

Disclaimer: This paper is a working document for the sole purpose of informing discussions with Members of the ARC. Statements and opinions given in this paper are tentative and do not necessarily represent the correct interpretation of current and forthcoming EU legislation. According to the Treaty on the Functioning of the EU, the Court of Justice has the sole jurisdiction to interpret the acts of the institutions of the Union.

AGENDA ITEM VII: IFRS 17 - Input for request for endorsement advice on IFRS 17 Insurance contracts

The IASB published IFRS 17 *Insurance Contracts* on 18 May 2017. As mentioned during the previous ARC meeting in April, we would like to seek views of ARC Members on specific issues to be included in the Commission's request for endorsement advice to EFRAG (on top of the standard assessment of the technical endorsement criteria).

Given the central role of the insurance industry in the economy, proper accounting for insurance contracts is of crucial importance. Acknowledging that the new standard will bring significant changes to existing insurance accounting practices and also the complexity of the new standard, it is envisaged to have two discussions at the ARC meetings in June and September before sending the letter requesting endorsement advice to EFRAG.

We have preliminarily identified the following points that could be included in the request for endorsement advice:

- **benefits:** assessment of benefits resulting from improved quality of financial information, increase in global comparability of financial statements, an accounting level playing-field for companies, increased understanding of the sector by capital providers, possible increased attractiveness of the sector to investors, possible positive effect on the cost of capital of insurers;
- **costs:** assessment of one-off costs of implementing the standard, ongoing costs of application including possible cost savings in case of insurance companies operating in multiple jurisdictions;
- **possible effects on financial stability;**
- **possible impact on competitiveness of European insurance undertakings;**
- **possible impact on the insurance market:** impact on the range of insurance products available to policyholders, the design and pricing of insurance products as well as prospective impact on the demand for various products.

The list is by no means definite or exhaustive. As in the case of IFRS 16 *Leases*, the letter to EFRAG will include a request for an in-depth cost-benefit analysis covering the issues mentioned above. To the extent possible, this analysis should be based on quantitative data. However, given that obtaining such data can prove challenging (likely more challenging than it was in the case of IFRS 16) more focus might need to be put on qualitative evidence.

The European insurance industry hopes to provide us with their feedback at a later stage as companies have worked through their analysis of the new standard. However, they reiterated their concerns they had raised before the standard was issued such as the unit of account for identifying groups of onerous contracts and groups of contracts not likely to become onerous within the same portfolio of insurance contracts and using "annual cohorts" for groups of contracts. If not resolved properly, these concerns should in the view of the insurance industry be considered as part of the endorsement process.

We would appreciate if you could provide us with your input and comments during the meeting in June or in writing following the meeting so that at the following ARC meeting in September we could discuss the final draft of the request for endorsement advice to EFRAG.
