

Financial Reporting Working Group

Meeting date: 6 November 2018

Time: 14h30 - 16h00

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European
Commission

Alain Deckers, Caroline Wellemans, Alexandre Dubois, Erik Van Der Plaats,

Insurance Europe: Dr. Roman Sauer (FRWG Chair), Anna Vidal (FRWG Vice Chair), Hugh Francis (FRWG Vice Chair),

1. IFRS 17

- Roman Sauer explained that the industry has developed solutions to the issues raised following the EFRAG case study exercise. He explained that the solutions developed by the CFO Forum were generally supported by Insurance Europe. He also reminded the EC that Insurance Europe, together with 8 other global insurance associations have sent a letter to the IASB supporting the issues raised by the CFO Forum and asking for a delay of 2 years in the application of the standard.
- Hugh Francis explained that the IASB's November Board agenda paper propose a delay of 1 year in application and dismiss the operational issues raised by the industry.
- Roman Sauer went on to explain that the IASB put forward 25 issues with the standard in its October Board meeting, and defined criteria for evaluating potential amendments to the standard. An issue the industry is currently facing is that the evidence behind the 11 issues raised by the CFO Forum during the testing exercise sits with EFRAG, and the IASB does not have access to this evidence. The industry is thus offering individual meetings with the IASB to present some evidence supporting the issues.
- Alain Deckers agreed that there are concerns with the due processes at the IASB. He mentioned that Hans Hoogervorst recognised that if EFRAG is able to conduct an impact assessment, the IASB should be able to do the same. Alain went on to suggest that a cultural change might be needed at IASB level. He agreed that a 1-year delay would compress the process which would somehow have to be rushed – a two-year delay would make things more comfortable.
- Roman Sauer stressed the importance of having a very concise first phase in assessing the issues at the IASB – and that the IASB shouldn't rush the discussion on timing but look at the issues first.
- Alain Deckers asked why it was so important to have IFRS 17 and IFRS 9 implemented simultaneously. Olav Jones responded that the IASB agenda paper supports the logic, and that the IASB has agreed on simultaneous application in the past.
- Alain Deckers then referred to the current IASB work on the impairment of goodwill, and stressed that the IASB is somehow admitting to having been wrong in IFRS 3.
- Hugh Francis pointed out that the operational concerns with IFRS 17, which are being dismissed by the IASB, are especially important for smaller insurers.
- Erik van der Plaats mentioned Hans Hoogervorst's outing on IFRS 9 application for insurers in the October IASB meeting. He asked Roman Sauer why alignment was so important when he understands that Allianz is already prepared for IFRS 9. Roman responded that it is important to have consistent disclosures and policies – and to minimize time series changes, and thus favour a "big bang" change with both IFRS 17 and IFRS 9. In addition, the two standards are linked for insurers, as one measures insurers' assets and the other liabilities. Both standards bring more fair value principles which make sense when applied together. Applying one without the other would create mismatches. Hugh Francis added that insurers' assets and liabilities are managed together – and that applying IFRS 9 without IFRS 17 would bring confusion in the market.

- Alain Deckers then asked what the issue was with transition methods and asked whether providing comparatives constitutes a challenge for insurers. Olav Jones replied that removing the comparatives requirement would offer relief but would not solve the issue. Hugh Francis went on to explain that the full retrospective approach is difficult to use due to data constraints, the fair value approach brings inconsistent numbers and that the modified retrospective approach has some wording problems which the CFO Forum solution is trying to address.
- Alain Deckers asked whether the industry tried to engage with the IASB on the EFRAG field test. Roman Sauer responded that they haven't had much time to engage with the IASB since the testing results came out in July – but that the CFO Forum would speak with Hans Hoogervorst on the phone on 7 November and offer technical meetings to exchange on testing results.
- Alain Deckers then mentioned the EC response to the ESA's letter to EFRAG on the IFRS 17 endorsement process, where the EC defends EFRAG and state that the EFRAG field testing should be an example for the IASB.
- Hugh Francis expressed his surprise concerning EIOPA's analysis of IFRS 17, specifically on their analysis of the impact on European public good, which is EFRAG's responsibility. Olav Jones added that the attack from the ESA's on EFRAG's lack of transparency is unfounded. Alain Deckers pointed out that EIOPA recognises in its paper that there are some issues with IFRS 17.
- Referring to the IASB October meeting, Olav Jones stressed that the results from EFRAG's field test and the information coming out of implementation project constitute new information for the IASB. Olav went on to remind the EC that the industry supports the need for a new standard, but it needs to be good enough.
- Alain Deckers said he was surprised that a minority of products were accounted for under the BBA, as shown in the EFRAG case study. Anna Vidal responded that this varied across jurisdiction and products, and that in some countries the BBA might be used for a majority of products.
- Alain Deckers mentioned that EFRAG had brought up 6 of the CFO Forum's 11 issues to the IASB – and that the industry will need to be pragmatic in its expectations of changes to the standard. Olav Jones noted that some issues are easy to solve, and the industry is sticking to the 11 issues. Those need to go through the IASB process of discussion and resolution. Hugh Francis pointed out that the industry is not trying to fight the standard but a proper, robust discussion at the outset needs to take place.

2. IFRS 9 - recycling and impairment

- Olav Jones started by saying that the argument EFRAG is putting forward that allowing recycling for equities would lead to abuses does not stand. Olav went on to explain the Insurance Europe position on recycling and explained why the issue is more significant in some markets than others. Olav explained that the lack of recycling would create accounting mismatches and that EFRAG was reluctant to advice in favour of recycling to avoid having to change IFRS 9 at IASB level.
- Erik van der Plaats responded that EFRAG would probably come out with a mixed advice. He also mentioned that he wouldn't rely on the IASB fixing the issue as part of the post implementation review of IFRS 9.
- Alain Deckers asked about the economic significance of the issue and on the aggregate impact on equity investments by insurers. He mentioned that insurers only hold 8% of equity on average. Olav Jones responded that insurers are one of the biggest institutional investors in Europe, and that even a 1% change in equities held would have a significant impact on the market.
- Alain Deckers noted that at this point the EC is expressing its opinions (on both IFRS 9 and 17) through EFRAG and consider this a matter of credibility for EFRAG.

3. EC Fitness Check

- Alain Deckers explained that the results of the Fitness Check would be made available before 30 November. He shared that Alexandre Dubois is looking at disclosure consistency between Solvency II, IFRS 17, etc...

- Caroline Wellemans invited us to flag any reporting inconsistency between the various frameworks in the EU. She stressed that the objective here is to streamline reporting, but will be tackled by the next Commission.
- Alain Deckers noted that the analysis for this Fitness Check would not be as granular as the one on supervisory reporting. He also explained that they were exploring potential models of reporting for the future (including ESEF, integrated reporting, etc...)

4. AOB

- The secretariat will organize the next meeting with the EC in January