

Comments on IFRS 17 in view of ECON exchange of views with IASB, 18/02

- **Europe is the biggest user of International Financial Reporting Standards (IFRS) in the world, and applies not only to listed companies but in many member states is used for statutory reporting.** Since 2005, European regulation has required IFRS for consolidated reporting for all insurers that have shares or bonds listed on regulated exchange markets. In many other large markets (USA, Japan) IFRS is not mandatory. However, significantly more insurers are affected by IFRS across Europe because many countries have opted to permit or require all companies, including unlisted insurers of any size, to apply IFRS. In fact, IFRS is mandatory for unlisted companies consolidated financial statements in over half the EU member states.
- **The European insurance industry remains committed to the development of high-quality financial reporting standards and supports the IASB's process for finalising IFRS 17 amendments.** Insurers have made significant contributions to the development of IFRS 17 'Insurance contracts' and are engaging significant efforts and considerable resources into its implementation.
- **Insurers require accounting standards that appropriately represent their business model in order to offer appropriate products and services to customers and continue to act as long-term stable investors into the economy.** This means additional effort needs to be made to ensure the standards recognise that insurance is a multiyear, long-term business, is based on portfolios and not single contracts, has assets and liabilities that interact, has risk and risk mitigation as core activities rather than side-effects.
- **While the industry broadly supports the goals of the IASB,** the IFRS 17 standard published in May 2017 was not good enough and **changes were needed** to achieve suitably high-quality global accounting standards that provide meaningful, consistent and reliable financial reporting and avoided excessive implementation costs.
- **In its [Motion for a Resolution \(MfR\)](#) of June 2018, the European Parliament called on the European Commission and EFRAG to consider the specific aspects and impact of IFRS 17 on the insurance sector and potential effects on financial stability and competitiveness.**
- **Following the European field testing of the standard organised by EFRAG, the insurance [industry](#) identified a number of important issues that needed to be addressed and proposed solutions to them. The industry also called for implementation to be postponed to 1 January 2023** to allow time for the IASB to make the necessary improvements to the standard and to allow enough time for the wide range of European insurers affected to implement the standard. In September 2018, [EFRAG](#) also called for a number of changes to the standard and more recently identified **2023 as the realistic effective date.**
- **The EP's MfR, together with EFRAG's technical feedback, had a significant impact on the IASB and they recognised the need to re-open the standard to improve it.** This was very welcome and some improvements have been proposed and a delay of one year to 2022.
- **However, important areas remain to be addressed** including two of the three priority issues identified by the industry and which are also issues from the EP MfR and identified by EFRAG (See Annex 1). The industry and in some cases auditors have highlighted flaws in the IASB's justification for taking no action on some of the issues.
- **We believe the European Parliament's MfR played an instrumental part** in the IASB decision to re-open and improve IFRS 17, **and the EP should continue to further stress the need for the outstanding issues they raised to be fully addressed – in particular level of aggregation, transition and timing.**

Annex 1: IFRS 17 issues – comparative analysis

The annex below offers a comparative analysis between the issues raised by the [industry](#), by the European Parliament in its [Motion for a Resolution](#), and by [EFRAG](#) – and the IASB’s proposed amendments through the re-deliberations process to date.

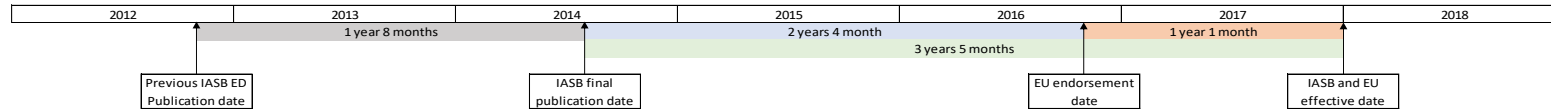
Issue	Industry issues	EP Motion for resolution	EFRAG issues	IASB: Current situation
Level of aggregation (Annual Cohorts)	X (Priority)	X	X	To be decided Feb-20
Transition	X (Priority)	X	X	To be decided Feb-20
Presentational issues (incl interim financial statements)	X (Priority)	X	X	Largely addressed
Reinsurance	X	X	X	Largely addressed
CSM amortisation	X		X	To be decided Feb-20
Acquisition cash flow	X		X	Largely addressed
Scope of hedging (risk mitigation option)	X		X	No change
Scope of VFA model vs GMM vs PAA	X			No change
Discount rates	X			No change
Multi-component contracts	X			Partially addressed *
Business combinations	X			No change
Interaction and mismatch between IFRS 9 and IFRS 17	X	X		To be decided Mar-20
Timing	X	X		To be decided Mar-20

* While some welcome changes are expected, the issue of contract of “contracts that change over time” is outstanding.

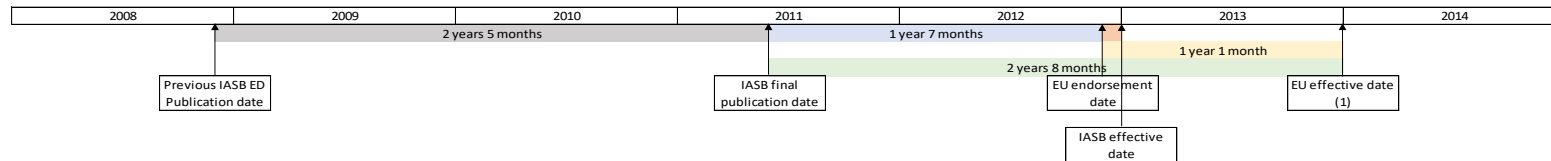
Annex 2: IFRS Endorsement timelines

Annex 2 compares IFRS 17 to other IFRSs endorsed in Europe and shows how keeping the effective date to 2022 will not allow enough time between the adoption and application of the standard. A similar situation occurred with IFRS 15 – and Europe decided to grant an additional year at EU level. However, it is strongly preferable for the IASB to set a globally consistent effective date to 2023, rather than a European solution.

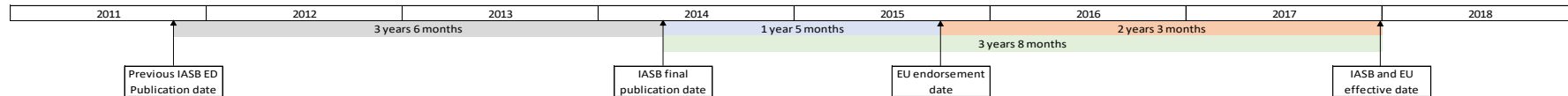
IFRS 9 - Financial Instruments



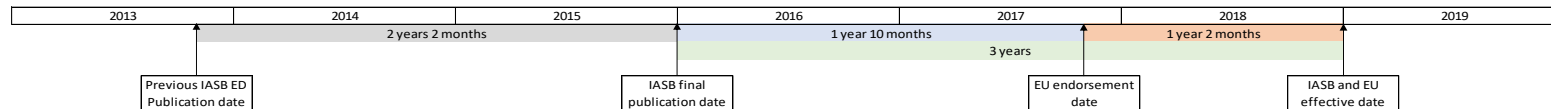
IFRS 10 - Consolidated Financial statements



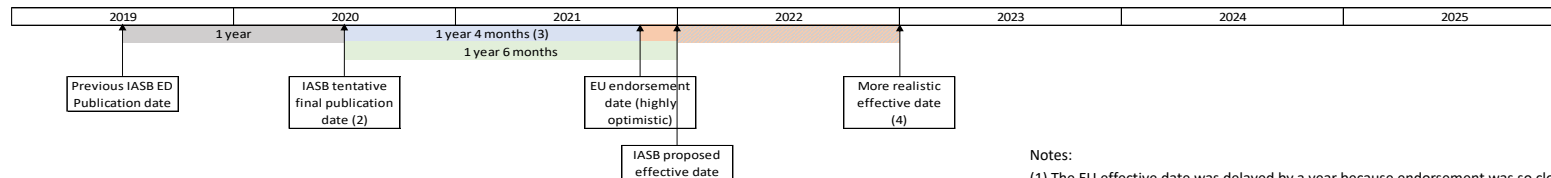
IFRS 15 - Revenue recognition



IFRS 16 - Leases



IFRS 17 - Insurance Contracts



Notes:

- (1) The EU effective date was delayed by a year because endorsement was so close to the IASB effective date
- (2) The IASB refers to 'mid-2020'. That could be later than June 2020, thus pushing forward the likely EU endorsement date
- (3) The EC has indicated that the absolute minimum interval is 16 months between IFRS publication and EU endorsement
- (4) The EFRAG comment letter on the IASB's June 2019 ED says "EFRAG disagrees with 1 January 2022 as the effective date. EFRAG considers that 1 January 2023 is a realistic effective date, with early application permitted"