantify prospectively the expected benefits of IFRS 17 either for us, or for the users.

We also would like to highlight the following topics, which should not prevent the endorsement of IFRS 17, but should be carefully followed up and addressed as part of the IFRS 17 Post-Implementation Review (at the latest) or other standards maintenance projects:

- Reinsurance of direct participating contracts is excluded from the Variable Fee Approach (VFA). For proportionate treaties (either held or issued) which by construction transfer a financial risk to the reinsurer, this generates an accounting mismatch with reinsured participating contracts measured using the VFA. This accounting mismatch is not solved by the risk mitigation option and does not reflect the economic conditions of related reinsurance schemes. In addition, including in the reinsurance contract boundaries the projected reinsurance cash flows relating to underlying insurance contracts not yet issued is costly for no material benefit.
- Not separately presenting receivables and payables from the carrying amount of insurance and reinsurance contracts on the face of the balance sheet requires costly modifications to the existing policy management systems and projection models, without providing useful information to the users of financial statements. This issue is also applicable to collateral deposits related to reinsurance contracts, which correspond to a guarantee and not to a prepayment, and thus should not be treated as such.
- We agree with EFRAG that the current and prospective measurement model of IFRS 17 may create a more volatile result that may not appropriately reflect the profitability pattern of certain long-term contracts over time. For insurance contracts measured under the VFA, the change in the measurement of options and guarantees (the "Time Value of Financial Options and Guarantee (TVOG)") is accounted for against the Contractual Service Margin (CSM), which tends to overestimate the short-term effect of the profitability based on the current actuarial methodologies. We remain convinced that this does not adequately reflect the behaviour of long-term contracts under specific and temporary economic conditions. We have observed that, in stressed market conditions, the increase in the TVOG will immediately reduce the CSM of direct participating contracts, overriding their long-term profitability. In that regard, such a downside volatility is procyclical. As already mentioned in our 3 June 2020 letter, had we have to apply IFRS 17 in our interim accounts for the first quarter of 2020, the result arising from those financial statements would probably have limited our financial support to the measures in favour of the French economy. As a consequence, we believe that the accounting treatment of the TVOG required by the standard should be further investigated in connection with in-depth actuarial studies focusing on technical reserves modeling, in order to determine a measurement better reflecting the performance assessment of the savings business.
- Liabilities of insurance contracts acquired in their settlement period in a business combination or a portfolio transfer have to be fully reclassified as liabilities for remaining coverage. This reduces the comparability with similar insurance contracts issued later by the entity and between entities growing organically and those growing through acquisitions.

Other factors

Potential effects on financial stability

6 EFRAG has assessed the potential effects on financial stability based on the ten criteria set out in the framework developed by the European Central Bank "*Assessment of accounting standards from a financial stability perspective*" in December 2006. Based on this assessment, EFRAG is of the view that, on balance, IFRS 17 does not negatively affect financial stability (Appendix III paragraphs 428 to 482).

Do you agree with this assessment?

☐ Yes ☒ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

> The volatility linked with key features of IFRS 17 (i.e. a current and prospective measurement model) may not adequately reflect the behaviour of long-term contracts under specific and temporary economic conditions. This would be the case for direct participating contracts in stressed market conditions where the changes in the TVOG will immediately reduce the amount of the CSM. In that regard, such a downside volatility can be considered as procyclical.
>
> These drawbacks are described and acknowledged in the DEA.
>
> However, we do not fully share the view of EFRAG, that, "on balance", benefits mitigate these drawbacks. EFRAG's DEA refers to improved transparency and comparability in balance sheets (§ 478-479) making possible to investors to more timely react to current market conditions and avoiding an accounting reflection "too little-too late". We rather consider that the accounting representation of such changes could be considered as "too much/too early" (see § 3(a) and 5). Thus, the question is whether the improved transparency compensates the increased volatility in the expected results.

Potential effects on competitiveness

(Appendix III paragraphs 227 to 286)

7 EFRAG has assessed how IFRS 17 could affect the competitiveness of European insurers taking into account the diversity in their business models vis-à-vis their major competitors outside Europe.

EFRAG concludes that the underlying economics and profitability will always be more decisive in taking up a business in a particular region or a particular insurance product than changes to the accounting that is used to report on it.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

> We agree that, at the end, the economics and profitability of a business will be the ultimate decision making arguments.
>
> However, the fact that not all insurers will be subject to IFRS 17, either because they are using other standards (such as USGAAP), or because IFRS are not compulsory to all entities in Europe, may have an effect on competitiveness.

Potential impact on the insurance market (including impact on social guarantees)

8 EFRAG has assessed the potential impact on the insurance market in Appendix III paragraphs 287 to 325.

EFRAG commissioned a study from an economic consultancy. This study ('Economic Study') stated that entities may re-consider both their pricing methodologies and product offers when applying IFRS 17 for the first time. The effect on pricing may be more significant than the effect on product offers. However, EFRAG does not have any quantification of the extent of changes in pricing or product design that would result from it.

As per the Economic Study, a majority of stakeholders interviewed (i.e. supervisory authorities, insurers and external investors) agreed that IFRS 17 alone would not impact the asset allocation of insurance undertakings, because this activity is more driven by risk management and/or asset/liability management.

Furthermore, EFRAG has considered how IFRS 17 could affect small and medium-sized entities (SMEs). EFRAG concludes that the number of small insurers that would be affected by IFRS 17 in producing their individual financial statements is very limited (between 27 and 35 depending on the option chosen based on the proposed[2] EIOPA quantitative thresholds).

(a) Do you agree with the assessment on pricing and product offerings?

☒ Yes ☐ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

We agree with this statement except for the annual cohorts' requirements and their eventual effect on the design of products for long term savings and retirement benefits, mentioned above in § 3(b).

(b) Do you agree with the assessment on asset allocation?

☒ Yes ☐ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

We agree with this statement except for the annual cohorts' requirements and their possible effect on investments in equity and equity-like instruments as expressed below in § 11(i).

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

☒ Yes ☐ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Presentation of general insurance contracts

9 EFRAG is of the view the presentation requirements of IFRS 17 would provide relevant information. EFRAG also concludes that providing separate information for contracts that are in an asset, from those in a liability, position would provide useful information to users. (Appendix II paragraphs 118 to 125, 360 to 362).

Do you agree with this assessment?

[2] Reference is made to EIOPA's publicly consulted Consultation Paper on the Opinion on the 2020 review of Solvency II to amend the thresholds for applying Solvency II.

☐ Yes ☒ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

As already mentioned above in § 2(d) and 3(a), we believe that not separately presenting insurance/reinsurance payables and receivables from the carrying amount of insurance and reinsurance contracts requires significant costs for modifying the IT systems (PMS, cash flow projection tools and data management), without providing relevant information compared to the current presentation of the balance sheet.

In addition, when a reinsurer provides funds as a collateral deposit with the ceded insurer, this deposit is considered as a prepayment which should be offset with the reinsurance liability (for the reinsurer) and with the underlying insurance liabilities (for the ceding entity). This does not correctly reflect the contractual basis of these deposits, which correspond to guarantees to cover a risk of default by the reinsurer, only earned in the occurrence of a credit event, and not to an advance payment.

Interaction between IFRS 17 and Solvency II

10 EFRAG concludes that in implementing IFRS 17, there are possible synergies with Solvency II, but the extent of such synergies varies between insurers. In addition, no synergies are expected for building blocks that are specific to IFRS 17 such as the contractual service margin, which is not an element of the measurement approach for insurance liabilities under Solvency II. Synergy potential is available in areas that have a high degree of commonality under the two frameworks, i.e. the building blocks for the measurement of the insurance liability needed to establish the cash flow projections, and actuarial systems to measure insurance liabilities. The potential depends, to an extent, on the differences in the starting position of insurers and the investments already made in the implementation of Solvency II. It also depends on the amount of effort to adapt existing actuarial systems that were developed for the Solvency II environment, to the IFRS 17 reporting requirements. (Appendix III paragraphs 401 to 412).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Impact of the new Standard on financial stability, long-term investment in the EU, procyclicality and volatility

11 On financial stability, refer to the conclusions in paragraph 6 of this Invitation to Comment.

On long-term investment in the EU, EFRAG's view is that asset allocation decisions are driven by a variety of factors, among which external financial reporting requirements might play some part but do not appear to be a key driver. There is no indication that IFRS 17 in isolation would lead to any significant changes in European insurers' decisions on asset allocation or holding periods (Appendix III paragraphs 96 to 123).

On procyclicality and volatility, EFRAG believes that IFRS 17 has mixed effects on procyclicality. IFRS 17 may result in more volatile financial performance measures because of the use of a current measurement. However, from the evidence collected, it is not likely that this volatility has the potential to play a specific role in producing pro-cyclical or anti-cyclical effects. EFRAG also assesses that IFRS 17 does not have the potential to reinforce economic cycles, such as overstating profits and thus allowing dividends and bonus distributions in good times, as there is no linkage between the accounting equity (cumulative retaining earnings) and amounts available for distributions, which are defined within the requirements of Solvency II or within the requirements at national level, independently from the IFRS accounting. Finally, EFRAG notes that the transparent nature of the IFRS 17 information has the benefit for investors to be able to react timely to any changes at hand, thereby avoiding cliff-effects. (Appendix III paragraphs 483 to 507).

(a) Do you agree with the assessment on long-term investment?

☒ Yes ☐ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

We agree with EFRAG that there is no indication that the application of IFRS 17 in isolation would lead to any significant change in European insurers' decisions on asset allocation. However, the combined application of IFRS 17 and IFRS 9 might lead to such changes.

As long-term investors, French bankinsurers are especially concerned by the prohibition to recycle in profit or loss the amounts accumulated in other comprehensive income (OCI) for equity instruments measured at fair value through OCI. We support the reintroduction of recycling for equity instruments measured at fair value through other comprehensive income together with an appropriate impairment model, and the eligibility of equity-like instruments to the same accounting approach i.e. to measurement methods different from fair value through profit and loss.

The prohibition of recycling creates accounting mismatches with any insurance contracts measured using other measurement methods than the VFA. This prohibition creates a strong incentive to measure equity instruments at fair value through profit or loss even if assets are not held for trading and the entity does not intend to sell them.

This creates a volatility in profit or loss which is not compensated when insurance contracts are measured using the general model. Even for the savings and retirement contracts measured using the variable fee approach (VFA), which recognises an asset-liability linkage, the mechanism of the VFA only provides for an efficient compensation of the changes in the fair value of the underlying assets if the contractual service margin remains positive. This means that sudden brutal unfavourable financial markets evolutions may trigger an immediate loss on the liability side, even if this loss is only temporary and will not affect the fulfilment of its obligations by the insurer.

As such, IFRS 9 is detrimental to the investment in equity and equity-like instruments, particularly for P&C and protection activities or for portfolios in representation of own funds. Accordingly, we cannot exclude the possibility that some stakeholders may envisage to withdraw from these categories of assets to protect their future profit or loss performance at the very time where long term investment is of key importance for Europe as expressed by EFRAG and supported by the insurance industry.

We therefore strongly support the suggestions made by EFRAG in its technical advice of 30 January 2020 to the European Commission regarding the measurement of long-term investments in equity and equity-like instruments. We fully agree with

EFRAG's advice that the European Commission should recommend to the IASB an expeditious review of IFRS 9 in order to reintroduce recycling combined with a robust impairment model. We encourage EFRAG to reiterate these solutions as part of the Post-Implementation Review of IFRS 9 that the IASB has just started.

(b) Do you agree with the assessment on procyclicality and volatility?

☒ Yes ☐ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

We agree with EFRAG that the current and prospective measurement model of IFRS 17 may create a more volatile result that may not appropriately reflect the profitability pattern of certain long-term contracts over time. This would be the case for direct participating contracts in stressed market conditions where the changes in the value of options and guarantees will drastically reduce the amount of the contractual service margin. In that case, it will not be possible to offset a decrease in the fair value of the underlying assets with the CSM, and the contracts will be presented as onerous.

In our opinion, the negative effects on the Solvency 2 measurements for the life and savings businesses observed in the early stages of the Covid-19 crisis are a good illustration of what may have happened under IFRS 17 in the same conditions. Yet the recovery observed later in the financial markets illustrates that such a situation was only temporary.

This is why we consider that the effect on the CSM of a sudden short decrease in the financial markets combined with an increased in the TVOG measurement may not correctly reflect the profitability of long–term contracts when the insurer can hold the assets and is not already required to pay for the related guarantees.

IFRS 17 and IFRS 9

12 EFRAG is of the view that mismatches reported by preparers that contributed to EFRAG's assessment do not arise solely from the application of IFRS 17 and IFRS 9 but are mostly economic in nature. EFRAG considers that reporting the extent of the economic mismatches in profit or loss provides useful information.

In EFRAG's view, asset allocation decisions are driven by a variety of factors and disentangling the impact of accounting requirements from other factors is difficult. When defining the accounting for financial assets under IFRS 9, an insurer would not apply business models determined in isolation, but rather business models that are supportive of or complementary to their business model for managing insurance contracts. EFRAG notes that the interaction between each of an entity's internal policy decisions will determine the importance of any accounting mismatches remaining in the financial statements and this may differ largely from one insurer to another.

EFRAG has assessed the different tools that both standards offer to mitigate accounting mismatches. EFRAG assesses that:

(a) there is no conceptual barrier against the application of hedge accounting in the context of IFRS 17. However, given the lack of experience and systems by the industry, it would require significant investment both in time and systems development to achieve hedge accounting in this context (Appendix III, Annex 5);

(b) the treatment of OCI balances and risk mitigation at transition will not, on balance, negatively impact the usefulness of the resulting information.

(a) Do you agree with the assessment on the application of hedge accounting?

☒ Yes ☐ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

The mechanism of hedge accounting under IFRS 9 / IAS 39 is not fully adapted for insurers who wish to hedge financial risk arising from insurance liabilities, as some hedge accounting requirements are difficult to comply with. However, we are less concerned by this issue than other market players as we are mainly using hedging in connection with financial assets, not insurance liabilities.

(b) Do you agree with the assessment on the treatment of OCI-balances and risk mitigation?

☐ Yes ☒ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

We do not fully agree with EFRAG's conclusion that setting the OCI balances at zero at transition for non-VFA contracts when using the Modified Retrospective Approach or the Fair Value Approach will not, negatively affect the usefulness of the resulting information. However, we do not consider this should hamper the endorsement process.

Application of IFRS 15

13 In some instances, an entity (including insurers) may choose to apply IFRS 15 instead of IFRS 17 to contracts that meet the definition of an insurance contract but that have as their primary purpose the provision of services for a fixed fee. EFRAG concludes that this option would probably be made by those entities that do not operate in the insurance business. EFRAG concludes that for these entities accounting for these contracts in the same way as for other contracts would provide useful information and that applying IFRS 17 to these contracts would impose costs for no significant benefit (Appendix III paragraphs 68 to 76).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Implications of transitional requirements

14 Considering the extent of the information available for each particular group of insurance contracts at transition, EFRAG assesses that the existence of three transition approaches does not result in a lack of relevant information. The alleviations granted under the modified retrospective approach are still leading to

relevant information as they enable achieving the closest outcome to a full retrospective application without undue cost or effort. In addition, EFRAG acknowledges that the possible use of three different transition methods may affect comparability among entities and, for long-term contracts, over time. However, the practical benefits of the modified retrospective and fair value approach, which were introduced by the IASB to respond to operational concerns of the preparers, may justify the reduced comparability (Appendix II paragraphs 129 to 155, 228 to 237, 300 to 303, 372 to 374, 398 to 400).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Impact on reinsurance

15 EFRAG concludes that the separate treatment under IFRS 17 of reinsurance contracts held and underlying direct contracts reflects the rights and obligations of different and separate contractual positions. Furthermore, EFRAG acknowledges that reinsurance contracts issued or held may meet the variable fee criteria even though IFRS 17 states that they cannot be insurance contracts with direct participation features. However, EFRAG assesses that the risk mitigation option would largely address the accounting mismatches, thereby balancing relevant information. In addition, for reinsurance contracts held that are used to recover losses from the underlying contracts, EFRAG considers that the Amendments provide relevant information as they aim at reducing accounting mismatches which is present under the original version of the Standard (Appendix II paragraphs 63 to 74, 210 to 216, 274 to 275, 349 to 352, 395 to 397).

Do you agree with this assessment?

☐ Yes ☒ No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

As mentioned above in § 2(d) and § 3(a), contract boundaries and the non-eligibility to VFA for reinsurance contracts are still to be solved.

Implementation timeline

16 Feedback from the Limited Update to the Case Studies shows that the delay to the effective date of IFRS 17 to 1 January 2023 results in higher one-off implementation costs for preparers. However, the delay is also helping preparers to adjust their project approaches to the operational difficulties of the Covid-19 crisis. EFRAG understands from preparers that they may choose to avoid these costs by revisiting solution designs or may make more use of internal (cheaper) resources. Furthermore, according to the Limited Update to the Case Studies and other feedback from insurance associations, most of the participants did not intend to early apply IFRS 17, whereas a small minority wanted to have this possibility. EFRAG is not aware of any European insurer having taken a firm commitment to early apply the Standard. Finally, EFRAG notes that IFRS 17 requires a presentation of restated comparative information when applying the Standard for the first time. However, IFRS 9 does not have similar requirements for financial assets and liabilities (Appendix III paragraphs and 609 to 613).

(a) Do you agree with the assessment relating to delay of IFRS 17 implementation till 2023?

☒ Yes ☐ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

(b) Do you agree with the assessment relating to early application?

☒ Yes ☐ No

(i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

(ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

17 Do you agree that there are no other factors to consider in assessing whether the endorsement of the Standard is conducive to the European public good?

☒ Yes ☐ No

If you do not agree, please identify the factors, provide your views on these factors and indicate how this could affect EFRAG's endorsement advice.

As mentioned in our cover letter, comparative information is mandatory in the first financial statements prepared under IFRS 17 for insurance contracts. However, for insurers electing to produce IFRS 9 comparative information for financial instruments, only financial instruments still present in the balance sheet as at 1st January 2023 will be measured under IFRS 9. Therefore, for the 2022 comparative period, financial instruments will be disclosed under a mix of IFRS 9 and IAS 39 requirements, which will not be consistent with 2023 data, and will not be relevant for users. Besides, it will be operationally burdensome as both standards will have to be applied concurrently for financial instruments in 2022. One solution would be that, as part of the European endorsement process, a full IFRS 9 comparative information would be allowed for insurers applying IFRS 17 and IFRS 9 simultaneously for the first time. This could be possible with the carve-out of the last sentence of paragraph 7.2.1 of IFRS 9.

Part IV: The questions in Part IV aim at collecting constituents' inputs (Questions to constituents in Annex 1) and views relating to the requirement in IFRS 17 to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts

Notes to the respondents: *Respondents are reminded that responses to this Invitation to Comment will be made public on EFRAG's website. EFRAG is also inviting respondents to share quantitative data and to allow confidentiality of this information, constituents are kindly invited to submit these data separately from the Invitation to Comment. Such quantitative data can be sent to ifrs17secretariat@efrag.org. Only aggregated resulting data will be made public in the subsequent steps of the due process and will be presented in an anonymous way.*

The intergenerationally-mutualised and cash-flow matched contracts are specified in paragraph 6 of Annex A within Annex 1.

18 As stated in paragraphs 5 to 9 of Annex 1:

(a) What is the portion of intergenerationally-mutualised contracts and cash-flow matched contracts of all life insurance liabilities and all insurance liabilities? Please report the results for these two types of contracts separately where relevant.

As mentioned in our answer to the EFRAG limited cased study on IFRS 17 amendments, based on 2019 consolidated accounts of the different participants, the total insurance liabilities amounted to 1,264,905 million euros.

In that total:

- Life and health contracts with direct participation features (includes with-profit contracts) (not unit-linked) amounted to 617,027 million euros (48.8% of total liabilities), corresponding to savings contracts (including the euro component of "multi-supports") with an insurance guaranty, pensions and annuities, and funeral insurance.
- Investment contracts with discretionary participation features amounted to 361,857 million euros (28.6% of total liabilities), corresponding to savings contracts or components in euro without a material insurance guaranty.

All these contracts are intergenerationally-mutualised contracts.

We do not issue cash-flow matched contracts.

(b) Please indicate the proportion of contracts with intergenerational mutualisation (within the context of paragraphs B67-B71 of IFRS 17) for which the requirement around annual cohorts is considered a significant issue. Please specify the share that would qualify for VFA.

As mentioned above, the requirements regarding annual cohorts are an issue for all our life and health contracts and investment contracts with discretionary participation features which are not unit-linked.

(c) Please describe the approach you envisage to implement the annual cohorts requirement to contracts with intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17).

As mentioned above in § 2(b) and 3(b), we consider that any approach set up solely to implement the annual cohorts for intergenerationally-mutualised contracts would be arbitrary and artificial, so that an exception is required (see below § 20). Thus, we cannot comment on the implementation approach.

(d) Please indicate the proportion of cash-flow matching contracts for which the requirement around annual cohorts is considered a significant issue. Please specify how the features of the contracts compare with the description provided in Annex A of Annex 1.

N/A, we do not issue such contracts.

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

N/A

Part V: Questions to Constituents raised in Appendix III

19 As stated in paragraphs 532 to 534 of Appendix III:

(a) In your view, how will the Covid-19 pandemic affect the impacts of IFRS 17 on the insurance market (see a description of some expected impacts in paragraphs 518 to 527 in Appendix III) and indirectly, on the European economy as a whole?

There is a possible risk of procyclical effects of IFRS 17 in adverse market conditions. The market conditions observed at the beginning of the Covid 19 crisis (mid-March 2020) would have led to a significant deterioration of results had IFRS 17 been applied at that date. Such an impact would have deteriorated the accounts to such an extent that insurers would have been limited in their financial support to public mitigation measures taken in favour of the French economy.

(b) Is the Covid-19 pandemic affecting your implementation process for IFRS 17 and IFRS 9? Please explain in detail the impacts such as project ambitions, budget for implementation and ongoing costs, resources, speed of implementation. Please also explain whether this relates to the IT systems implementation, or rather the actuarial or accounting aspects of implementation.

Although the Covid outbreak has added complexity to some implementation projects, it is not to the point of requiring a further postponement of the first-time application of IFRS 17.

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

N/A

Part VI: EFRAG's overall advice to the European Commission

20 Do you have any other comment on, or suggestion for, the advice that EFRAG is proposing to give to the European Commission?

Annual cohorts

Although we recognise that the annual cohorts requirements have some sense for contracts which are priced by underwriting year, we believe that these requirements applied to intergenerationally-mutualised contracts do not provide information that is relevant, reliable or "prudent" because it is not possible to determine objectively how the entity's share of returns should be allocated to each cohort.

As previously mentioned in our answer to the EFRAG case study on the limited amendments to IFRS 17, we continue to believe that the annual cohorts requirements should be removed for these contracts, with no material effect on the information provided by the standard. Otherwise, the allocation of the Contractual Service Margin by annual cohort to comply with IFRS 17 requirements will be costly, may not correctly reflect the economics of these contracts and the way they are managed for legal and contractual purposes, and thus will be of little value for the users of financial statements.

We did support through the active participation of our members both to the French ANC and the CFO Forum proposals to the IASB to find a solution for this issue in the finalisation of the amendments, which were both rejected by the IASB.

At this stage, given the utmost importance for us due to the legal and contractual framework of the French life and savings contracts (as well as similar contracts in Italy and Luxembourg), and considering the materiality of these contracts in our financial statements (978 884 million euros, 77.4% of total liabilities in the 2019 consolidated accounts of the 6 insurers members of the GFBA who answered the EFRAG 2020 case study), we believe that a European solution to this issue should be proposed as part of the European endorsement process, because it should not delay the implementation of IFRS 17 on 1st January 2023 at the latest.

Because this issue is linked to the characteristics of the contracts, if the European Union introduces the previously defined exception, it should apply to all intergenerationally-mutualised contracts, irrespective of their geographical origin, and be limited to those contracts (preventing tainting to other contracts). This exception would be temporary until the IASB itself amends the standard in a way that solves the issue.

Other IFRS 9 related issues

Comparative information

We are satisfied with the IASB's decision to extend the temporary exemption from applying IFRS 9 to annual periods beginning on or after 1st January 2023, in order to enable qualifying insurers to adopt IFRS 9 and IFRS 17 simultaneously. However, on this last point, inconsistencies persist concerning the comparative information required by both standards.

Comparative information is mandatory in the first financial statements prepared under IFRS 17 for insurance contracts. However, for insurers electing to produce IFRS 9 comparative information for financial instruments, only financial instruments still present in the balance sheet as at 1st January 2023 will be measured under IFRS 9. Therefore, for the 2022 comparative period, financial instruments will be disclosed under a mix of IFRS 9 and IAS 39 requirements, which will not be consistent with 2023 data, and will not be relevant for users. Besides, it will be operationally burdensome, as both standards will have to be applied concurrently for financial instruments in 2022. One solution would be that, as part of the European endorsement process, a full IFRS 9 comparative information would be allowed for insurers applying IFRS 17 and IFRS 9 simultaneously for the first time. This could be possible with the carve-out of the last sentence of paragraph 7.2.1 of IFRS 9.

Long-term investment

As described above in § 11(ii), as long-term investors, French bankinsurers are especially concerned by the prohibition to recycle in profit or loss the amounts accumulated in other comprehensive income (OCI) for equity instruments measured at fair value through OCI. We therefore strongly support the suggestions made by EFRAG in its technical advice of 30 January 2020 to the European Commission regarding the measurement of long-term investments in equity and equity-like instruments. We fully agree with EFRAG's advice that the European Commission should recommend to the IASB an expeditious review of IFRS 9 in order to reintroduce recycling combined with a robust impairment model. We encourage EFRAG to reiterate these solutions as part of the Post-Implementation Review of IFRS 9 that the IASB has just started.