

## Financial Reporting Working Group

Meeting date: 9 December 2019

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European  
Commission

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Insurance Europe: Anna Vidal (FRWG Vice Chair), Hugh Francis (FRWG Vice Chair),

### 1. IFRS 17

- The secretariat introduced the topic, explaining our stance on the IASB process and proposed changes. The secretariat expressed disappointment on specific areas the IASB decided not to consider further such as principle-based relief for transition and the risk mitigation option for the GMM. The secretariat also noted that the IASB will re-deliberate on the level of aggregation for mutualised contracts, reinsurance and interim reporting among others, which are welcome.
- The Vice Chair of the FRWG explained that companies had committed significant resources into their IFRS 17 projects, and that the IASB had the opportunity to make reasonable changes which will improve the standard while making it less expensive to implement. He also expressed concerns on the IASB ability to treat topics in the time allocated (December to February). He finally asked whether the Commission was engaging with the IASB at the moment on the re-deliberation process.
- The Commission indicated that they were not directly engaging with the IASB and that the IASB would be working on targeted transition relief based on the examples included in the comment letters to their ED consultation and asked if the examples the industry had given covered all the areas of concern.
- The secretariat said the transition issues are quite specific and varied across European companies and that is why the industry sought a general solution. It is not clear if a series of specific solutions, which is the approach that the IASB plans to consider, will be able to solve enough of the problems, but the industry will examine the examples.
- The Commission shared that it would probably be useful to provide examples to the IASB showing difficulties with transition.
- A concern was raised by the industry members that IASB have recognised some concerns as valid but have indicated that they can and/or will be addressed by providing education material rather than any changes to the text of the standard. One particularly clear example was given to the Commission relating to “contracts which change nature over time” – where auditors have made clear that only a change in the text would address the issue and that educational material would not allow them to deviate from the wording of the standard.
- On the issue of risk mitigation under the general model, the secretariat pointed out the IASB had decided not to take this further and in their basis for conclusion stated that this was because insurers can use hedge accounting to avoid accounting volatility. However, the industry considers this incorrect because using hedge accounting is problematic and often is not possible. A technical note on this has been provided to the EFRAG from the CFO Forum and at discussions on this topic at EFRAG auditors confirmed that hedge accounting does not work well for insurance liabilities. The Commission understands that certain issues are put aside as part of EFRAG’s compromise position. They also suggested that the industry provide examples to EFRAG to better explain the issue.
- On the limited update to the EFRAG case study, the secretariat noted that, discussion is still underway within the industry, there were some concerns over the timing as the studies are currently scheduled to start before the IASB has completed their deliberations and before the final text is known and stressed

the importance of having a quality endorsement process and that the endorsement process should not be driven by EFRAG's perceived need to facilitate early implementation. The Vice-Chair also noted the importance of having wide industry participation in this exercise.

## 2. IFRS 9 - recycling and impairment

- The secretariat noted that ESMA's comments, against allowing recycling, at the EFRAG conference in early December appeared to be based on concerns about problems experienced during the 2007 financial crisis. However, the problems they refer to were caused by the lack of a consistent approach to impairment and not to recycling and the industry had already agreed that stricter impairment rules would have to be introduced with recycling to address this issue.

## 3. Update of the Non-Financial Reporting Directive

- The secretariat explained the industry's position on data requirements and availability, noting that company ESG data and assessments would need to come from companies themselves. Data needs to be made available easily, in digital standard format to minimise costs. The industry does not wish to have intermediaries develop an expensive business model around this.
- The Commission shared that they will consult on a revision of the NFRD to address the issue of data availability. They said that the issue naturally fitted into the NFRD as it concerned Non-Financial information. The commission agreed that the data should be made publicly available, and that the commission was working to make all data more easily available. On auditing and scope, the commission is still looking at options, nothing is decided yet. Two studies are currently taking place to help the EC, one by CEPS (for the which the secretariat has been contacted) and one by Tilman Lueder (DG FISMA) on the relationship between ESG data and ratings and a cost/benefit of the mandatory nature of ESG disclosures. DG FISMA has already started work on the impact assessment and expects to issue a proposal by the end of 2020. They shared that the Green New Deal would have an impact on their work.