



TEXTS ADOPTED

Provisional edition

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International Financial Reporting Standards: IFRS 17 Insurance Contracts

European Parliament resolution of 3 October 2018 on International Financial Reporting Standards: IFRS 17 Insurance Contracts (2018/2689(RSP))

The European Parliament,

- having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards¹,
- having regard to Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC²,
- having regard to Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings³,
- having regard to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)⁴,
- having regard to the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)⁵,
- having regard to International Financial Reporting Standard (IFRS) 17 Insurance Contracts, issued by the International Accounting Standards Board (IASB) on 18 May 2017,
- having regard to the report by Philippe Maystadt of October 2013 entitled ‘Should IFRS

¹ OJ L 243, 11.9.2002, p. 1.

² OJ L 182, 29.6.2013, p. 19.

³ OJ L 374, 31.12.1991, p. 7.

⁴ OJ L 335, 17.12.2009, p. 1.

⁵ OJ L 12, 17.1.2015, p. 1.

standards be more “European”?),

- having regard to its resolution of 7 June 2016 on International Accounting Standards (IAS) evaluation and the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB)¹,
- having regard to its resolution of 6 October 2016 on International Financial Reporting Standards: IFRS 9²,
- having regard to the Commission consultation document of 21 March 2018 entitled ‘Fitness check on the EU framework for public reporting by companies’,
- having regard to the Commission’s call for endorsement advice to the EFRAG of 27 October 2017 in relation to IFRS 17,
- having regard to the opinion of the European Banking Authority and the comment letter of the European Securities and Markets Authority (ESMA) to the IASB’s exposure draft on insurance contracts,
- having regard to the Commission report of 23 November 2017 on the activities of the IFRS Foundation, EFRAG and PIOB in 2016 (COM(2017)0684),
- having regard to the report of the European Systemic Risk Board (ESRB) of July 2017 entitled ‘Financial stability implications of IFRS 9’,
- having regard to the Global Financial Stability Report of the International Monetary Fund (IMF) of October 2017 entitled ‘Is Growth at Risk?’,
- having regard to the press release on IFRS 17 issued by the Financial Stability Board (FSB) on 17 July 2017,
- having regard to the Paris Agreement on climate change, adopted on 12 December 2015,
- having regard to the FSB’s report of June 2017 entitled ‘Recommendations of the Task Force on Climate-related Financial Disclosure’,
- having regard to the Commission communication of 8 March 2018 entitled ‘Action Plan: Financing Sustainable Growth’ (COM(2018)0097),
- having regard to the final report of the EU High-Level Expert Group on Sustainable Finance of 31 January 2018 entitled ‘Financing a Sustainable European Economy’,
- having regard to the EFRAG’s background briefing papers on IFRS 17 on the release of the contractual service margin, on the transition requirements, and on the level of aggregation requirements,
- having regard to the exchange of views on IFRS 17 between the Chair of the IASB,

¹ Texts adopted, [P8_TA\(2016\)0248](#).

² Texts adopted, [P8_TA\(2016\)0381](#).

Hans Hoogervorst, the Chairman of the IFRS Foundation Trustees, Michel Prada, and the President of the EFRAG Board, Jean-Paul Gauzès,

- having regard to the study of January 2016 prepared for its Committee on Economic and Monetary Affairs entitled ‘Changes to Accounting and Solvency Rules: The (possible) Impact on Insurance and Pensions’¹,
 - having regard to the motion for a resolution of the Committee on Economic and Monetary Affairs,
 - having regard to Rule 123(2) of its Rules of Procedure,
- A. whereas on 18 May 2017, the International Accounting Standards Board (IASB) issued a new standard on insurance contracts, International Financial Reporting Standard (IFRS) 17; whereas, if endorsed by the EU, IFRS 17 will become effective in the EU on 1 January 2021 and will replace the interim standard IFRS 4; whereas IFRS 17 is the third major accounting standard issued by the IASB after IFRS 16 Leases and IFRS 9 Financial Instruments; whereas amendments to IFRS 4 addressed the mismatch in application dates between IFRS 17 and IFRS 9;
- B. whereas IFRS 4 was only meant as a temporary standard, but permits the use of a wide range of national accounting standards and practices; whereas there is considerable diversity in current insurance accounting, including in the measurement of liabilities and the recognition of revenue and profits;
- C. whereas IFRS 17 harmonises accounting rules for insurance contracts across different constituencies, and is intended to provide a more realistic description and to enable better comparability of financial statements within the insurance sector;
- D. whereas in the Global Financial Stability Report of October 2017, the International Monetary Fund (IMF) called for improvements to the regulatory frameworks for life insurance in order to increase reporting transparency and build the industry’s resilience; whereas the Financial Stability Board (FSB) has welcomed IFRS 17;
- E. whereas the European insurance companies, in providing a wide range of insurance and re-insurance products, differ in their business models, including their investment and liability structures; whereas as major institutional investors, insurance companies are also important long-term investors;
- F. whereas the Commission is conducting a fitness check on the EU framework for public reporting by companies, for which it has examined possible interactions between IFRS 17, the Insurance Accounting Directive and Solvency II;
- G. whereas the EFRAG is currently drafting its endorsement advice on IFRS 17 and carrying out a detailed impact analysis to this end; whereas in its background briefings, the EFRAG identified as controversial areas the level of aggregation, the contractual service margin, reinsurance, transitional requirements and operational impact;
- H. whereas its Committee on Economic and Monetary Affairs will carefully scrutinise

¹ [http://www.europarl.europa.eu/RegData/etudes/STUD/2016/569996/IPOL_STU\(2016\)569996_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/569996/IPOL_STU(2016)569996_EN.pdf).

IFRS 17;

1. Notes that IFRS 17 will necessitate a fundamental change in accounting for insurance contracts, but will bring greater consistency and transparency and seek to deliver increased comparability;
2. Notes that considerable and significant efforts and costs will be needed to implement IFRS 17, not least for SMEs working in insurance, which is indicative of the complexity of the new standard; notes that implementation efforts are already in progress and that the IASB is providing implementation support, in particular by setting up a Transition Resource Group (TRG) for IFRS 17;
3. Notes concerns relating to the presentation of general insurance contracts, including the risk of reduced quality of disclosure, undue increases in the expected cost of implementation and significant increases in the operational complexity of reporting under IFRS 17; calls on the EFRAG to consider the anticipated cost of this measure and whether it will hinder understanding of the financial impact of general insurance contracts;
4. Notes that one of the aims of IFRS17 is to generate relevant information for shareholders by evaluating insurance contract liabilities; notes that this is a fundamentally complex process and may accentuate financial disturbances;
5. Notes the EFRAG's ongoing work in drafting its endorsement advice, in particular on the issues that it has identified, namely the level of aggregation, the contractual service margin, reinsurance, transitional requirements and operational impact; notes that the final endorsement advice is expected in December 2018; recommends that this timeframe be reviewed once the full scale and complexity of the issues identified in the field testing process are understood; welcomes the issues addressed by the Commission in its call for advice to the EFRAG, in particular the need to examine the potential effects on financial stability, competitiveness, and insurance markets, for insurance SMEs in particular, and the need for a cost-benefit analysis; calls on the EFRAG to check that all the core features of the insurance covers are reflected in a way that does not distort the social guarantees offered;
6. Stresses the need to fully understand the interaction between IFRS 17, which employs a principles-based approach, and other regulatory requirements for insurance entities in the EU, in particular Solvency II, especially in relation to the cost of implementing IFRS 17; regrets the fact, however, that no field test has yet been developed to examine the potential repercussions of IFRS 17 for financial stability, competitiveness and the financial markets; calls on the Commission, therefore, to consider broader tests, including field tests, to assess these effects and interactions; welcomes the Commission's ongoing fitness check on the EU framework for public reporting by companies; calls on the Commission to report to Parliament on the results of this check and to give them due consideration in the endorsement procedure; notes the concerns of the European Banking Authority (EBA) that IFRS 17 allows for inconsistent accounting treatment for similar transactions, depending on the industry of the issuers; calls on the EFRAG, therefore, to liaise closely with the EBA in order to assess whether these concerns are still valid in the context of the final requirements of IFRS 17 and whether transactions of a similar economic substance are handled consistently under IFRS 17;

7. Notes the concerns put forward by the European Securities and Markets Authority (ESMA) as part of its response to the 2013 consultation on the IASB's exposure draft on insurance contracts, on presenting the effects of changes in the discount rate partly in 'other comprehensive income (OCI)' and partly in profit or loss, which could make financial statements too difficult to understand and thus impair the comparability of contracts with similar features; calls on the EFRAG, therefore, to liaise closely with the ESMA and to consider these concerns, if still relevant, when drawing up its endorsement advice, as part of the final requirements of IFRS 17 and to conclude whether IFRS 17 meets the endorsement criterion of understandability; notes the concerns put forward by the ESMA in its 2013 comment letter on the then proposed requirements, namely that IFRS 17 may fall short of providing sufficient clarity in the presentation of revenue, and that the determination of the discount rate and risk adjustment may hamper effective enforcement; calls on the EFRAG, therefore, to liaise closely with the ESMA and to consider these concerns, if still relevant, when drawing up its endorsement advice, as part of the final requirements of IFRS 17; notes the EBA's concerns on IFRS 17 permitting an insurance entity to determine a discount rate using either a top-down or a bottom-up approach; calls on the EFRAG, therefore, to liaise closely with the EBA, and to consider these concerns, if still relevant, when drawing up its endorsement advice, as part of the final requirements of IFRS 17, notably whether this option might significantly increase the scope for judgement and inconsistency in application potentially leading to reduced comparability of financial information and subjective earnings' management; welcomes the IASB's research project on discount rates and encourages the IASB to develop a consistent and holistic approach to the methodology for estimating and applying discount rates;
8. Calls on the Commission and EFRAG to consider the recommendations outlined in its resolutions of 7 June 2016 on IAS evaluation and 6 October 2016 on IFRS 9 for the endorsement of IFRS 17, most notably regarding the impact of new standards on financial stability and long-term investment in the EU, but also the risks entailed by the propensity of accounting provisions to cause pro-cyclical effects and/or higher volatility, particularly as IFRS 17 will shift the focus from historical cost to current values; recalls, in this regard, the Maystadt recommendations on the expansion of the 'public good' criterion, namely that accounting standards should neither jeopardise the EU's financial stability nor hinder its economic development; calls on the Commission to specifically examine whether the practice of some Member States of basing distribution of profits on IFRS accounts without applying any filters to unrealised gains is compliant with the Capital Maintenance Directive;
9. Notes that in the wake of IFRS 17 and IFRS 9, two major changes in financial reporting standards are affecting accounting for insurance undertakings; notes, in particular, that changes in valuation now occur on both the assets and the liabilities side of insurers' balance sheets, as investment assets are marked-to-market and the valuations of insurance contracts include forward-looking net cash flow estimates; calls on the EFRAG to assess the potential interaction and any mismatches between IFRS 9 and IFRS 17;
10. Notes that exemptions to IFRS 17 and IFRS 9 allow for the application of IFRS 15 to relevant contracts; calls on the EFRAG to assess whether this treatment is appropriate;
11. Calls on the Commission and the EFRAG to consider concerns relating to the level of aggregation, including requirements on how the business is run in practice and on

grouping contracts into annual cohorts, which may give an unclear reflection of business management;

12. Calls on the Commission and EFRAG to consider, furthermore, concerns relating to the level of aggregation insofar as the disaggregation of a portfolio on profitability criteria and annual cohorts may not reflect how the business is run, while possibly increasing costs, complexity and administrative burden for companies;
13. Calls for a clarification on certain potential negative implications of the transitional requirements, particularly in terms of the complexity of the retrospective approaches and the limited availability of data in this regard; calls on the Commission and the EFRAG to consider the potential consequences on comparability and data issues of the need to apply multiple transition approaches for one portfolio of insurance contracts;
14. Calls on the Commission and the EFRAG to consider the potential benefits for all stakeholders;
15. Notes certain concerns relating to reinsurance contracts, which constitute a specific form of insurance; calls on the EFRAG to consider the impact of IFRS 17 requirements on accounting for reinsurance, by taking into account both the interests of the beneficiaries and the business models of reinsurance providers;
16. Calls on the EFRAG's newly established European Corporate Reporting Lab to deliver on the design of best practices in corporate reporting, notably as regards climate-related financial disclosures, in line with the recommendations of the Task Force on this issue;
17. Notes that the true scale and complexity of IFRS 17 will only become clear once the EFRAG has completed its impact assessment; calls on the Commission and the EFRAG to examine, subject to the results of this assessment, the achievability of the current implementation timeline of IFRS 17, and to consider potential interaction with implementation dates in other jurisdictions;
18. Calls on the Commission, together with the European Supervisory Authorities (ESAs), the ECB, the ESRB and the EFRAG, to closely monitor, in the event that it is endorsed, the implementation of IFRS 17 in the EU, to prepare an ex-post impact assessment no later than June 2024, and to present this assessment to Parliament and act in line with Parliament's views thereon;
19. Stresses that insurers are responsible for informing investors about the potential effects of the implementation of IFRS 17;
20. Calls on the ESRB to establish a taskforce on IFRS 17;
21. Calls on the Commission to ensure that IFRS 17 will, if adopted, be conducive to the European public good, including its sustainability and long-term investment objectives in line with the Paris Agreement;
22. Instructs its President to forward this resolution to the Commission.