

Financial Reporting Working Group

Meeting date: 19 February 2019

Time: 16h00 - 17h00

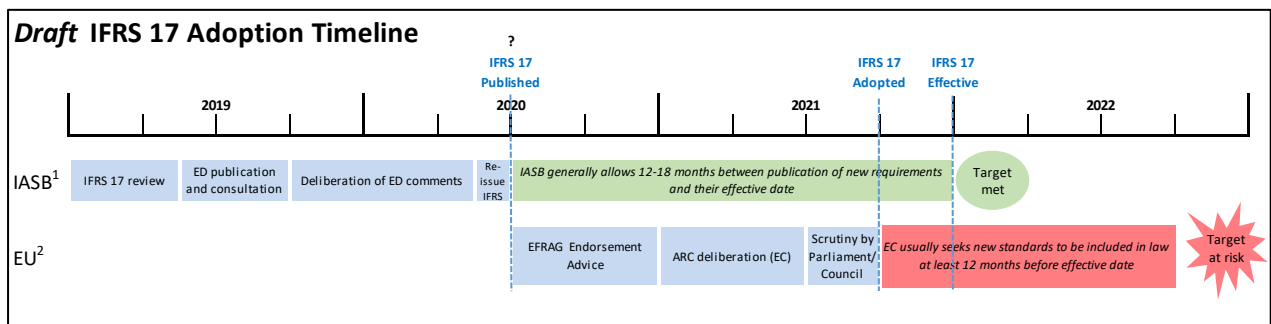
Reference: ECO-FRG-19-036

European Commission
Claude Bocqueraz, Alexandre Dubois, Erik Van Der Plaats,

Insurance Europe: Dr. Roman Sauer (FRWG Chair), Anna Vidal (FRWG Vice Chair), Hugh Francis (FRWG Vice Chair),
CFO Forum Willem van den Berg (Aegon – Chair of the CFOF Steering Committee)

1. IFRS 17

- Olav Jones described the timeline which was discussed at the 19 February FRWG, highlighting that while it is possible that the IASB could publish the final standard before mid-2020, the endorsement process time estimate are, based on our understanding rather optimistic:



- Erik Van Der Plaats noted that IFRS 17 was a big standard, and that the European endorsement process would probably take more than 5 quarters (as shown in the draft timeline). In addition, he noted that a few weeks should be added after the Parliament scrutiny period for the Commission pass the standard in EU legislation. He noted that the speed of the EU endorsement process would depend on the extent of pushback from member states and the extent to which the IASB is willing to change the standard. Finally, he noted there was no requirement to endorse the standard 12 months before application date but noted that the standard needed to be endorsed as early as possible to give companies clarity.
- Alexandre Dubois noted that based on the past ARC meeting discussions, he did not expect a smooth endorsement process at EFRAG and ARC level.
- Olav Jones explained that although the industry was happy that the IASB had accepted to reopen the standard, only a couple of the industry issues had been addressed so far, as laid out in the factual analysis Insurance Europe prepared.
- Hugh Francis pointed out that while the IASB has tentatively agreed to reopen some parts of the standard, considerable uncertainty remains as the text changes have not been provided. He also explained that auditors, actuaries and regulatory authorities (ANC for example) have also come up with solutions but that those had not been considered by the IASB – which seems to be more in a “delivering” mode rather than a “listening” mode and they were adopting a ‘de minimis’ change approach. This was clearly shown by the factual analysis by issue and sub topic which Olav referred to which we had been finalising today and we would share with the Commission. The more issues that the IASB addressed

during 2019 before the revised standard was finalised the smoother and more timely the endorsement process would be.

- Willem van den Berg noted that the CFO Forum was invited to the EFRAG TEG to present solutions to the 6 EFRAG issues. The CFO Forum will give an indication of the implications of not solving the issues raised by the industry through the EFRAG case study. Some CFO Forum companies managed to meet with the IASB to share part of the case study results, but many were frustrated that the IASB didn't consult widely before putting forward changes. The CFO Forum focus was on achieving improvements to the standard to address the issues identified by industry
- Alexandre Dubois went on to say that he did not expect the ARC Committee to react positively to the limited IASB amendments. He noted that the topics of presentation, reinsurance and transition were either not addressed or very small changes had been proposed by the IASB. He also noted that some ARC members have expressed support for the initial IASB timeline and seem eager to see the standard applied as soon as possible.
- Roman Sauer pointed out that it would be preferable to be able to comment on all areas in the standard where there are issues – which would not be the case if the IASB ED only offers the possibility to comments on the areas the IASB put forward tentative amendments. He also noted that the link between IFRS 9 and IFRS 17 is a crucial issue for insurers, and that mismatches should be avoided.
- Erik Van Der Plaats noted that the German and Dutch ARC members seemed very happy with the IASB proposed timeline. Olav Jones reminded the Commission that the Insurance Europe position is still that a 2-year delay is needed. On timing, he also noted that one solution could be to allow for a 2-year delay in application, with an early adoption option.
- Olav Jones pointed out that in the case of mutuals, the IASB has created a problem by issuing an educational material because they didn't consult widely enough to ensure all fact patterns were taken into account.
- Olav Jones went on to explain that the argument the IASB is using to justify that insurers need to apply IFRS 9 as soon as possible because it could lead to the next financial crisis is simply unfounded - insurers in Europe have to report under the Solvency II regime, which requires to apply fair value measures to their assets. In addition, the delay of IFRS 9 for insurers came with significant additional disclosures, which insurers comply with.
- Finally, Olav Jones noted that the current process at the IASB level allows for a last push to improve the standard and justify its very significant cost – the use of non-GAAP measures to adjust for issues in the standard would simply damage the project and cannot be seen as a solution.

2. IFRS 9 - recycling and impairment

- The secretariat noted that the EFRAG advice on recycling had been discussed in the December ARC Committee – and decided that they would wait for the advice on alternative measures of equity before taking a decision on next steps.
- Erik Van Der Plaats asked which business model justified the need for recycling, and how would one define long term investment, from a policy making perspective.
- Olav Jones explained that what differentiates insurance from other industries is that they typically hold long term, illiquid liabilities and have significant sources of liquidity. This means that they can avoid forced selling. Therefore, the short-term asset value volatility is not relevant for performance measurement but realised capital gains are – hence the need for recycling. He noted that the discussions need to be separated into two separate issues – the first is ensuring that IFRS rules allow meaningful performance measurement. The second issue is what policy steps can encourage long-term/infrastructure/sustainable investment etc. Allowing recycling would remove an unnecessary barrier for equity investment in general – this includes sustainable investment but is not, and should not be, limited to just those investments. To incentivise a shift to sustainable investment the Commission should look into other policy actions and should distort performance measurement.

- Erik Van Der Plaats encouraged the industry to respond to the upcoming EFRAG consultation and to provide clear explanations. Alexandre Dubois noted that EFRAG TEG members were reluctant to offer any alternative to Fair Value measurement for listed equities.
- Olav Jones replied that under the CMU, the focus was on fostering investment in equities, which include green equities. Recycling allows for a truthful presentation of insurers' performance without adding artificial volatility to the P&L.
- Erik Van Der Plaats suggested that if EFRAG doesn't come up with a viable alternative to recycling in the second call for advice, the Commission might decide to back the recycling solution.

3. EC Fitness Check

- Claude Bocqueraz reaffirmed that the Commission's non-paper would be released in June 2019.
- Erik Van Der Plaats indicated that it was a bit too early to say what would be in the report – which would offer a description of the current state of play in the field of company reporting and would highlight the areas where there are issues to address but noted that they cannot make explicit recommendations for the next Commission.

4. Sustainable Finance – TEG on Disclosures

- Claude Bocqueraz shared that the Commission would launch a consultation on the update of the NFRD's non-binding guidelines on 20 February and noted that the consultation would be open for 1 month. The Commission's intention is to bring a supplement to the existing guidelines before the summer.