

To: Economics and Finance Committee

From: ECOFIN Team

Meeting: 7 December 2018

Reference: ECO-18-119

Subject: Financial Reporting

## Objective

For discussion

## Input requested

Participants will be invited to share information and provide guidance on next steps on IFRS 17 and other Financial Reporting topics

## Summary

On **IFRS 17**, the IASB tentatively decided on 14 November a one-year delay to both IFRS 17 and IFRS 9 and to review areas for improvement in the coming months, including those for which we have called. Getting the IASB to make these moves is already a very significant achievement but it is disappointing that they have only considered 1 year and there are concerns they will consider seriously only a very limited number of small changes. The secretariat has continued to lobby for the IASB to consider all 11 issues identified by the European industry and to extend the delay to two years to allow both sufficient time to address the issues and also to allow the wider range of companies across Europe to implement IFRS 17. A recent survey we ran with members indicates around 800 European companies will need to apply IFRS 17 – far beyond the 80 or so large listed groups on which the IASB focuses attention.

Key messages on IFRS 17 are, while appreciative of the IASB's decision to allow a delay and consider improvements:

- There is a need to address all 11 issues and for a two-year delay both to address the issues with the standard and cope with the operational challenges of implementation.
- The alignment between IFRS 9 and IFRS 17 implementation dates should be maintained for operational reasons and to avoid accounting mismatches.
- The EFRAG field testing and the extensive implementation planning companies have done has produced new information and evidence justifying the need for the delay and improvements to IFRS 17.

On 22 November, the EFRAG Board decided on its final recommendation in response to the Commission's call for advice on recycling for FVOCI equities. As expected, EFRAG will provide a mixed advice to the commission. It is still unclear what the Commission will decide to do with EFRAG's mixed advice at this stage, the secretariat will follow up with the Commission once the official advice is issued.

Key messages on **IFRS 9** are:

- There is a need to allow recycling for equities measured at FVOCI as it the only way to ensure the profit and loss account correctly reflects financial performance of long-term investors.
- We recognise that impairment rules would be needed as part of this and we are in favour of an impairment model similar to IAS 39, not the revaluation model as proposed by EFRAG.
- The recycling rules should also apply to equity-like investments such as UCITS.

The EC, as part of its Action Plan on sustainable finance, called for the creation of a “**European Corporate Reporting Lab**” within EFRAG by the third quarter of 2018 to promote innovation and the development of best practices in corporate reporting. This will include climate-related disclosure in line with the recommendations of the Taskforce on Climate-related Financial Disclosures. Esko Kivisaari from Finance Finland, one of the candidates proposed by Insurance Europe, was selected for the Steering Committee. The Lab’s first meeting was on 27 November.

## Background

### *IFRS 17*

EFRAG sent a letter to the IASB in September highlighting 6 areas of concern where the IASB should consider improving IFRS 17. These 6 issues were all included in the 11 issues raised by CFO Forum and supported by Insurance Europe. EFRAG did not raise the need for a delay with the IASB but after sending the letter they decided to put on hold their endorsement work until the IASB clarified if/how they would respond to addressing these issues. They also indicated to the Commission that even if the IASB decided to take no action leading to a quick restart of the endorsement work, given the amount of work outstanding they would not meet the deadline of year end and would instead only be able to provide their advice in Q2 2019.

After this positive development by EFRAG, Insurance Europe turned its lobby focus on convincing the IASB and following the agreed position reached at the last Executive Committee on IFRS 17 ([ECO-18-080](#)) was able to intensify its lobbying significantly. This included a letter ([ECO-FRG-18-150](#)) to the IASB jointly signed by Insurance Europe and 8 other global associations all calling on the IASB to address the issues identified by the CFO Forum and for a 2 year delay. Our position and the letter were shared with the Commission, Parliament and EFRAG and followed up with meetings and/or informal contact.

Also in October, as they had promised, the CFO Forum sent, to the IASB and EFRAG, solutions to all the issues they have raised. This took significant effort and resource but was important in order to confirm the constructive approach taken by the industry, to demonstrate that the issues raised were solvable and solutions could be agreed upon across the industry. These solutions were presented by the CFO Forum to the Financial Reporting Working Group in October and shared with member companies. The wider industry is overall very supportive of these solutions and a technical call has been arranged in December with the CFO Forum where our members will be able to discuss their feedback and a number of specific areas of potential refinements. In parallel, following a call by EFRAG’s president for other stakeholders to put forward solutions to the 6 issues they raised with the IASB, the French standard setter provided proposals for 3 of the issues and is working on the remaining three. Their proposals are not identical but appear generally compatible with the CFO Forum solutions.

Frustratingly, on 18 October, the ESAs published a joint letter to EFRAG supporting the current IFRS 17 timetable and criticising EFRAG for a lack of transparency in their decision making on IFRS 17. EFRAG responded confirming its intention to keep the endorsement process on hold until they have clarity over the IASB decision on re-opening of the standard. The EC responded to the ESAs with a strong letter of support for EFRAG’s proposed approach and processes. EIOPA also published an analysis of IFRS 17 ([ECO-FRG-18-154](#)), arguing in favour of the current implementation timeline.

In reaction to the EIOPA’s analysis, the secretariat is preparing a Q&A on IFRS 17 and Solvency II to be published on the Insurance Europe website. The aim would be to provide clarification on the need for delay and changes to IFRS 17 implementation and highlight that there are significant differences between the two regimes.

At their October Board, the IASB finally recognised the need to consider improvements to the standard and a delay to the application date. They determined the criteria for evaluating potential amendments and listed the potential areas of change. Encouragingly, this included almost all of the issues raised by the CFO Forum and also sought by Insurance Europe. They subsequently agreed to discuss a potential one-year delay at their November Board meeting.

In a call with the IASB chairman Hans Hoogervorst and the CFO Forum, the secretariat emphasised the need for a two-year delay and how this view was shared not just by European insurers but by the global industry. Although Hoogervorst, potentially accidentally, said that two years would be the absolute maximum possible, he remained firm that only one year was under discussion and that the IASB would consider only changes related to new evidence and reducing the costs of implementation. As well as urging its members to contact their IASB board member to ensure they understood the strong industry views, Insurance Europe made use of a meeting of the Global Federation of Insurance Associations (GFIA) to urge other associations to contact the IASB directly. Many other associations wrote to their IASB Board member ahead of the November IASB meeting.

At the Board meeting on November 14<sup>th</sup>, the IASB agreed to delay both IFRS 17 and IFRS 9 but only by one year. This was done in order to allow time for a limited number of potential changes and to remove uncertainty over the need for delays. The need for more time for operational implementation issues was rejected by the IASB. They also agreed to review areas for improvement in the coming months, including those for which we have called. On 11-13 December, the IASB Board is expected to start analysing the 25 issues which were initially reported in October.

On 6-7 December; the IASB's Accounting Standards Advisory Forum will table on 6 issues with IFRS 17 and consult members to assess whether those issues fulfil the criteria for exploring potential amendments defined at the October IASB Board meeting.

On 13 December, EFRAG will update the ARC Committee on the ongoing endorsement of IFRS 17, and EIOPA will present its report on IFRS 17. EFRAG's endorsement is currently on hold, while the IASB explores potential changes to the standard.

At the time of writing, Insurance Europe is considering co-signing two letters to the IASB. One joint European one with the CFO Forum and another with associations outside Europe to reiterate our position to the IASB ahead of the ASAF and IASB Board meetings. This time an additional message has been included stressing that the testing exercise performed for EFRAG in Europe was unprecedented and has, along with the ongoing implementation projects from companies around the world, provided significant new information and evidence which should be taken into consideration when assessing potential amendments.

### *IFRS 9*

Insurance Europe lobbied for the lack of recycling for equity capital gains to be rectified during the development of IFRS 9 and has since highlighted it as an issue that should be addressed. We thus welcomed the EC's request to EFRAG to consider solutions to this issue and the related issue of recognition of certain equity-like instruments and provided input into EFRAG's work on the topic.

The EFRAG advice was due for mid-2018. Although the EFRAG staff and the technical expert group (TEG) were not supportive of recycling, the Board has decided to continue discussing the topic following remarks from the EC.

On 22 November, the EFRAG Board decided on its final recommendation in response to the Commission's call for advice on recycling for FVOCI equities. While EFRAG recognises that an impairment model needs to be introduced should recycling be allowed for equities measured at FVOCI and show preference for an improved IAS 39 impairment model, EFRAG will not advise for the immediate reintroduction of recycling and modification of IFRS 9. In addition, EFRAG has included an opinion on the reopening of IFRS 9 in its advice which we believe was not part of the Commission's request. It is still unclear what the Commission will decide to do with EFRAG's advice at this stage, the secretariat will follow up with the Commission once the official advice is issued.

On 13 December, EFRAG will present its technical advice on recycling for equities to the ARC Committee.

The EC, as part of its **Action Plan on sustainable finance**, asked EFRAG in June to investigate "alternative" methods of accounting for long-term equity investments by the second quarter of 2019. We welcome the Commission's recognition that using fair value measures can create challenges for an insurer's business model.



We note that although Insurance Europe's position is generally to support using fair value, this has been on the condition that other adjustments are made to avoid the volatility creating problems, such as to the LTG measures and long-term calibrations in Solvency II and the recycling of equity through P&L in OCI for IFRS.

#### Next steps

Key upcoming milestones include:

- EFRAG
  - 18 December: EFRAG Board meeting
- IASB
  - 6-7 December: ASAF Forum
  - 11-13 December: IASB Board meeting
- EC
  - 13 December: Accounting Regulatory Committee (ARC)