

To: Financial Reporting Working Group

From: Philippe Angelis

Meeting: 19 February 2019

Reference: ECO-FRG-19-028

Subject: IFRS 17 – FRWG 19 February 2019

## Objective

For discussion

## Comments

Insurance Europe has, since the summer, been supporting the CFO Forum's call for IASB to address the 11 areas of key concern and we have called for a 2-year delay – both to provide the time to make the necessary improvements but also to give all companies sufficient time for implementation. Six out of the 11 areas were also highlighted by EFRAG in a letter to the IASB. One of the areas of concern appears to have been addressed through Transition Resource Group (TRG) decision, leaving 10 remaining priority areas. Insurance Europe has been engaging with the Commission, EFRAG, IASB and Parliament while working closely with the CFO Forum and coordinating with other associations worldwide to provide a united industry message to the IASB.

The industry has been successful in forcing the IASB, in October, to accept that improvements are needed and to delay IFRS 17 (and IFRS 9 for insurers), although only for 1 year rather than the two Insurance Europe is pushing for. Key messages on IFRS 17 remain:

- There is a need for a two-year delay to fix the 11 issues with the standard that need addressing and cope with the operational challenges of implementation.
- IFRS 9 should be implemented simultaneously with IFRS 17 for operational reasons and to avoid accounting mismatches.
- The EFRAG field testing and the extensive implementation planning companies have done has produced new evidence justifying the need for the delay and improvements to IFRS 17.

Since December, the IASB have been using their monthly Board meetings to work through a list of 25 issues they selected from those raised by various stakeholders and make tentative decisions on whether any changes are needed. The 25 issues cover the areas of concern identified by the European industry, but also includes changes the industry does not want – for example calls from the ESAs to reduce flexibility on setting discount rates for valuing liabilities.

At the time of writing the IASB has made recommendations on 23 of the 25 issues and covering 10 of the industry's priorities. So far, we have a fully positive outcome on two of our priorities (deferred acquisition cost and multi-component contracts). Four other issues (reinsurance, presentation, scope of hedging adjustment and CSM release) have partial improvements and four have been rejected (Use of locked-in discount rates, business combinations, transition and scope of the VFA model). Fortunately, the IASB has rejected changes sought by other stakeholders that we would not want. The IASB Board meeting in March will be used to finalise the review process and discuss the topic of level of aggregation as well as presenting potential solutions to the risk mitigation exception on transition and the treatment of credit card products. While the



IASB's positive proposals are welcomed, it is disappointing that they appear to be ignoring many areas of concern.

In December, the EC's Accounting Regulatory Committee (ARC) discussed the timing of the endorsement process. It provided an indication that the Commission shares some of the industry's concerns. The secretariat's understanding is that ARC was supportive of EFRAG working proactively on the six issues it identified to the IASB and discussed that a further deferral to the application of IFRS 17 could occur if the amendments proposed by the IASB are not completed quickly enough.

At EFRAG level, the IFRS 17 endorsement process remains paused until there is clarity on the changes the IASB will propose and there the standard is stable enough to resume endorsement. Following the ARC discussions, there is disappointment that EFRAG is not engaging more actively on the 6 issues they raised.

In reaction to the ARC meeting discussions, EFRAG has reactivated the IAWG, which has been asked to provide feedback on the IASB Board decisions on amendments to IFRS 17. This feedback will be shared to the TEG and the EFRAG Board and be used as input in the EFRAG response to the IASB Exposure Draft (expected by H1 2019) and EFRAG Draft Endorsement Advice (expected by H1 2020).

Insurance Europe will be attending in late February a meeting with the EFRAG Chair organised by our Ecofin Chair. This meeting will allow us to discuss and encourage a more proactive approach from EFRAG on the issues raised, help us understand the EFRAG staff and Board sentiment and identify how best to make use of a presentation the CFO Forum will make to the EFRAG Board in March.

In addition, the secretariat has learnt that the European Parliament (EP) is organising a hearing with Erkki Liikanen, Chair of the IFRS Foundation Trustees on 26 February. This is an important engagement opportunity given the close alignment between the industry concerns and the EP Motion for Resolution (MfR) on IFRS 17. The secretariat has prepared a comparison table to show MEPs how the IASB has responded to issues raised by the European Parliament, EFRAG and the industry ([ECO-FRG-19-026](#)). Once members will have agreed on a final version of this document, the secretariat will issue a memo for action encouraging members to coordinate lobbying actions and share our comments with MEPs.

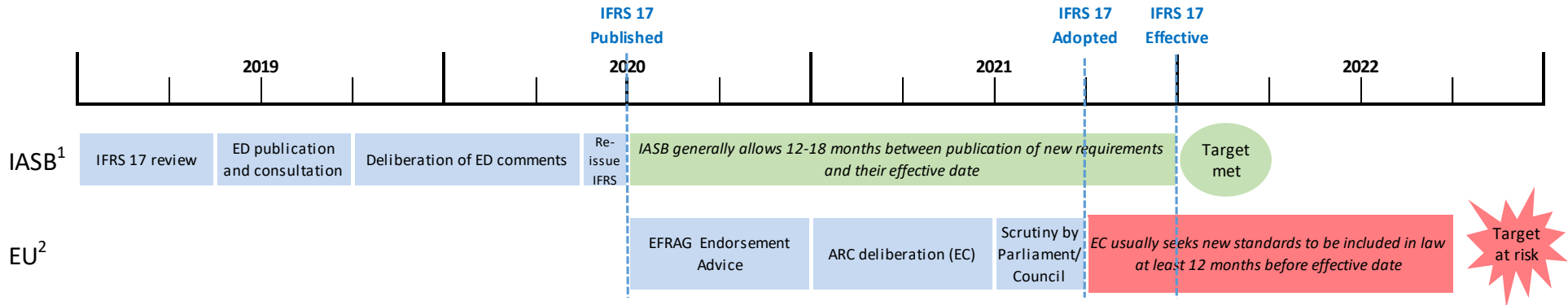
Getting the IASB to make some changes is already a significant achievement but it is disappointing that many of our 11 areas of concern have been so far disregarded or only partially addressed. Clearly more work is ahead to secure all the improvements we need and to extend the delay to two years.

In order to clarify lobbying actions over the next few months, the secretariat has put together a draft IFRS 17 adoption timeline, which can be found in annex. The timeline was built using conservative assumptions on the time ARC will take to discuss endorsement and assumes that the IASB will be allowed to shorten the consultation period for the exposure draft to 90 days (instead of the standard 120 days). Members are invited to provide feedback on the secretariat's draft timeline.

#### Next steps

- EFRAG
  - 27 February: EFRAG Board meeting
  - 28 February: EFRAG IAWG meeting
- IASB
  - 19-20 March: IASB Board meeting
- EP
  - 26 February: ECON debate with IASB

## Draft IFRS 17 Adoption Timeline



<sup>1</sup>There is some risk to the ED timeline of June 2019, however, the revised Standard may still be published by June 2020 provided that the final changes to the Standard address key issues raised by stakeholders to date. Based on the above, it appears that even a 3- to 6-month delay would still provide sufficient time for IFRS 17 adoption from the IASB's perspective.

<sup>2</sup>However, there is more than a remote risk to the EU adoption by 2022. EFRAG must await the re-issuance of IFRS 17 before publishing its DEA, which is followed by consultation with its stakeholders before a Final Endorsement Advice can be issued. EU parliamentary process to make IFRS 17 law may take at least 6 months. EC informally requires 12 to 18 months' lead-time for adoption of a major Standard after it becomes EU law. The risk to these endorsement and adoption timelines increases if EFRAG and its key stakeholders feel that the IASB did not sufficiently address the package of issues they raised with the IASB on September 3, 2018.