



## IFRS 17 – Next steps

CFO Forum

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## IFRS 17 Next steps: the upcoming ED

The CFO Forum and its member companies invested significant time and effort in the field testing of IFRS 17. This resulted in a list of issues and related proposed solutions. These have been considered by the IASB but, based on recent IASB Board meetings, it is expected that these will only be partly addressed.

The CFO Forum continues to believe that addressing these issues will significantly improve the quality of IFRS 17. It would result in better and more understandable financial reporting and/or reduce the implementation complexity and cost.

Therefore, the CFO Forum will analyse the upcoming IASB Exposure Draft of amendments to IFRS 17 against the list of issues and solutions and comment on all areas where further improvements to IFRS 17 can be achieved.

## IFRS 17 Next steps: the EU endorsement process

At the same time, members of the CFO Forum understand that the endorsement process in the EU is increasingly focussing on a compromise solution that would focus on a smaller subset of the current issues.

It is generally acknowledged that if further changes are not made to the Exposure Draft (ED), it is unlikely that substantive changes could be made subsequently via the consultation process. It is equally acknowledged that, in order to get more changes into the ED, we will need strong European pressure and that is only realistic for a small subset of issues.

Therefore, the CFO Forum selected a subset of key issues that should be the focus of the discussions around endorsement in the EU.

## IFRS 17: Selection of key issues

- The 11 issues presented by the CFO Forum are all of material importance to at least some members of the Forum. Different issues are a key priority to different members of the Forum, based on differences in geography, product and/or history. Therefore, issues cannot be prioritised based on importance. However, the CFO Forum agreed to select a subset of key issues on the following basis:
  - these are issues that are not being addressed by the IASB based on latest discussions;
  - these issues are of widespread relevance to the entire industry; and
  - resolving these issues provides the most benefit in terms of implementation complexity and cost.
- This results in 2 key issues: Transition and Level of aggregation
- Furthermore, it is believed that significant additional benefits to complexity and cost can be achieved by addressing a number of items included in 'presentation

# IFRS 17: Negotiations on key issues

The CFO Forum plan to conduct the following steps to lobby for solutions to the key issues:

- Liaise with Insurance Europe and EFRAG to obtain their respective support to the CFO Forum prioritising a limited number of issues.
- Meet with Alain Deckers (European Commission) to progress the selected key issues.
- Dependent on the approach of the Commission, discussions with the IASB are to be re-established.
- For those issues which are not prioritised, detailed feedback will be provided to the ED post publication.

# Required solutions for selected issues

## 1. Transition

*The CFO Forum would request the IASB to extend the relief available to enable wide spread capability to use to the modified retrospective model and remove requirements to allocated contracts between separate profitability groupings.*

*There would also need to be an extension of the ability to set cumulative OCI on liabilities on transition equal to the cumulative OCI balance on the underlying assets to all insurance contracts, rather than just those measured using the VFA approach.*

*This change is required as the restrictive nature of the modified retrospective approach makes it not possible to apply in a number of areas and this is likely to lead to increased use of the fair value approach.*

# Required solutions for selected issues

## 1. Transition (continued)

*Increased use of the fair value approach impacts the level of comparability between the basis of reporting for in force business at the date of application of IFRS and that for subsequent new business*

*The relevance of the fair value approach vs a retrospective approach is dependent on the characteristics of the contracts and application of the fair value approach can present challenges.*

*The absence of the ability to set OCI as the cumulative OCI balance on the underlying assets for contracts that are measured by the General Model will distort financial information on transition and impact future financial reporting.*

# Required solutions for selected issues

## 2. Level of aggregation

*The CFO Forum would request the IASB to remove the requirement to group contracts by annual cohorts, under the condition that contracts issued in different years would be in the same profitability group.*

*This change is required as the current prohibition to aggregate contracts issued more than one year apart results in groupings that are inconsistent with the way firms manage their business. This is particularly evident where mutualisation between different generations of policyholders exists. The current proposed standard also requires the capture of cash flow and other data at an annual cohort level and subsequent annual updating of output at each reporting period.*

# Required solutions for selected issues

## 3. Presentation

*The CFO Forum would request that the IASB make changes in 2 areas. These are items which do not impact the consolidated results of insurance groups, but would eliminate differences between solo statutory IFRS 17 results and the results included in the Group consolidation, hence eliminating the need for dual accounting processes. The 2 areas are:*

- the issue that differing reporting frequencies between Group and solo (e.g quarterly of semi-annually for the group and annually for the solo entity) have an impact on the annual results.*
- the issue that classification of contracts differs between Group and solo reporting for the same insurance business.*