

Financial Reporting Working Group

Meeting date: 03-02-2021

Time: 11h00-12h00

Reference: ECO-FRG-21-029

European
Commission

Alain Deckers, Claude Bocqueraz, Erik Van Der Plaats, Mirosław Tadajewski

Insurance Europe:

Roman Sauer (FRWG Chair), Hugh Francis (FRWG Vice Chair), Anna Vidal (FRWG Vice Chair), Sophie Massol (FRWG Vice Chair), Olav Jones, Philippe Angelis

1. IFRS 17

- Olav Jones recapped the content of the letter with our IFRS 17 position and annual cohorts solution, which Insurance Europe shared the day before the meeting. Olav explained our proposed solution and how a European carve out can be found. The proposed solution builds on ideas and suggestions developed in the past by the ANC, ICAC and the CFOF. The letter also includes an example of another idea discussed.
- The Commission described the endorsement timing, the EFRAG endorsement advice is expected by the end of March. There is still some pressure to endorse as quickly as possible, but they don't feel that there is a huge clamour for early application. In any case, they understand that the industry seeks a decision as quick as possible to have clarity. The first deadline for early appliers would be Q1 2022 for publishing quarterly results which means there is maximum 12 months to endorse the standard. This is very ambitious (the IFRS 9 endorsement took 18 months). they noted that the European Parliament adopted a resolution on IFRS 17 in 2018, but that the IFRS permanent team has been disbanded since – and questioned whether IFRS 17 is very high on MEPs priorities. They suggested that we get in touch with them ahead of the ARC discussions to prepare them. This would help the EC move as fast as possible after EFRAG's Final Endorsement Advice is received.
- A member of the EC Accounting Unit explained that there are two dimensions to be considered: the work on the potential carve - out and the endorsement procedure. The Commission needs a mandate from ARC and support from the Parliament to officially present a carve out solution. Also, work on a potential carve out cannot start before the EFRAG Final Endorsement Advice is issued. He confirmed that the Commission has started thinking about potential solutions, and that **what we proposed in our letter is in line with what they've been working on**. Instead of a reference to B101 requirements, **they are currently thinking of a reference to contracts with direct participation features** (which is defined in appendix A and uses the same criteria as B101). He shared that the EC has been reaching out to understand national regimes. He shared that they felt that **the industry could find better ways to explain the issue of Spanish cash flow matched contracts**. He suggested we use another opportunity to discuss detailed questions on suggested solution.
- A member of the EC Accounting Unit noted that it is important to emphasize the investors' perspective in our work. We should include the potential impact on investors in our outreach activities.
- Olav Jones welcomed the invitation to have an additional meeting to discuss details of our solution, and we will look into better explaining point (b) of our solution. The industry has started the outreach process with Parliament, and we will continue to do so.
- Roman Sauer explained that the solution presented was also the consensus position of the CFOF, and emphasised the need to ensure a smooth endorsement process.

- Hugh Francis stressed the strong desire to respect the 2023 effective date – he also noted that a 12-month endorsement is ambitious, but that clarity is needed.
- A member of the EC Accounting Unit asked if the carve out was made optional, to what extent would it help dual listed companies. Sophie Massol argued that the option would have to be applicable throughout insurance groups, in particular for those who have subsidiaries in countries where full IFRS is required. Roman Sauer said that the benefit would be much bigger for some companies if a global solution had been found, and we still hope that ultimately a solution is found at IASB level. Hugh Francis explained that there are way less dual listed companies today compared to 8-9 years ago.
- A member of the EC Accounting Unit asked about the IFRS 17 endorsement process in the UK, and whether an exception would be sought too. Hugh Francis explained that very few UK companies would want to apply the exception as annual cohorts is less of an issue in the UK.
- A member of the EC Accounting Unit shared that **EFRAG would be asked to provide a limited update on IFRS 17 at the 23/02 ARC meeting**, but no further discussion is expected. Member states views will most likely be sought at the ARC meeting in April but a vote is not expected. The earliest the Commission could present a solution to ARC is at the June meeting.

2. Non-Financial Reporting

- Olav Jones shared the comments we made on the PTF NFRS outreach event ([ECO-FRG-21-019](#)).
- A member of the EC Accounting Unit shared that the deadline to both the NFRS PTF and the EFRAG president's ad personam mandate had been extended to the first weeks of February. The EC is still planning to adopt the proposal for the NFRD by the end of March. The EC cannot afford to delay as it would have an impact on data needed for the SFDR, which will be applicable as of March 2021. He agreed with our points on proportionality and scope. He shared that other DG had been keen to add things to the NFRD, which he tried to avoid. The work by DG JUST on Due diligence is one initiative which may be included in NFRD. Again, the NFRD will constitute Level 1 measures – and will only include the topics which should be covered, Level 2 legislation would be for the Standard Setter to fill in. On the interaction with the international level, he doesn't see it as a choice between the two. He did stress the urgency in Europe for a strong legal framework to make sure the Taxonomy and SFDR can be applied. In terms of timing, he noted that the IFRS Foundation was aiming at proposing something ahead of COP 26. He doubts that they will come up with something that meets from information needs from SFDR and Taxonomy. He also regrets that the IFRS Foundation doesn't seem in line with the EU in terms of materiality. Again, Europe cannot wait for the IFRS Foundation to have sustainability standards - cannot wait for COP 26.
- Olav Jones shared our views on the IFRS Foundation consultation on Sustainability Standard Board ([ECO-FRG-20-196](#)).
- A member of the EC Accounting Unit added that climate reporting is a low hanging fruit, which is already covered in the TCFD. He underlined that it gets more complicated once you move to other areas (Governance and Social).

3. IFRS 9

- A member of the EC Accounting Unit welcomed that the IASB started with classification and measurement – but regrets that the IASB indicated that, should they decide to reintroduce recycling, it wouldn't be in place before 2023. He added that even if the timing of the PIR does not work with the IFRS 17 effective date, nothing would in theory forbid the IASB to provide amendments in several phases. This could potentially

accelerate the reintroduction of recycling (in case the IASB decides to, which is far from obvious). However, there would need to be strong pressure from stakeholders, including from the EC.

- A member of the EC Accounting Unit said they would keep the IFRS 9 PIR under close review.

Annex: Selected IFRS 17 extracts

Appendix A:

Insurance contract with direct participation features

An **insurance contract** for which, at inception:

- (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

B101: Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

- (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs B105–B106);
- (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph B107); and
- (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph B107).