

EFRAG UPDATE

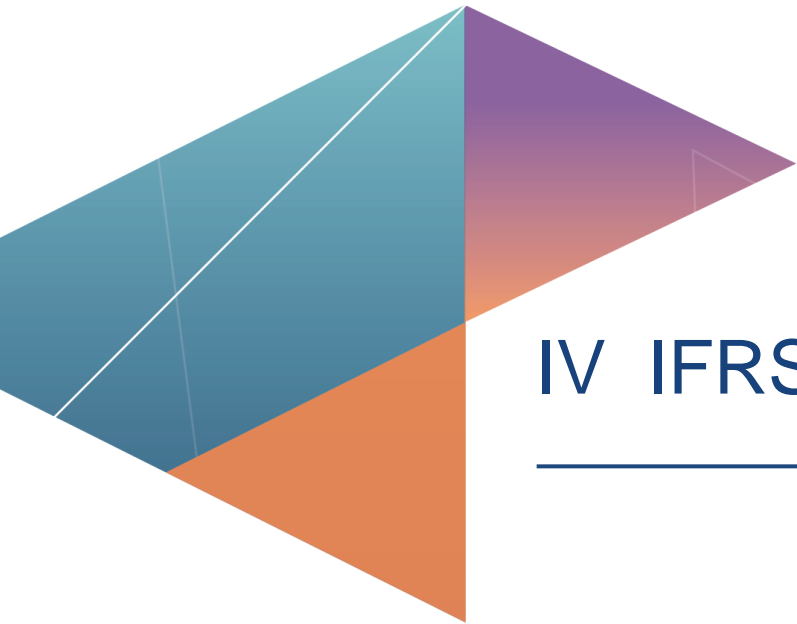
Accounting Regulatory Committee

27 September 2018



European Financial Reporting Advisory Group





IV IFRS 17 *Insurance Contracts*

IFRS 17 – BACKGROUND

IFRS 17 IS THE OUTCOME OF A 20-YEAR PROJECT

- IFRS 17 is intended to replace IFRS 4, today's standard. A new standard is considered necessary because:
 - IFRS 4 was developed as an interim solution and allows a wide range of accounting practices and consequent lack of comparability
 - According to the IASB, investors need better comparability and improvements to existing accounting practices

IMPACT OF IFRS 17 WILL VARY DUE TO DIFFERENCES IN EXISTING PRACTICE

- General themes that will affect many insurers:
 - Significant changes to insurance liabilities
 - Removal of 'deposits' from 'top-line' revenue
 - Changes to the pattern of profit recognition

IFRS 17 is a major change for the insurance industry and implementation will involve significant time and investment

UPDATE ON IMPACT ANALYSIS

INFORMATION SOURCES

- Case studies (11 extensive and 49 simplified)
 - Structured interviews with 27 users of financial statements as well as other inputs from users
 - Presentations to the EFRAG Board by preparers, auditors, users of financial statements
 - Economic study as input into the EFRAG impact assessment
-
- Wide range of one-off cost estimates by large insurers (€6m - €327m, averaging 0.26% of 2017 expenses)
 - Positive views on benefits from investors, mixed reactions by insurers
 - Some indications of anticipated real world effects but quantified data generally not available

UPDATE ON ENDORSEMENT ASSESSMENTS

EFRAG DISCUSSIONS IN PREPARING A DRAFT ENDORSEMENT ADVICE

- Discussions at public meeting have included:
 - Assessment against the technical criteria in the IAS Regulation
 - Issues associated with the European public good:
 - Costs and benefits of IFRS 17
 - Impact on financial stability
 - Impact on the insurance market: competitiveness, product design/mix and pricing
 - Impact on long-term investment

Based on EFRAG's activities to date, EFRAG has decided to raise six topics with the IASB that merit further consideration (in the context of the IASB's expressed willingness to consider issues)

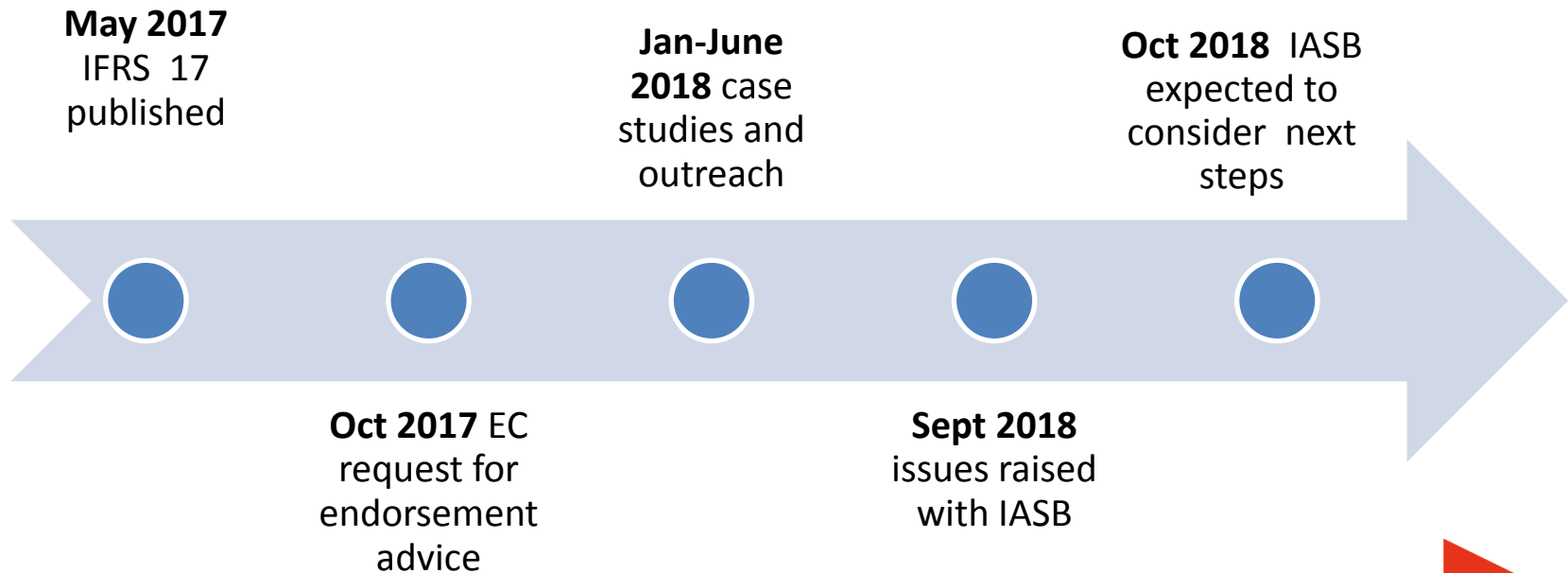
EFRAG'S LETTER TO IASB

ISSUES IDENTIFIED BY EFRAG AND SHARED WITH THE IASB

- Acquisition costs (for costs incurred in expectation of contract renewals)
- CSM amortisation (impact on contracts that include investment services);
- Reinsurance (onerous underlying contracts that are profitable after reinsurance, contract boundary for reinsurance contracts where underlying contracts are not yet issued);
- Transition (extent of relief offered by modified retrospective approach and challenges in applying fair value approach)
- Annual cohorts (cost-benefit trade-off, including for VFA contracts)
- Balance sheet presentation (cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position and non-separation of receivables and/or payables)

The IASB is expected to consider issues (including the above)
at its meeting in October 2018

IFRS 17 – TIMELINE



The timing of EFRAG’s draft and final endorsement advice (and EFRAG’s view on the effective date) depends on whether, when and to what extent, the IASB decides to ‘re-open’ the Standard



V Calls for technical advice to EFRAG

IFRS 9 AND EQUITY INSTRUMENTS

EFRAG IS RESPONDING TO EC'S REQUEST FOR ADVICE ON IMPACT OF IFRS 9 ON LONG-TERM INVESTING

Phase 1 (*problem definition*)

- completed Jan 2018

- Investigation into magnitude of equity portfolios and possible impact of new requirements
- Academic literature review

Phase 2 (*possible solutions*)

- target completion Q3 2018

- Advice on possible improvements to IFRS 9, primarily focusing on 'recycling' and impairment

New EC request

-target completion Q1 2019

- Advice on alternative accounting treatment for equity and equity-like instruments

Constituents' responses to EFRAG's phase 2 Discussion Paper

OVER 50 COMMENT LETTERS RECEIVED WHICH EFRAG WILL CONSIDER IN DEVELOPING ITS FINAL ADVICE

Is action needed?

- Views are split with some expressing support for changes without delay
- Others believe more evidence is needed and oppose Europe-only changes to IFRS

Areas of consensus

- Majority support a solution with both recycling and impairment
- Preference for an impairment solution similar to IAS 39 but with improvements

Where views diverge

- How to improve IAS 39? Trade-off between judgement and consistency

Current status of EFRAG's advice

- EFRAG TEG recommended a draft technical advice in July (by majority vote)
- Draft technical advice acknowledges concerns of some constituents, mainly (but not only) in the financial sector, but does not recommend immediate reintroduction of 'recycling' on the grounds that:
 - Technical arguments for/against 'recycling' seem finely balanced
 - Evidence of real world effects is limited (noting IFRS 9 only effective from 2018 and in 2021 for insurers)
 - Strong consensus that 'recycling' should be accompanied by a robust impairment model but this remains elusive
- Given interaction between this, new EC request and ongoing work on IFRS 17, EFRAG now expects finalise advice in Q1 2019

The EFRAG Board has considered EFRAG TEG's advice but has not yet taken a decision as to EFRAG's final position

Work plan on new EC request

Investigating
scope

- Definition of long-term investment could be based on different criteria
 - expected/actual holding period
 - business model of investor
 - economic linkage between assets and liabilities).

Investigating
alternative
measurement

- Cost less impairment
- Modified cost
- Value in use
- Modified fair value



VI European Corporate Reporting Lab

EUROPEAN CORPORATE REPORTING LAB at EFRAG (European Lab)

- March EC Action Plan Financing Sustainable Growth: called on EFRAG to establish a European Corporate Reporting Lab as part of EFRAG
- Objective: to stimulate innovations in the field of corporate reporting in Europe by identifying and sharing good practices
- European Lab deliverables have no authoritative or normative status
- 12 September: the EFRAG General Assembly approved the establishment of the European Lab within EFRAG
- European Lab: multi-stakeholder Steering Group (the European Lab SG) and project task forces for specific projects (European Lab PTFs)

European Lab is about stimulating innovations
European Lab is not about setting standards or legislation

European Lab SG

- 13 September: call for candidates for European Lab SG members issued with a deadline for applications of 8 October
- Stakeholders of a wide range of backgrounds: including companies of different sizes that publish corporate reports; users (analysts and investors (mainstream and socially responsible investors)); accountancy profession; financial intermediaries; civil society organisations and academics
- The European Lab SG responsibilities include:
 - Setting the agenda of the European Lab
 - Appointing the members of the European Lab PTFs
 - Monitoring project implementation
 - Promoting outputs of the European Lab and mobilising networks
 - Giving direction on external communication
 - Review of progress of the European Lab's activities.

European Lab SG will not approve the contents of the PTF reports

European Lab projects

- The European Lab PTFs are responsible for the project deliverables including the contents of the project reports
- European Lab projects:
 - Initial focus: non-financial reporting including sustainability reporting
 - Early projects may include climate-related disclosures and environmental accounting
 - In the medium term: integrated reporting, digitalisation and innovations in various other aspects of corporate reporting
- Evaluation of the European Lab after three years

Public consultation including outreaches, surveys and other forms of stakeholder engagement are essential for the project work

Next steps

- 8 October: applications for the European Lab SG membership
- 6 November: Approval of composition of the European Lab SG by the EFRAG General Assembly
- mid November: publication of composition of European Lab SG
- 27 November: first meeting EFRAG European Lab SG followed by stakeholder reception
- Q1 2019: first European Lab PTF operational

European Lab established in Q3 2018 and operational in Q1 2019



EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.



EFRAG
Aisbl - ivzw
35 Square de Meeüs
B-1000 Brussel
Tel. +32 (0)2 210 44 00
www.efrag.org

