

**MEETING OF THE ACCOUNTING REGULATORY COMMITTEE (ARC)
BRUSSELS, 13 DECEMBER 2018**

**AGENDA ITEM V – ENDORSEMENT ADVICE ON IFRS 17 – INSURANCE
CONTRACTS**

This non-paper has been drafted for the sole purpose of initiating a discussion within the ARC about the IASB decision to explore certain amendments to IFRS 17 and its possible consequences for the EU endorsement procedure.

This non-paper does not bind the Commission services to continue the analysis or to initiate any type of action on this matter.

Deferral of the Implementation date of IFRS 17 (and the IFRS 9 deferral option)

On 14 November, the International Accounting Standard Board tentatively postponed the application date of IFRS 17 by one year to 1 January 2022. The IASB also extended the IFRS 9 deferral option for the insurance industry by one year. To become effective, this tentative decision will be subject to a public consultation. The IASB staff paper supporting the discussion is included as appendix [1](#) to this paper.

The deferral follows from a previous IASB decision to consider exploring amendments to IFRS 17 and aims at clarifying the implications on the implementation timeframe of IFRS 17. It precedes a forthcoming deliberation on the extent of the standard setting activities that the IASB may undertake.

The extent of the deferral was primarily driven by the consideration that any delay of the application date by more than one year would disrupt the implementation process of IFRS 17 that some insurers have already started, increase compliance costs and disincentive budgetary allocations.

The IASB decision to extend also the IFRS 9 deferral option by one-year aims at addressing the concerns of accounting mismatches and additional volatility arising from the interaction with the current IFRS 4 standard. However, Board members emphasized the risks of further deferring the financial stability benefits of IFRS 9, especially the enhanced accounting for credit risks (the expected credit loss approach).

According to the IASB Staff, any amendment that the IASB might propose to IFRS 17 will require at least one year before finalization.

Exploration of amendments to IFRS 17

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At its October 2018 meeting, the IASB tentatively reviewed 25 concerns and implementation challenges arising from IFRS 17 (appendix 2). IASB members concurred to explore potential amendments to IFRS 17 at future meetings. The IASB used the following criteria for selecting which of the 25 concerns could be addressed through amendments (appendix 3):

- an amendment may not result in a significant loss of useful information relative to that which would be provided by IFRS 17 and ;
- an amendment may not unduly disrupt the implementation process of IFRS 17.

The table below shows the six out of twenty-five concerns that according to the IASB staff’s preliminary assessment might meet the criteria for amending IFRS 17. For convenience, an indicative correspondence with the concerns identified by the EFRAG Board following its outreach activities with European stakeholders has been added.

	IASB Staff preliminary analysis	EFRAG Board Letter to the IASB
1	Acquisition cash flows for renewals outside the contract boundary	Acquisition costs incurred in the expectation of contract renewal
2	Contractual service margin: coverage units in the general model.	Impact of the CSM amortization on contracts that include investment services
3	Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous.	Reinsurance – Onerous underlying contracts that are profitable after reinsurance
4	Transition – Modified retrospective approach: further modifications	Transition – Extent of the relief by modified retrospective approach and challenges in applying the fair value approach
5	Presentation in the statement of financial position – Separate presentation of groups of assets and groups of liabilities	Balance sheet presentation – Separate disclosure of groups in an asset position and groups in a liability position
6	Scope of IFRS 17 – Loans and other forms of credit that transfer insurance risk	
		Annual cohorts
		Balance sheet presentation – non separation of receivables and/ or payables
		Reinsurance – contract boundary for reinsurance contracts where underlying contracts are not yet issued.

Consistent with the October meeting deliberation, the Staff Papers designed to support the IASB’s 13 December discussion on IFRS 17 (appendix 4) recommend:

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- amending IFRS 17 with regards to the balance sheet presentation of insurance and reinsurance contracts by requiring the separate presentation of portfolios of contracts that are in an asset or in a liability position (appendix 5);
- not amending IFRS 17 to require the separate presentation and measurement of premiums receivables and claims payable ;
- not amending IFRS 17 in respect of the future cash flows included in the measurement of reinsurance contract held (appendix 6).

Q1. What are ARC Members views on the concerns identified by the IASB staff as “eligible” for addressing via amendments to IFRS 17 in terms of relevance and completeness?

Possible implications for the endorsement of IFRS 17

The Commission’s current request for endorsement advice is based on IFRS 17 as adopted by the IASB in May 2017. The timeline set for EFRAG’s endorsement advice was end 2018. The deadline was set assuming a further year needed for endorsement discussions in ARC and the procedural steps. The Commission could then adopt an implementing Regulation for IFRS 17 by end Q4 2019 or early 2020. This would provide companies legal certainty approximately one-year before the implementation date of IFRS 17.

In light of the one-year deferral of the implementation date of IFRS 17 and the additional standard setting activities undertaken by the IASB, the European Commission considers inappropriate to endorse the standard issued in May 2017 separately from any forthcoming amendment that might significantly affect the cost benefit balance of implementing the standard. Should the IASB confirm its willingness to amend IFRS 17, the EFRAG endorsement advice would therefore have to be postponed until the IASB finalizes a revised standard, possibly in the middle of 2020. If the IASB does not complete its forthcoming amendments within a timeframe consistent with both the European endorsement procedure and the one-year deferral of the implementation date, it may be necessary to consider a later implementation date.

Q2. What are ARC members’ views on the implication of the recent IASB decisions on the IFRS 17 endorsement process and timeframe?

European input to the IASB

Furthermore, the IASB may not consider amendments addressing all the major concerns identified as part of the EFRAG impact assessment of IFRS 17. Therefore, the European Union should keep an active stance in the future discussions pertaining to the standard.

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Accordingly, a research project might be undertaken to follow-up some or all of the relevant concerns identified by the EFRAG Board and devise targeted improvements to IFRS 17 with a view to providing input to the IASB's work. The scope of this project might especially encompass the issues raised in the EFRAG Board letter to the IASB that might remain unaddressed. It could also further investigate the interactions between IFRS 9 - Financial Instruments and IFRS 17 and assess more in depth the potential consequences on long-term investments.

Such a project would strengthen the role of EFRAG as the voice of Europe in accounting matters and enhance its ability to engage effectively with the IASB on the technical features of IFRS 17.

Q3. What are the view of ARC members about the priority topics that could be addressed by a future European research project?

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