



EFRAG Update

IFRS 17 Insurance Contracts DEA

Preliminary summary of feedback received

ARC 23 February 2021

Disclaimer

The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Where we are in the EFRAG process

- EFRAG DEA issued for comments on 29 September 2020
- Comment period ended 29 January 2021
- No official EFRAG position on how the DEA will change to address comments
- Discussion and approval process of the FEA planned in March 2021
- Contents in this presentation refer to the comment letters received by EFRAG which are public and can be found on EFRAG website

Overview

- EFRAG DEA
- Overview of respondents
- True and Fair View
- European public good
- Other questions wrt European public good



EFRAG DEA

IFRS 17 consensual advice apart from annual cohorts

EFRAG Board has concluded on a consensus basis that, apart from the requirement to apply annual cohorts to intergenerationally-mutualised ('IGM') and cashflow matched contracts ('CFM'), on balance, all the other requirements of IFRS 17

- meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support 'economic decisions and the assessment of stewardship
- raise no issues regarding prudent accounting
- do not create any distortion in their interaction with other IFRS Standards and that all necessary disclosures are required
- EFRAG has concluded that all the other requirements of IFRS 17 are not contrary to the true and fair view principle
- all the other requirements of IFRS 17 would improve financial reporting and would reach an acceptable cost-benefit trade-off
- EFRAG assesses that all the other requirements in IFRS 17, on balance, are conducive to the European public good.

Annual cohorts

- Nine EFRAG Board members consider that overcoming in a timely manner the issues of IFRS 4 brings sufficient benefits despite the concerns on annual cohorts. They believe that, in the absence of an alternative principles-based approach to grouping of contracts, on balance the annual cohorts requirement provides an acceptable conventional approach that enables to meet the reporting objectives of the level of aggregation of IFRS 17.
- Seven EFRAG Board members consider that in many cases in Europe the requirement to apply annual cohorts for IGM and CFM contracts will result in information that is neither relevant nor reliable.
 - This is because the requirement does not depict an entity's rights and obligations and results in information that represents neither the economic characteristics of these contracts nor the entity's underlying business model.
 - These EFRAG Board members also consider that this requirement is not conducive to the European public good because it:
 - (i) adds complexity and cost and does not bring benefits in terms of the resulting information,
 - (ii) may lead to unintended incentives to change the way insurers cover insurance risks and
 - (iii) may produce pro-cyclical reporting effects

Contents required by the Commission and Parliament

- Benefits compared to existing situation including consistent and understandable reporting
- Clarity of scope of VFA to provide understandable information
- Pattern of release of CSM (contractual service margin)
- Specificities of the insurance sector
- Potential effects on financial stability, competitiveness and insurance market
- Cost-benefit analysis
- Views from EBA and ESMA
- Presentation of general insurance contracts
- Interaction between IFRS 17 and Solvency II
- Impact on long-term investment in the EU, procyclicality and volatility
- Application of IFRS 15 as well as transitional requirements
- Impact on reinsurance
- Annual cohort requirement



Overview of respondents

Overview of respondents

By country

	No.
Austria	1
Belgium	1
Europe	7
France	6
Germany	5
Global/Europe*	7
Italy	6
Poland	1
Spain	2
UK	1
Total	37

By type

	No.
Actuarial organisation	4
Government	1
National Standard Setter	4
Preparer	15
Professional organisation	8
Regulator	2
User (2 user organisations)	3
Total	37

By type of response

	No.
Invitation to comment	24
Letter	13
Total	37

* Refers to global organisations with a European presence, e.g., global auditing firms



IFRS 17 DEA - True and fair view

Responses to True and Fair view questions: overview

- **Question 2a:** Do all the other requirements in IFRS 17, apart from the application of annual cohorts to IGM and CFM contracts, meet the technical requirements?
- **Question 2b:** Do the requirements in IFRS 17 relating to the application of annual cohorts to IGM contracts meet the technical requirements?
- **Question 2c:** Do the requirements in IFRS 17 relating to the application of annual cohorts to CFM contracts meet the technical requirements?

	“Yes”	“No”	Both “Yes” and “No”	No answer ¹
Q2a: Criteria met for all other requirements?	24 (1 user, 1 EUO)	3	2	8 (1 IUO)
Q2b: Criteria met for annual cohorts relating to IGM contracts?	10 (1 user)	18 (1 EUO)	-	9 (1 IUO)
Q2c: Criteria met for annual cohorts relating to CFM contracts?	9 (1 user)	7 (1 EUO)	-	21 (1 IUO)

¹ This refers to no response provided (either in ITC or letter) or marked as not applicable

IGM: intergenerationally-mutualised contracts **CFM:** cashflow-matched contracts

IUO: International user organisation **EUO:** European user organisation

Reasons for NO: requirements apart from cohorts

- Several issues to be addressed in a Post-Implementation Review of IFRS 17
- IFRS 9 and 17 introduce artificial P&L and solvency ratio volatility for financial conglomerates
- The transition requirements do not meet the qualitative characteristics
- Not clear whether EFRAG recommends the adoption of IFRS 17 as a whole or whether IFRS 17 fails to meet the adoption criteria.

Reasons for NO: cohorts (1 of 3)

Intergenerationally-mutualised contracts

- The annual cohort is not the level at which an entity is able to determine profitability
- For contracts for which the entity's management can contractually exercise its discretion, there will be, after their initial recognition, a subjective determination of a cohort's CSM
- Requirement does not faithfully reflect the investment service to the policyholders/ will significantly reduce the usefulness of reported information
- Use of judgement to such an extent that it results in information neither reliable nor comparable
- An entity is unable to perform a rational allocation of FCF – and thus, to determine a CSM at a cohort level – after the initial recognition of a group of contracts
- An entity is unable to rationally allocate the changes in the amount of its share of the fair value of the underlying items between annual cohorts
- The annual cohort requirement has no added value with regard to the contracts that include a financial guarantee which reduces the payments to policyholders in other groups of contracts
- In periods of financial stress, the risk of reflecting a different accounting reality than the economic substance is higher
- In the absence of a proper solution, the increased volatility, relating to investors' invested capital no longer being stable over time

Reasons for NO: cohorts (2 of 3)

Intergenerationally-mutualised contracts (continued)

- Distorted representation of the CSM, impossible to determine objectively the allocation of cash flows to the cohorts – artificial allocation / artificial allocation of assets by contract generation / difficult for auditors to challenge compliance due to arbitrary criteria and judgement
- When the cash flows are contractually or legally determined jointly for all policyholders, there is no reason to track the profitability of contracts at a lower level of granularity. There is no onerous contract until the portfolio as a whole becomes onerous
- Implementation and operational costs will not provide any benefit / No solution will increase significantly the cost of preparing the financial reporting
- Could influence the way insurance coverage system is organised and lead to a change in the pricing and/or in the design of insurance products for sole accounting purposes
- Does not reflect economic reality
- The most commonly shared and relevant unit of account that would lead to comparable and understandable figures is the group of contracts without annual cohorts
- Contracts of a portfolio are contractually or legally sharing the overall returns of the same pool and not granular / all the contracts within the Segregated Funds managed as a single set
- A number of disclosures can be used to replace the annual cohort requirement

Reasons for NO: cohorts (3 of 3)

Cash flow matched contracts

- A reduced number of contracts in the cohort with a different profile composition will generate more variability in the adjustments in the CSM and increase the scope for “onerous” cohorts
- Annual cohorts will not result in information that is either relevant or reliable. The cash flow matched contracts are associated with a pool of assets. The assets are regulated and, managed in a separated way from the rest of the company (specific to Spain)
- The annual cohorts for such contracts will significantly reduce the usefulness of reported information.

Responses to True and Fair view questions: reasoning

	No. of respondents
No delay to IFRS 17's effective date of 1 January 2023	20
No EU-specific modification	16 ¹
In favour of annual cohort solution (total) of which:	21
• In favour for both IGM and CFM contracts	12
• In favour for IGM contracts	8
• Contracts not specified	1 ¹
Annual cohort solution should be optional	9
No view on annual cohorts	1

¹ A user organisation provided a majority view (IFRS 17 unchanged) and a minority view (solution for annual cohorts).

IGM: intergenerationally mutualised contracts **CFM:** cash flow matched contracts

Reasoning by type of respondent

	Actuaries	Govt.	NSS	Preparer	Prof. org.	Regulator	User	Total
No delay to 2023 effective date	1		2	10	5		2	20
No EU-specific modification	1		1	3	7	2	2 ¹	16
In favour of annual cohort solution	3	1	3	11	1		2 ¹	21
- <i>In favour for both IGM and CFM</i>	1	1	3	6			1	12
- <i>Om favour for IGM contracts</i>	2			5	1			8
- <i>Unspecified</i>							1 ¹	1
Annual cohort solution should be optional	2	1		6				9
No view on annual cohort issue				1				1

¹ A user organisation provided a majority view (IFRS 17 unchanged) and a minority view (solution for annual cohorts).

IGM: intergenerationally-mutualised contracts

CFM: cashflow-matched contracts

IOU: International user organisation

EUO: European user organisation

Reasoning by country of respondent

	AT	BE	Europe	ES	FR	DE	Global/ Europe	IT	PO	UK	Total
No delay to 2023 effective date		1	2	1	4	4	6	2			20
No EU-specific modification		1	3			4	7	1			16
In favour of annual cohort solution	1		4	2	6	1	1	5	1		21
- <i>In favour for both IGM and CFM</i>			3	2	2	1		3	1		12
- <i>Om favour for IGM contracts</i>	1		1		4			2			8
- <i>Unspecified</i>							1				1
Annual cohort solution should be optional	1		4	1	1			1	1		9
No view on annual cohort issue										1	1

IGM: intergenerationally-mutualised contracts

CFM: cashflow-matched contracts

Further information provided by respondents

Prevalence of IGM and CFM contracts in Europe

- In **Italy**, IGM contracts amount to 72% of the total life technical provisions as of 30 September 2020.
- In **France**, the annual cohorts requirement is an issue for **all** life and health contracts and investment contracts with discretionary participation features which are not unit-linked.
- Annual cohorts are an issue for 89% for contracts where the matching adjustment is applied in **Spain** (CFM contracts).

Indicating support for early adoption

	Actuaries	Preparer	Total
By respondent type	1	3	4

	Belgium	Germany	Spain	Total
By respondent country	1	2	1	4



IFRS 17 DEA - European public good

Responses with regard to European public good

- **Question 3a:** Are all the other requirements in IFRS 17, apart from the application of annual cohorts to IGM and CFM contracts, conducive to European public good?
- **Question 3b:** Are the requirements in IFRS 17 relating to the application of annual cohorts to IGM contracts conducive to European public good?
- **Question 3c:** Are the requirements in IFRS 17 relating to the application of annual cohorts to CFM contracts conducive to European public good?

	“Yes”	“No”	No answer ¹
Criteria met for all other requirements?	24 (1 user, 1 EUO)	2	11 (1 IUO)
Criteria met for annual cohorts relating to IGM contracts?	9 (1 user)	17 (1 EUO)	11 (1 IUO)
Criteria met for annual cohorts relating to CFM contracts?	8 (1 user)	8 (1 EUO)	21 (1 IUO)

¹ This refers to no responses being provided (either in ITC or letter) or marked as not applicable

IGM: intergenerationally-mutualised contracts **CFM:** cashflow-matched contracts

IUO: International user organisation **EUO:** European user organisation

Reasons for NO: all requirements apart from cohorts

- Three transition approaches impair comparability
- Imbalance between the benefits and costs of the annual cohort requirement
- Remaining PIR issues (including mismatches that arise at transition under fair value approach, CSM amortization, scope of hedging and interaction with IFRS 9)

Reasons for NO: cohorts for IGM

- Additional costs do not outweigh benefits in terms of financial reporting improvements
- Methods to determine the information on an annual cohort basis may not be comparable
- The annual cohort requirement may not depict an insurer's profitability faithfully
- Increased volatility in the profit or loss results
 - complexity in reporting and communication of the financial results
 - insurers may withdraw products or increase their prices
- May have to do asset-liability management on cohort level which would be inefficient
- Risks procyclical reporting effects
- Risk that the cost of implementation will affect the policyholders
- The annual cohort requirement introduces inconsistency with the contractual terms and asset management
- The information is costly to be understood
- Stakeholders (including sophisticated users) are not very interested in the expensive Solvency II results
- Lower aggregation cuts across management, pricing and risk-management decisions - inappropriate outcome
- The requirement is inconsistent with the business model and how these contracts are designed and managed.
- Adds unnecessary complexity and could disincentive these savings contracts
- Design of insurance products, financial asset management policy and current coverage system could be impacted while approved by the regulator

Reasons for NO: cohorts CFM

- Annual cohort requirement is an issue relating to all insurance contracts, but specifically relevant to contracts with risk sharing between generations and cash-flow matched contracts over different generations
- The requirement combined with the persistent low interest rate environment could discourage the sale of these contracts in favour of unit-linked type products.
- The annual cohort requirement is not justified and inconsistent with the insurance business principles and would lead to artificial variability in the adjustments of the CSM in senior cohorts and increases the scope of potential onerous cohorts.
- IFRS 17 will not adequately reflect the economic nature of these contracts



Other questions on European public good

Other questions: reasons for disagreement (1 of 5)

	Agree with EFRAG	Disagree with EFRAG	Both “Yes” and “No”	No answer ¹
4. Improvement in financial reporting	25 (3 users)	3	2	7
5. Costs and benefits	18 (1 user)	3 (1 EUO)	1	15 (1 IUO)

¹ This refers to no response provided or marked as not applicable

IOU: International user organisation

EUO: European user organisation

Q 4: Improvement in financial reporting

- Different methodologies and judgement required: CSM allocation, risk adjustment calculation and VFA eligibility
- Disclosures should be only of material items to avoid excessive details
- Mismatches that arise under fair value approach, CSM amortisation, reinsurance, multi-component contracts, interaction with IFRS 9 and business combinations
- Calculation of regulatory capital requirements of conglomerates
- IFRS 4 already allows current estimates and an allowance for risk; IFRS 17 complexity is unnecessary

Q 5: Costs and benefits

- Costs outweigh benefits of increased comparability and relevance due to complexity; would worsen if no solution for annual cohorts
- Very difficult to quantify and measure the benefits of IFRS 17
- Significant proportion of the implementation costs has already been incurred
- Costs relating to the implementation of the annual cohort requirement leads to a negative assessment, but the benefits of other requirements exceed the related costs

Other questions: reasons for disagreement (2 of 5)

	Agree with EFRAG	Disagree with EFRAG	Both “Yes” and “No”	No answer ¹
6. Financial stability	20 (1 user, 1 EUO)	3	-	14 (1 IUO)
7. Competitiveness	22 (1 user, 1 EUO)	-	-	15 (1 IUO)
8a. Pricing and product offerings	22 (1 user, 1 EUO)	-	-	15 (1 IUO)
8b. Asset allocation	21 (1 user, 1 EUO)	1	-	15 (1 IUO)
8c. SMEs	16 (1 user, 1 EUO)	4	1	16 (1 IUO)

¹ This refers to no response provided or marked as not applicable

IUO: International user organisation

EUO: European user organisation

Q 6: Financial stability

- The behaviour of long-term contracts under stressed market conditions where CSM is immediately impacted by changes in the value of options and guarantees. The downside volatility is procyclical. Hence, improved transparency - allowing investors to react more timely – does not mitigate volatility and procyclicality.
- The volatility induced by market consistent measurement is artificially amplified by the annual cohorts’ requirement

Q 8b: Asset allocation

- Will also be based on accounting treatment (e.g., change in use of derivatives depending qualification for hedge accounting or invest less in equities due to lack of recycling under IFRS 9)

Q 8c: SMEs

- EFRAG’s analysis on SMEs affected by IFRS 17 is misleading. To define “small” insurers, EFRAG uses EIOPA’s definition of small insurers for which Solvency II requirements do not apply. This means that EFRAG’s analysis focuses only on extremely small insurers and fails to consider the large number of small and medium unlisted insurers which apply IFRS as part of the option under article 5 of the IAS regulation in Europe.
- A proportionate approach should be adapted such as in Solvency II.

Other questions: reasons for disagreement (3 of 5)

	Agree with EFRAG	Disagree with EFRAG	Both “Yes” and “No”	No answer ¹
9. Presentation of general insurance contracts	14 (1 user)	6	1	16 (1 IUO, 1 EUO)
10. IFRS 17 and Solvency II	23 (1 user, 1 EUO)	-	-	14 (1 IUO)
11a. Long-term investment	21 (1 user, 1 EUO)	1	-	15 (1 IUO)
11b. Procyclicality and volatility	18 (1 user, 1 EUO)	4	-	15 (1 IUO)

¹ This refers to no response provided or marked as not applicable

IUO: International user organisation

EUO: European user organisation

Q 9: Presentation of general insurance contracts

- Non-presentation of insurance receivables and payables, and collateral reinsurance deposits
- Lack of guidance on presentation of expenses by nature or by function means results will not be comparable
- Insurance service result will not be comparable to information currently provided
- Interaction between IFRS 17 and IFRS 9 for financial conglomerates
- Treatment of contracts acquired in their settlement period in a business combination or portfolio transfer

Q 11a: Long-term investment

- Lack of recycling of equity instruments under IFRS 9

Q 11b: Procyclicality and volatility

- The impact on the regulatory capital requirements for financial conglomerates
- The locked in discount rate under the general model leads to accounting volatility
- For conglomerates, the IFRS results may be relevant for dividend distribution purposes

Other questions: reasons for disagreement (4 of 5)

	Agree with EFRAG	Disagree with EFRAG	Both “Yes” and “No”	No answer ¹
12a. Hedge accounting	15 (1 user, 1 EUO)	3	1	18 (1 IUO)
12b. OCI balances and risk mitigation	12 (1 user)	7	1	17 (1 EUO, 1 IUO)
13. IFRS 15	20 (1 user, 1 EUO)	-	-	17 (1 IUO)
14. Transitional requirements	18 (1 user, 1 EUO)	3	2	14 (1 IUO)

¹ This refers to no response provided or marked as not applicable

IUO: International user organisation

EUO: European user organisation

Q 12a: Hedge accounting

- Lack of recycling of equity instruments under IFRS 9
- Lack of macro hedge model for insurance liabilities

Q 12b: OCI balances and risk mitigation

- The impact on the regulatory capital requirements for financial conglomerates
- The locked in discount rate under the general model leads to accounting volatility
- For conglomerates, the IFRS results may be relevant for dividend distribution purposes
- Risk mitigation is an integral part of normal business operations in the insurance industry and is routinely planned and documented. There should be no significant difficulty in providing the evidence in practice to support the retrospective application of the risk mitigation option.

Q 14: Transitional requirements

- Complexity of the MRA on transition
- Conceptual reservations about the use of the FVA (use of level-3 measurements) and lack of flexibility in the FRA and MRA which could encourage application of the FVA

Other questions: reasons for disagreement (5 of 5)

	Agree with EFRAG	Disagree with EFRAG	Both “Yes” and “No”	No answer ¹
15. Reinsurance	15 (1 user)	6	1	15 (1 EUO, 1 IUO)
16a. Delay to 2023	22 (1 user, 1 EUO)	-	-	15 (1 IUO)
16b. Early application	21 (1 user, 1 EUO)	1	-	15 (1 IUO)
17. No other factors to consider	20 (1 user)	2 (1 EUO)	-	15 (1 IUO)

¹ This refers to no response provided or marked as not applicable **IUO**: International user organisation

EUO: European user organisation

Reasons for disagreement

Q 15: Reinsurance

- Scope of the VFA
- Contract boundaries

Q 16b: Early application

- Some preparers may want to be able to early adopt

Q 17: No other factors to consider

- Volatility in OCI should be addressed
- Annual cohorts could incorrectly reflect profitability and does not agree to Solvency II classification of life and non-life contracts.

Some further issues highlighted

Q14 Transition

Few respondents touched upon areas broader than IFRS 17

- Retrospective application of IFRS 9 to financial instruments derecognised at date of initial application
- Recycling of gains or losses of equity investments under IFRS 9
- Effects of applying IFRS 9 and IFRS 17 together on the regulatory capital requirements of financial conglomerates

Role of actuaries

Actuaries request a more formal role in relation to IFRS 17

Impact of the pandemic

Broader effects (impacting IFRS 17 and solvency reporting)

- Changes in mortality and morbidity experience
- Changes in financial market variables (e.g., interest rates and credit spreads)

Impact on implementation

- Few respondents reported some delay in their implementation process
- No impact on the 2023 effective date though

Use of updated assumptions and current estimates: views differ

- According to some will lead to transparent, meaningful and instructive financial reporting outcomes
- According to others will lead to volatility, procyclical outcomes in adverse market conditions

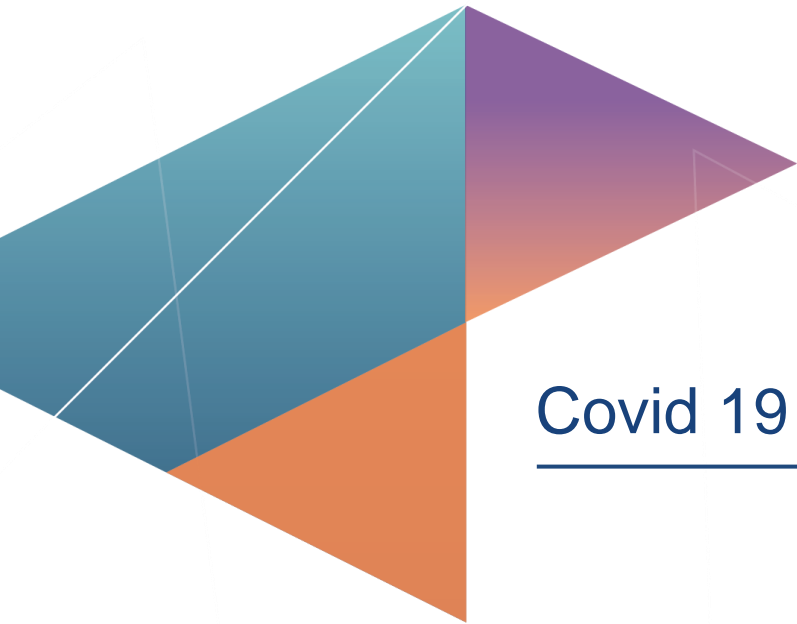
Topics raised for IFRS 17 Post Implementation Review

It was suggested that while these topics should not necessarily impact endorsement, they should be resolved by an IFRS 17 PIR at the latest.

Reinsurance contracts held: <ul style="list-style-type: none">• Contract boundaries• Qualifying for VFA
Retrospective application of the risk mitigation option (*)
Scope of VFA (B107)
Complexity and inflexibility of MRA method on transition (*)
Amounts recognised in OCI under FVA transition method (*)
Contracts that change nature over time
CSM amortisation
Multi-component contracts
Scope of hedging
Interaction with IFRS 9 including comparatives on transition (*)
Business combinations
Presentation of receivables and payables
Measurement of TVOG ¹
Locked-in discount rate for CSM under General Model
Exclusion of investment components from revenue and claims
Disclosure of portfolios in asset or liability position
Equivalent confidence level disclosure
Interaction between IFRS 17 and IFRS 9 (including hedge accounting)
Wider application issues relating to discount rates

¹TVOG: time value of options and guarantees

(*) transition requirement



Covid 19 related rent concessions

Urgent endorsement: new Amendment to IFRS 16

ED issued on 11 February 2021 *Covid-19-Related Rent Concessions beyond 30 June 2021*

- To address concerns by constituents
- To extend the availability of the practical expedient in paragraph 46A of IFRS 16, so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are satisfied
- Require a lessee applying the amendment to do so for annual reporting periods beginning on or after 1 April 2021.
- Permit a lessee to apply the amendment early, including in financial statements not authorised for issue at the date the final amendment is issued.
- The deadline for submitting comments on the Exposure Draft is 25 February 2021. The Board plans to issue any **final amendment by the end of March 2021**.

EFRAG's due process

- DCL issued on the same day (11 February) with comment period ending 22 February 2021
- Plan to issue the DEA as soon as the final Amendment is released

Endorsement procedure: urgent procedure needed, as the Amendments are immediately applicable



EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The content of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.

Thank you

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European Single Access Point (ESAP)

Accounting Regulatory
Committee

23 February 2021

Commission's Open Public Consultations – mentioning ESAP

- [OPC](#): Fitness check on the EU framework for public reporting by companies, 21 March 2018 - 31 July 2018
- [OPC](#): European Strategy for Data, 20 February 2020 - 03 June 2020
- [OPC](#): Non-financial reporting by large companies, 20 February 2020 - 11 June 2020
- [OPC](#): A new digital finance strategy for Europe / FinTech action plan, 3 April 2020 - 26 June 2020
- [OPC](#): renewed sustainable finance strategy, 8 April 2020 - 15 July 2020
- [Feedback](#): Capital Markets Union High Level Forum final report, 10 June 2020 – 1 July 2020



Published in June 2020
17 recommendations

Issues to be solved	Proposed recommendations
1. Fragmented and scattered company data	Set up a European Single Access Point (ESAP) for company data

**CMU Action plan - published in September 2020
16 recommendations**

CMU action plan – action n°1:

Making companies more visible to cross-border investors

*The Commission will adopt a **legislative proposal** in Q3 2021 to set up a **European single access point (ESAP)**.*

*This platform shall provide **seamless, EU-wide access to all relevant information** (including financial and sustainability-related information) **disclosed to the public by companies, including financial companies.***

CMU Action Plan 2020

- The information to be covered should reflect **the needs of investors and the interests of a broader range of users**, including financial intermediaries and civil society.
- This platform should also **improve the availability and accessibility of sustainability-related data**, steer more investments towards sustainable activities.
- Streamlining EU legislation **on disclosure of company data to the public.**
- The platform will, to the greatest extent possible, **build on existing EU and national IT infrastructure** (databases, registers) in order to **avoid adding to companies' reporting burden.**

What is the problem ?

1. Information disclosed by companies is **fragmented and difficult to access**.
 - Multiple disclosure mechanisms: websites, national registers, European databases.
 - Information not always freely accessible (registration, payment, etc.)
 - Entails additional search costs. Commercial data aggregators are costly (oligopolistic market: Bloomberg, Refinitiv. Similar trend for ESG data).
2. Information is mostly disclosed in formats that are **not machine readable**.
 - Except for financial reports (ESEF), most regulated information disclosed as PDF, image scans, etc.
 - No commonly agreed structured data format. Data aggregators use proprietary formats.

Consequence: lower attractiveness of EU capital markets esp. for SMEs and smaller/less developed markets.

Objectives

Specific objectives

General objective

Seamless access to info disclosed across the EU

Enable digital use (machine readability)

Remove barriers (open data?)

Improve
allocation of
capital and
promote market
integration

Scope

- Which categories of companies?
 - Issuers of securities, and other regulated entities (funds, credit rating agencies, auditors, etc.)
 - Banks, Insurers (market discipline).
 - Non-listed companies and SMEs (on a voluntary basis)
- Which categories of information?
 - Entity related: financial reports, ESG information, ratings, inside information, etc.
 - Product related: Key Information Documents, pre-contractual disclosures, etc.

Governance and funding

- Governance

EU body (ies)

Public / Private

Private (contract,
label...)

- Funding / business model

- Open data approach (data is free at the point of use – also discussed for HVDs)?
- Implications for funding: public funding? Private funding (issuer pays, flat-rate usage fees...)

Disclaimer : not binding - only for discussion pruposes

What is ESAP and what is it not?

- ESAP is **not a new/centralised database**.
 - Build on existing EU and national IT infrastructure to reduce costs and limit process changes for EU companies. Federative approach.
- Focus on **information relevant for investors in capital markets**. Often also relevant to other users, e.g. civil society (ESG data, tax transparency, etc.).
- ESAP **does not create new/additional disclosure requirements**. Focus on:
 - make information that companies already disclose easily accessible;
 - digitise information that companies already disclose.
- Complements but **does not replace existing initiatives** such as BRIS.
- Difference with supervisory reporting: ESAP focuses on **information that is disclosed to the public**.

IASB Update

Sue Lloyd, IASB Vice-Chair
Nili Shah, IASB Executive Technical Director

ARC virtual meeting, 23 February 2021

Topics for today

Amendments to IFRS Standards H1 2021

Selection of Exposure Drafts of IFRS Standards

Post-implementation Review of IFRS 9

Third Agenda Consultation

Appendix - New requirements endorsement in progress



Amendments to IFRS Standards H1 2021

Disclosure of Accounting Policies

Identified problem

- Users say that accounting policy disclosures today are often not useful
- Stakeholders' views differ about 'significant' accounting policies required by IAS 1 *Presentation of Financial Statements*

The amendments



- Amend IAS 1 to require companies to disclose their *material* accounting policy information rather than their significant accounting policies
- Clarify that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements
- Add guidance and examples to the materiality practice statement, which will explain how to apply the materiality process to identify material accounting policy information



Effective date

Annual reporting periods beginning on or after 1 January 2023

Definition of Accounting Estimates

Identified problem

Companies can find it difficult to distinguish between a change in accounting policy and a change in accounting estimate, especially when it relates to a change in a measurement method

The amendments



- Introduce a definition of ‘accounting estimates’
- Provide clarifications, such as
 - estimation techniques and valuation techniques are examples of measurement techniques used to develop accounting estimates
 - a change in accounting estimate that results from new information or new developments is not the correction of an error



Effective date

Annual reporting periods beginning on or after 1 January 2023

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

Objective

- Clarify the **deferred tax** accounting for transactions for which an entity recognises, on initial recognition, both an asset and a liability, such as **leases** and **decommissioning obligations**

The forthcoming amendments



- **Narrow the scope of the recognition exemption** in IAS 12 so that it does not apply to transactions that give rise to equal amounts of taxable and deductible temporary differences
- Will result in **all entities recognising deferred tax for leases** and other transactions in the scope of the amendments, reducing diversity in reporting



Effective date

Annual reporting periods beginning on or after 1 January 2023

Covid-19-Related Rent Concessions – out for comment

Identified problem

Difficult to assess whether potentially large volumes of covid-19-related rent concessions are lease modifications and, for those that are, to apply the required accounting of IFRS 16 *Leases*

The amendment

Provide **optional practical relief** that

- allows **lessees** to elect not to assess whether particular rent concessions are lease modifications and instead to account for them as if they were **not** modifications
- still enables lessees to provide useful information about their leases

The scope of the amendment

Rent concessions that are a direct consequence of the pandemic with

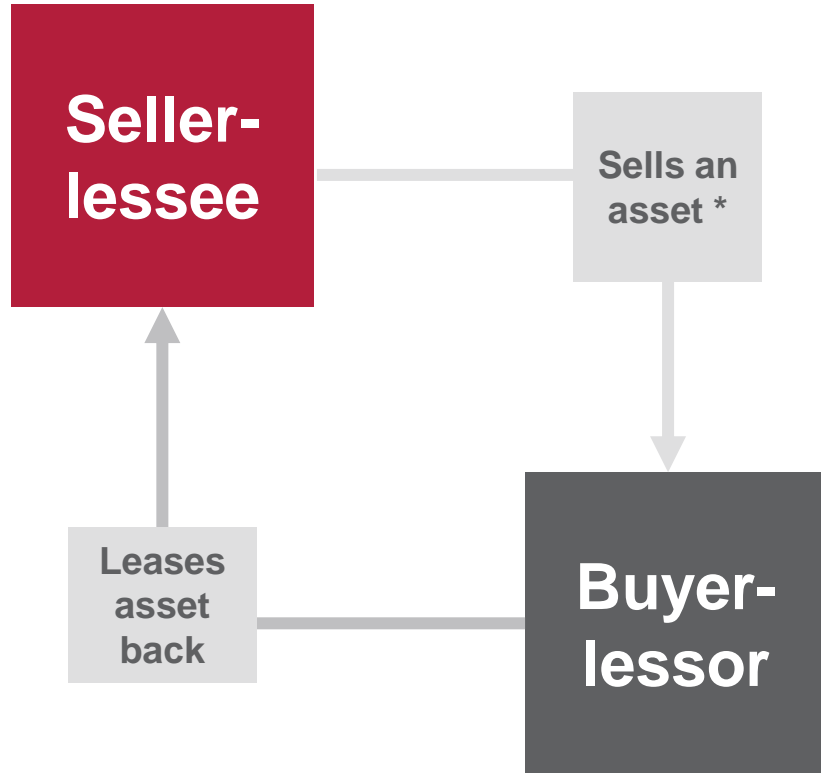
- no increase in consideration (unless to reflect time value of value)
- reduced payments due on or before 30 June 2021 (*)
- no substantive change to other terms and conditions of the lease

(*) Proposal to extend to 30 June 2022 open for comment until 25 February 2021

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Selection of Exposure Drafts of IFRS Standards

Narrow-scope amendment to IFRS 16



Problem

How to measure lease liability in a sale and leaseback transaction—particularly those with variable payments

Proposed amendment to IFRS 16

- Specify how to initially measure the right-of-use asset and lease liability in a sale and leaseback transaction
- Specify subsequent measurement requirements for the lease liability in a sale and leaseback transaction

Exposure Draft out for comment

Comment period ends 27 March 2021

* The transaction satisfies the requirements in IFRS 15 to be accounted for as a sale

Narrow-scope amendments to IAS 21

Problem

What exchange rate should a company use when a currency's exchangeability is lacking?

Proposed narrow-scope amendment to IAS 21

- Identify the circumstances in which exchangeability is lacking
- Require estimation of spot exchange rate
- Require specific disclosures when exchangeability is lacking

Transition

Prospectively with no restatement of comparatives

Forthcoming consultation document

Exposure Draft expected April 2021



Post-implementation Review of IFRS 9

Classification and measurement

Post-implementation Review of IFRS 9— Classification and Measurement

Due Process Handbook



Objective

- Goal of improving financial reporting underlies any new IFRS Standard
- Opportunity to assess effect of new requirements on investors, preparers and auditors
- Review considers the issues that were important during development and issues that came to the attention of the IASB after publication

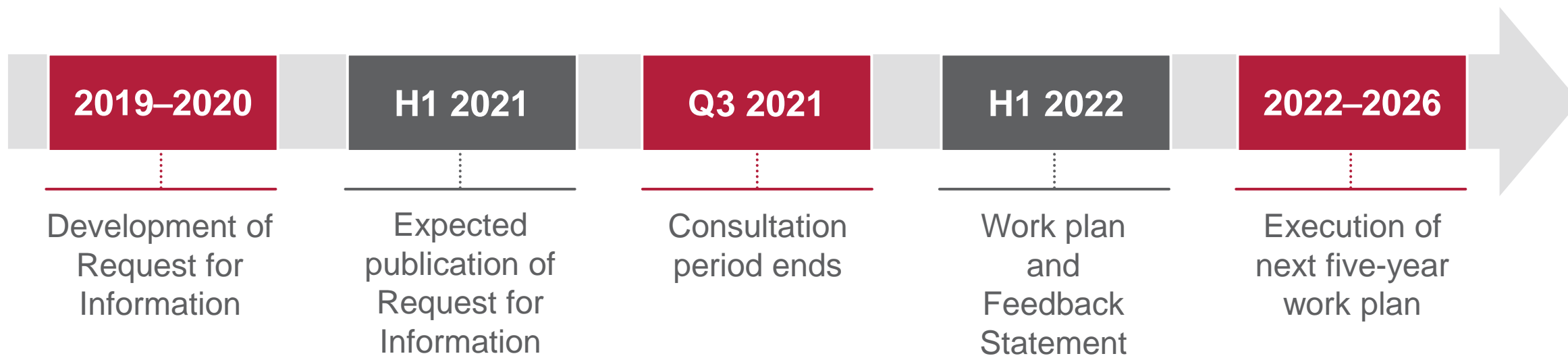


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Third Agenda Consultation

Shaping the next five years

Defining the IASB work plan for 2022–2026



Agenda consultation

The primary objective of an agenda consultation is to seek public comments on

- the strategic direction and balance of the IASB’s activities
- the criteria for assessing the priority of financial reporting issues that may be added to the IASB work plan
- financial reporting issues that should be given priority in the IASB’s work plan

The Request for information



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Appendix

New requirements endorsement in progress

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

Identified problem

Diversity in reporting the proceeds from selling items before an item of PPE is available for use

The amendments



- Prohibit deducting sales proceeds from the cost of an item of PPE
- Require a company to recognise any such proceeds (and related costs) in profit or loss in accordance with applicable IFRS Standards

Other requirements

- Measurement of the costs of items produced and sold in accordance with IAS 2 *Inventories*
- Specific disclosures for proceeds and costs when the sale of items is not part of a company's ordinary activities
- Definition of testing activities—assessment of the technical and physical performance of the asset only (not financial performance)



Effective date

Annual reporting periods beginning on or after 1 January 2022

Reference to the Conceptual Framework (Amendments to IFRS 3)

Identified problem

- IFRS 3 *Business Combinations* referred to an old version of the *Conceptual Framework*
- IFRS 3 requires acquirers of businesses to recognise at acquisition date items meeting *Conceptual Framework* definitions of assets and liabilities

The amendments



- Replace reference to old version of *Conceptual Framework* with reference to revised version issued in 2018
- Prevent increase in liabilities recognised by adding exception for liabilities in scope of IAS 37 *Provisions, Contingent Liabilities or Contingent Assets* or IFRIC 21 *Levies*

Overall effect



No change to IFRS 3 requirements



Effective date

Annual reporting periods beginning on or after 1 January 2022

Onerous Contracts—Costs of Fulfilling a Contract (Amendments to IAS 37)

Identified problem

Diverse views on which costs to include in the cost of fulfilling a contract when assessing whether a contract is onerous

The amendments



Specify that when assessing whether a contract is onerous, the cost of fulfilling the contract comprises those costs that **relate directly** to the contract. This includes both:

- the **incremental costs**; and
- an **allocation of other costs** that relate directly to contract activities



Effective date

Annual reporting periods beginning on or after 1 January 2022

Annual Improvements to IFRS Standards 2018–2020

IFRS 1

Subsidiary as a first-time adopter

Simplify the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to measurement of cumulative translation differences

IFRS 9

Fees in the 10% test for derecognition of financial liabilities

Clarify the fees a company includes in assessing the terms of a new or modified financial liability for determining whether to derecognise a financial liability

Illustrative Examples accompanying IFRS 16

Lease Incentives

Remove potential for confusion regarding lease incentives by amending Illustrative Example 13

IAS 41

Taxation in fair value measurements

Align the fair value measurement requirements in IAS 41 with those in other IFRS Standards



Effective date

Annual reporting periods beginning on or after 1 January 2022

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

Criterion in IAS 1

Liability is classified as non-current only if a company has right to defer settlement for at least 12 months after reporting period

The amendments to IAS 1 clarify this criterion

General clarifications

- Right to defer settlement must exist at end of reporting period
- If right is subject to lending conditions, a company must satisfy those conditions at end of reporting period
- Classification is unaffected by expectations about *whether* company will exercise its right

Clarifications affecting convertible bonds

- Counterparty conversion option disregarded when assessing classification if recognised separately as equity component of compound financial instrument
- Any other obligation to convert liability is considered when assessing classification—ie conversion is regarded as settlement



Effective date

Annual reporting periods beginning on or after 1 January 2023

IFRS 17 *Insurance Contracts* (amended in June 2020)



More useful and transparent information



Better information about profitability

- Requires **consistent accounting** for all insurance contracts
- Based on a **current measurement** model
- Provides useful information about the **profitability** of insurance contracts
- Presents **comparable** data across companies
- Assists investors to fulfil **stewardship** responsibilities

The **targeted amendments** issued in June 2020

- do not change the fundamental principles of IFRS 17
- help companies implement IFRS 17 and make it easier for them to explain their results



Effective date

Annual reporting periods beginning on or after 1 January 2023

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