



EUROPEAN COMMISSION

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

INVESTMENT AND COMPANY REPORTING

Accounting and financial reporting

IFRS9 post endorsement follow up work

The objective of this note is to inform the ARC about IFRS 9 *Financial instruments* post-endorsement work undertaken by various parties and to discuss the Commission's follow up work on IFRS 9.

1. OVERALL EXPECTED IMPACT OF IFRS 9

At the request of the G20, IFRS 9 is one of the major responses to the financial crisis. Most stakeholders and all regulators were supportive of moving from an incurred loss approach to a forward-looking model for recognition of credit losses. The possible implications of IFRS 9 on banks' capital ratios, financial stability and long-term investments have been considered in the course of the IFRS 9 endorsement process but the amount of impact assessment work that could be performed was limited by lack of available data about the quantitative effects of the new impairment model. Notwithstanding the lack of robust evidence, overall, opinions on the possible impacts of the standard were positive and supported the endorsement of IFRS 9. Nevertheless, the lack of a full impact assessment raises concerns and makes it important to closely follow ongoing work to assess the actual impact of IFRS 9 post endorsement.

Broadly the main impact from IFRS 9 compared to IAS 39 comes from:

1. Enhanced forward looking expected credit loss (ECL) provisioning in particular for bank lending. At this point several parties expect the average CET1 ratios of banks to go down with 50 bps and more than 100 bps for some outlier banks;
2. No re-cycling of realised gains (or losses) when disposing equity investments that are measured at fair value through OCI (= changes directly in equity outside the Profit or Loss statement). This is mainly an issue for insurers as banks have very little (long-term) equity investments;
3. Some claims have been made that the ECL provisioning may be pro-cyclical or pose cliff effects in particular when moving from stage 1 (one year expected credit losses for performing loans) to stage 2 (lifetime expected credit losses for loans with a significant deterioration of credit risk).
4. Re-classification of financial instruments ie. changes in the portion of instruments measured at fair value. This impact is not expected to be significant on average albeit that reporting entities have to re-assess current financial instruments against the new classification criteria. Some instruments may not meet the SPPI test and could therefore no longer measured at amortised cost (eg. instruments with negative pre-payment options); Another difference between IFRS 9 and IAS 39 is

that IFRS 9 does not permit bi-furcation of derivatives from hybrid contracts but instead requires the whole hybrid contract to be measured at fair value through profit or loss (FVPL). This could increase the overall amounts measured at FVPL. However, in a feedback statement¹ on field-testing in 2013, EFRAG found that this issue did not seem to be significant.

The extent to which these effects occur for specific reporting entities will depend on their specific business model and the corresponding assets and liabilities composition as well as the economic conditions at the reporting date.

2. ONGOING POST IFRS 9 ENDORSEMENT ASSESSMENT WORK IN THE EU

Considering the possible significant impact of IFRS 9 on capital ratios and financial stability, it is not surprising that a number of European actors are currently looking into various aspects of IFRS 9. Most of the work on IFRS 9 is undertaken on own initiatives within respective mandates:

- The EBA is collecting data to estimate the one-off impact on capital ratios of IFRS 9 credit risk provisioning² and has published guidelines on credit risk management practices and accounting for expected credit losses.
- ESMA issued in November 2016 a public statement³ setting out its expectations on companies and auditors for a high quality implementation of IFRS 9 including disclosures of the possible impact of IFRS 9.
- Following a request from the EP, the ESRB looked into the overall financial stability impact of IFRS 9 and issued a report on 17 July⁴.
- A proper implementation of the IFRS 9 ECL provisioning is also an element that should prevent unsustainable levels of non-performing loans to emerge in the future as indicated in the Council discussions on NPLs and in the report of the FSC Subgroup on Non-Performing Loans⁵.
- Whilst more forward looking, the application of IFRS 9 from 2018 onwards should not suddenly lead to a significant deterioration in the capital positions of banks. To ensure this, the Commission proposed a phasing-in of the prudential impact of the IFRS 9 ECL until 2022 in the CRR II proposals.

At international level, work is ongoing in the Basel Committee to identify the need to amend the capital framework following the revised accounting credit loss provisioning of IFRS 9 and US GAAP.

¹

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FProject%20Documents%2F274%2FEFRAG%20findings%20on%20field%20test%20classification%20and%20measurement.pdf>

² EBA published already two reports on the expected impact of IFRS 9. EBA concluded on the basis of a sample an average impact on the CET1 ratio of minus 50 bps.

³ <https://www.esma.europa.eu/press-news/esma-news/esma-prepares-new-international-financial-reporting-standard-9>

⁴ https://www.esrb.europa.eu/pub/pdf/reports/20170717_fin_stab_imp_IFRS_9.en.pdf

⁵ <http://data.consilium.europa.eu/doc/document/ST-9854-2017-INIT/en/pdf>

Given the many different workstreams, there is a need to bring them together. Moreover the EP passed a resolution on IFRS 9 that was adopted with the endorsement of the standard⁶. The European Parliament calls upon the Commission to undertake further work after its endorsement. The Commission's response to the EP resolution on IFRS 9⁷ has been published on the EP website.

3. IFRS 9 EX-POST ENDORSEMENT DELIVERABLES

3.1. The overall ex-post impact assessment of IFRS9

At the time of endorsement of IFRS 9, the Commission committed to follow closely the ongoing work with respect to the quantification of the effects of IFRS 9 and monitor any implementation issues to ensure there are no unintended consequences.

The EP resolution mentioned above also calls on the Commission to perform together with the ESAs, the ECB, the ESRB and EFRAG an ex-post impact assessment of IFRS 9 by June 2019. This is a relatively short timeframe because IFRS 9 is only mandatory from financial year 2018 onwards with the first financial statements expected to be published in February / March 2019. In the Commission's draft answer to the EP resolution the Commission explained that any meaningful exercise could not be conducted by June 2019. Delaying this ex-post evaluation exercise could enhance its quality considerably. A Commission report by 2020 seems more feasible.

The Commission is following the different workstreams with a view to developing its formal report. In the meantime, it would like to use the ARC as a "sounding board" to follow the progress on the implementation and application of IFRS 9 and to exchange information about its effects. In order to make this process more effective, on an ongoing basis, relevant parties could be invited to present the findings and conclusions of their work.

3.2. The impact of IFRS 9 on long term investments

IFRS 9 should serve the EU's long-term investment strategy as opposed to undermining it. If IFRS 9 were to create disincentives on making or holding long-term investments, the accounting requirements could have an adverse impact on achieving the jobs and growth objective underlying the Commission Investment Plan and the Capital Markets Union. The main concern about IFRS 9 in this respect is confined to investments in certain equity instruments measured at fair value through other comprehensive income (FVOCI) for which realised profits can no longer be shown ("re-cycled") in the profit and loss account. So far stakeholders have not been able to quantify the effects of this change because any changes would be behavioural (such as investing in debt rather than equity) and it is not clear that behaviour would change as a result only of the accounting when

⁶ <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P8-TA-2016-0381+0+DOC+PDF+V0/EN>

⁷ [http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2016/2898\(RSP\)#tab-0](http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2016/2898(RSP)#tab-0).

other factors are relevant. Both the CMU mid-term review⁸ and the HLEG interim report⁹ pointed at the possible negative impact of IFRS 9 on longer-term equity investments.

The EP resolution called on the Commission to assess whether IFRS 9 serves the EU's long-term investment strategy. This should be done by the end of 2017 at the latest, so prior to the mandatory application of IFRS 9 from 1 January 2018 onwards. Therefore after discussing the draft request for technical advice in ARC, the Commission asked EFRAG on 29 May for technical advice on the impact of IFRS 9 on equity investments measured at FVOCI in two phases: 1) problem definition to determine the size and relevance of the issue by end 2017 and 2) identifying possible alternative treatments more conducive to long-term investment than the non-re-cycling approach of IFRS 9 by mid-2018 (see Annex I). EFRAG's work is ongoing and ARC members will receive direct feedback on progress.

3.3. An assessment of the impact of IFRS 9 on prudential requirements for banks

The Commission has already proposed in the CRR II proposal a transitional regime to mitigate possible sudden unwarranted impact from IFRS 9 "expected credit loss provisioning" on banks' regulatory capital. Whilst the proposed five year phasing-in of the higher expected credit losses will provide some instant capital relief, a more structural solution for the impact of IFRS 9 on prudential requirements is needed. To this end the Basel Committee has set up a Task Force on provisioning (TFP) in which a Commission representative participates. The TFP work should essentially ensure that: 1) the accounting expected credit loss approach will be properly reflected in regulatory capital and 2) a level playing field between IFRS and US GAAP will be created which is not the case today. At this point no concrete options have been developed but the TFP will further explore the interaction of provisions and capital including possible "double coverage" (the same credit risk is covered twice: by accounting and prudential requirements) and the prudential recognition of provisions. The TFP will perform thorough analysis before decisions are made about addressing potential issues not before mid-2019. The Commission will regularly inform ARC about the progress of this Basel work.

3.4. The ESRB to assess the financial stability implications of IFRS 9

The EP resolution reiterated an earlier request from the ECON chair to the ESRB to assess the financial stability implications of IFRS 9. The ESRB set up a dedicated Task Force on IFRS 9 inter alia evaluating the likely impact of IFRS9 on behaviour and incentives of participants in the financial system as well as the interaction of IFRS9 with prudential legislation. As already mentioned the ESRB delivered its report on 17 July with the overall conclusion that IFRS 9 will bring substantial benefits from a financial stability perspective if properly applied and audited. The ESRB is establishing the Exploratory Group on Accounting Developments and Financial Stability (EG ADFS) that

⁸ The CMU Mid-Term Review was published on 6 June 2017:
https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017_en.pdf

⁹ The Interim Report of the HLEG on Sustainable Finance was published on 13 July 2017. The link is:
https://ec.europa.eu/info/publications/170713-sustainable-finance-report_en

inter alia will continue to work on the financial stability aspects of the post-implementation review of IFRS 9.

3.5. Ensure compliance of IFRS 9 with the Accounting Directive and the Capital Maintenance Directive for the purpose of dividend distribution.

A small group of investors is of the view that IFRS 9 does not meet the criteria for endorsement into EU law because IFRS does not require the disclosure of distributable income or defines distributable income which is a company law concept beyond the scope of IFRS. The Commission conducted a fact-finding exercise with members of the ARC on dividend distribution practices across Europe. The exercise showed that overall there is a broad divergence between Member States in how relevant profits are determined as the basis for dividend distribution. The vast majority of Member States confirmed they were not planning to change the rules relating to dividend distribution and that the rules in their respective Member States work properly.

3.6. Summary table of deliverables

The summary table below provides an overview of the various work-streams in the context of the IFRS9 ex-post evaluation package.

Work stream	Deadline / expected delivery	Work / Parties involved
Ex-post evaluation report		
3.1 Overall IFRS ex-post evaluation report	2020	The report prepared by the Commission will be a compilation of all detailed work streams mentioned above and might look at additional issues such as proper application and enforcement of the standard. EFRAG, ESMA and the EBA should contribute substantially. The Commission should liaise also with the ECB / SSM and the IASB IFRS9 ex-post evaluation work should be monitored.
Detailed work streams		
3.2 Assess whether IFRS9 serves Long Term investment strategies	mid 2018	Consult with EFRAG on a possible alternative treatment for equity instruments that would allow for "re-cycling". The outcome could be input to the IASB.
3.3 impact of IFRS 9 on prudential requirements for banks	2020	Commission staff participates in the work of the Basel committee and the EBA on the prudential impact of IFRS9.
3.4 ESRB financial stability IFRS 9 report	Q2 2017	Done. The ESRB issued its report in July 2017.

3.5 IFRS 9 and dividend distribution	Q2 2017	Consultation with ARC members completed.
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4. POSSIBLE COORDINATING ROLE FOR THE COMMISSION

There is no formal mandate for the Commission to follow or coordinate the ex-post IFRS 9 endorsement work performed by the various actors. However, having a good understanding of their work will be important for ensuring a coherent and consistent ex post assessment by 2020 on the impact of IFRS 9. Moreover, regular discussions in the ARC about these workflows and other relevant matters arising will ensure that information on the effects of IFRS 9 is shared on a timely basis between the Commission and Member States.

Questions

Q1: What is your overall view on the state of play of the implementation and impact of IFRS 9?

Q2 Are you aware of any issues other than those mentioned in this note that should be covered by the IFRS 9 post-endorsement work?

Q3: Do you agree with the Commission that ARC meetings could be used to exchange information about the effects of IFRS 9 during the current phase of its implementation and of its application up until the Commission completes its ex post assessment work by 2020?



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INVESTMENT AND COMPANY REPORTING

Accounting and financial reporting

Head of Unit

Brussels,
FISMA
B3/DR/dd/Ares(2017)2825410

Jean-Paul Gauzes
President
EFRAG
Square de Meeûs 35
B-1000 Brussels

Subject: Request for technical advice on the accounting treatment of equity instruments under IFRS 9 from a long term investment perspective

Dear Mr Gauzes,

The Commission completed the endorsement process of IFRS 9 with the adoption of Commission Regulation (EU) No 2016/2067 on 22 November 2016.

The effect of IFRS 9 on long-term investors was widely debated during the endorsement process. In particular, the Commission asked EFRAG to consider long-term investment in developing its endorsement advice to the Commission on the standard. EFRAG concluded that it is unlikely that long-term investors would change their investment strategy because of the accounting changes brought by IFRS 9. The Commission subsequently conducted its own fact-finding exercise and came to the same conclusion. These assessments were qualitative rather than quantitative because they were largely based on behavioural expectations.

Notwithstanding these findings, the Commission has noted that EFRAG commented in its endorsement advice that the accounting treatment of equity instruments under IFRS 9 may not reflect the business model of long-term investors. Accordingly, the Commission considers it important to closely monitor the impact of IFRS 9 on long-term investors in order to avoid any unintended effects. Furthermore, during the standard's endorsement process, the EP¹⁰ and some Member States have also called for close monitoring of the impact of IFRS 9 to ensure that it serves the EU long-term investment strategy.

As part of this monitoring exercise, the Commission would like to:

- obtain quantitative information about long-term equity investments and evaluate the possible impact of IFRS 9 on long-term investments ("phase 1") by the end of 2017 and;

¹⁰ <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P8-TA-2016-0381+0+DOC+PDF+V0//EN>

- identify whether and how IFRS 9 could be improved with respect to the accounting treatment of equity instruments held for long-term investments ("phase 2") by mid-2018.

Equity instruments are by default measured at fair value through Profit or Loss. To avoid fluctuations from unrealised gains and losses from changes in fair values being recognised in Profit or Loss, long-term investors can choose to recognise fair value changes in Other Comprehensive Income. However, EFRAG believes that long-term investors are unlikely to use this option because of the prohibition on presenting realised gains on sales of equity as profits (the so-called "ban on recycling")¹¹.

Against this background, the Commission would like to request EFRAG to conduct some fact-finding and research in this area. This work should address the areas set out below.

Phase 1 problem definition

1. Quantitative information about the significance of the equity portfolios for long-term investors before the entry into application of IFRS 9

This information could include the following for the years 2016 and 2015 (to the extent data is available):

- The size of the equity instruments' portfolios held by insurance companies and other long-term investors and the proportion that is considered to be held for the long term;
- The criteria used by long-term investors to classify their equity portfolios as long term and what information is disclosed about their long-term business model and the long-term portfolios in the financial statements;
- The accounting classification under IAS 39 of their equity portfolios and the amount of fair value changes recognised in Other Comprehensive Income in relation to the part of the equity portfolio that is considered long term;
- The amounts (in gross and net amounts) of realised gains and losses recycled through the profit and loss and the amount of the underlying equity portfolio sold to give rise to these gains and losses; the factors leading long-term investors to realise part of their long term equity portfolios;
- The magnitude of the fair value changes, and realised gains and losses in terms of annual profit.
- What impairment charges were recognised on the equity portfolios accounted for at fair value through Other Comprehensive Income and what criteria were applied?

2. Assessing the possible effects of the application of IFRS 9 on the equity portfolios of long term investors

As long-term investors will be further ahead in their implementation plans or have had more time to develop their thinking than during the endorsement process for IFRS 9, it would be helpful if EFRAG could provide information on the following points:

¹¹ See EFRAG endorsement advice on IFRS 9, page 75: <http://www.efrag.org/News/Project-181/EFrag-Endorsement-Advice-on-IFRS-9-Financial-Instruments->

- Will long-term investors use the option to measure their long-term equity investments at fair value through other comprehensive income (FVOCI); what factors will influence their choice; what will be the size of the equity portfolio measured at FVOCI compared to the overall equity portfolio?
- Would long-term investors envisage that the application of IFRS 9 would affect their holding of and financial reporting (including investor relations) for their long-term equity portfolios? There should be an explanation of these effects together with, where possible, quantification. Any other information relevant to an assessment of their significance such as any mitigating actions likely to be taken should be included.

Phase 2 possible solutions

3. How to improve the new IFRS 9 accounting framework: How significant is an impairment model to the removal of the ban on recycling from a conceptual perspective?

The IASB initially sought to simplify IFRS 9 by requiring all changes in fair values to be recognised in Profit or Loss. However, the Board accepted that long-term investors preferred to report volatility on their investments in Other Comprehensive Income rather than in Profit or Loss. The IASB introduced the ban on recycling because it wanted to avoid earnings management by companies which could hold onto loss-making investments while realising gains on others. The impairment model for equities reported as available-for-sale under IAS 39 was open to judgement and had led to significant diversity in practice. According to the IASB, a robust impairment model would be needed to prevent companies to manage their earnings. Lacking such a model, IFRS 9 prohibits recycling.

We would invite EFRAG to assess, from a conceptual perspective, the significance of an impairment model to the re-introduction of recycling and also consider possible alternatives. For example, could fair value changes over time in Other Comprehensive Income be analysed between positive and negative changes on equity instruments so that investors could form a view about the performance of the equity investments? Alternatively, could the fair value changes on equity investments measured at Fair Value through Profit and Loss be disclosed with an analysis between realised and unrealised changes?

4. If an impairment model is considered to be an important element of a "recycling" approach, what features would characterise a robust impairment model and could these feasibly be made operational?

In the context of the EFRAG's ongoing research project, we would like to ask EFRAG to identify how the existing impairment model under IAS 39 for equity investments could be improved or if another impairment model could be developed, possibly by looking at other national or third-country GAAPs. The availability of a practicable and robust impairment model could be a significant factor to influence the IASB to reconsider the ban on non-recycling in IFRS 9.

Also in the light of the EP resolution calling on the Commission to report on whether IFRS 9 could be detrimental to long-term investment, we would be grateful if EFRAG could provide us with the preliminary outcome of its work on phase 1 by the end of 2017.

In order to provide appropriate qualitative and quantitative evidence of the need, if relevant, for a change to IFRS 9 or additional further disclosure around this area, we would ask EFRAG to consult publicly to the maximum extent possible within the given timeframe.

We thank you in advance for your cooperation and would be happy to provide any clarification required on this letter to EFRAG representatives.

Should you have any questions, please contact Erik van der Plaats or Dawn Robey (Telephone: +32 2 29 55565 or +32 2 29 52282).

Yours sincerely,

Alain DECKERS

cc.: A. Watchman, (EFRAG TEG Chairman), V. Ledure (FISMA)



EUROPEAN COMMISSION

Directorate General Financial Stability, Financial Services and Capital Markets Union

INVESTMENT AND COMPANY REPORTING
Acting Director

Brussels,
FISMA B3/

Jean-Paul Gauzès
President
EFRAG
Square de Meeûs 35
B-1000 Brussels

Subject: Endorsement advice on IFRS 17 *Insurance Contracts*

Dear Mr Gauzès,

Following the publication by the International Accounting Standard Board (IASB) of IFRS 17 *Insurance Contracts* on 18 May 2017, the European Commission would like to request the European Financial Reporting Advisory Group (EFRAG) to deliver its opinion, on the new standard.

The opinion of EFRAG should be based upon the following conditions, against which endorsement is assessed in the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of International Accounting Standards, i.e. that the standard:

- is not contrary to the principle set out in Article 4(3) of Directive 2013/34/EU and is conducive to the European public good, and
- meets the criteria of understandability, relevance, reliability and comparability required of financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG should support its advice by an impact analysis, including a cost-benefit analysis and an analysis of broader economic impacts. This impact analysis should be independent, objective and Europe-focused. *Annex 1* to this letter describes a standard structure of this assessment.

As you are aware, members of the Accounting Regulatory Committee (ARC) vote on the adoption of each standard taking into consideration the endorsement advice provided by EFRAG to the European Commission. Accordingly, members of ARC have been asked to identify matters which they consider to be important in reaching their conclusions on whether to endorse IFRS 17. *Annex 2* to this letter describes the matters raised by some ARC members together with other issues that have been brought to the attention of the Commission services by European stakeholders. I would like to request that EFRAG take these matters into consideration, as appropriate, in its reply to this letter.

I should be grateful if EFRAG would provide its opinion by [the end of 2018] taking into account the need to address the matters raised and appropriate due process and consultation with European stakeholders.

We thank you in advance for your cooperation.

Yours sincerely,

Alain DECKERS

cc.: Andrew Watchman (EFRAG TEG Chairman)

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Impact Analysis – Standard structure

EFRAG shall advise the European Commission on the adoption of the new Insurance contracts standard for undertakings in the mandatory scope of Regulation 1606/2002.

It shall also assess IFRS in respect of companies' financial statements prepared under IFRS as a result of a Member State option (Article 5 of the Regulation). Such an analysis would be limited to the effects resulting from the use of these options, on which Member States have no means of action (e.g. it would exclude national tax and social legislation).

EFRAG is not expected to consider theoretical scenarios such as amending a proposed standard or its predecessor. As such, in the present document, the "options" to be considered by EFRAG are the baseline scenario (existing situation) and the new IASB standard.

The details of an impact analysis shall be proportional to the importance of the relevant IFRS.

The endorsement advice letter would be structured based on the following:

- The cover letter, containing the endorsement advice on the standard and the bases for conclusion.
- An appendix describing the reasons for a new standard and how it responds to the problem. In particular it will cover:
 - **The problem definition.** This includes the answer to the following questions: what is the problem the new standard aims at solving, who is affected and how, what is the magnitude of the problem, what are the causes and consequences, what will happen without further EU action?
 - **The objectives of the new standard,** how it responds to the problems identified.
- An appendix on EFRAG's analysis of whether the new IFRS is not contrary to the principle set out in Article 4(3) of Directive 2013/34/EU (**true and fair view principle**) and whether it meets the **technical qualitative criteria** (understandability, relevance, reliability and comparability required of financial information needed for making economic decisions and assessing the stewardship of management). This analysis will cover the new standard as well as its interaction with the other set of adopted standards.
- An appendix on EFRAG's **impact analysis of the options**¹, including whether the new IFRS is conducive to the **European public good**. This will include:

¹ The options are the baseline scenario (existing situation) and the new IASB standard

- A description of the impacts and of the stakeholders affected. Impacts will cover, economic aspects and where relevant environmental and social aspects, in addition to financial reporting aspects.
- A comparison between the options in terms of their effectiveness and efficiency (benefits and costs);
- Whether the new standard would not endanger financial stability, would not hinder economic development and what the impact on the competitiveness of European undertakings would be.

Annex 2 details a list of matters to be considered for the specific standard going through endorsement.

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Impact Assessment – Scope

1 General

IFRS 17 is the first comprehensive and truly international IFRS Standard establishing the accounting for insurance contracts issued by a company. The standard currently applied, IFRS 4, was intended to be an interim Standard and it does not prescribe the measurement of insurance contracts but instead allows companies to use local accounting requirements (national GAAP) or variations of those requirements for the measurement of their insurance contracts issued. Differences in accounting treatments across jurisdictions and insurance products make it difficult for investors and analysts to understand and compare insurers' results. It also allows different accounting policies to be applied across a group in consolidated financial statements.

We would like EFRAG to analyse some general issues relating to the content IFRS 17 taking into account the context mentioned above. What will be the benefits brought by this harmonisation compared to the existing situation? How does IFRS 17 take into account the specificities of the insurance sector? For example how does the pattern of release of the Contractual Service Margin ("CSM") for insurance contracts with direct participation features reflect the business models of the insurance sector?

2 Potential effects on financial stability

The insurance industry fulfils a central role in the global economy and insurers, like other institutional investors, are important long-term investors. Improved transparency resulting from IFRS 17 is expected to contribute to long-term financial stability by revealing useful information that will enable actions to be taken in a timely way.

On 17 July 2017 the Financial Stability Board (FSB) issued a press release welcoming the final publication of the standard, which was identified as a high priority at the FSB Plenary meeting of 25 September 2015.

At the same time IFRS 17 will introduce a completely new way of accounting for insurance contracts, resulting in a different depiction of the financial position and performance of (some) insurance companies. These new reported figures might have an impact on market confidence and hence financial stability.

Notwithstanding the FSB's position, we would like EFRAG to analyse the impacts, both positive and negative, with a view to assessing how IFRS 17 is expected to affect financial stability.

3 Potential effects on competitiveness

We would like EFRAG to analyse how IFRS 17 could affect European insurers and whether it could potentially put them at an advantage or disadvantage vis-à-vis their major competitors outside Europe.

4 Potential impact on the insurance market

We would like EFRAG to analyse the potential impact of the new standard on the range of insurance products available to policyholders, the design and pricing of insurance products as well as prospective impact on the demand for various products. In this respect, it would be useful to make a clear distinction between life and non-life insurance products.

Additionally, we would like EFRAG to analyse the potential impact of IFRS 17, taking into account its interaction with IFRS 9, on long-term investment including the investments held by insurance groups.

5 Cost-benefit analysis

The assessment should cover one-off costs of implementing the standard, ongoing incremental costs of applying it and possible cost savings (resulting from simplifications, synergies with existing IT systems / Solvency II systems, etc.) or possible savings in case of insurance companies operating in multiple jurisdictions. The assessment should also consider whether the complexity of the standard is justified in terms of costs of application, in particular as regards the subdivision of products into subgroups (onerous and non-onerous contracts) and annual cohorts. The assessment shall also consider the consequences of the requirement to provide comparative numbers for the year preceding the application date of IFRS 17.

In terms of benefits, the analysis should cover those resulting from improved quality of financial information, increase in comparability of financial statements with the EU insurance industry and globally, an accounting level playing-field for companies, increased understanding of the sector by capital providers, possible increased attractiveness of the sector to investors, possible positive effect on the cost of capital of insurers.

The assessment should also take into account the elements mentioned above.

Meeting of the Accounting Regulatory Committee (ARC), Brussels, 25 September, 2017

Item V - Pending endorsement procedures – Commission's update

Standard	ARC opinion	Current status	Publication date (planned)	Application date
Endorsed standards in 2016				
IFRS 15 Revenue from contracts with customers	11/04/2016	Commission Regulation (EU) 2016/1905 of 22 September 2016	29.10.2016	01.01.2018
IFRS 9 Financial Instruments	27/06/2016	Commission Regulation (EU) 2016/2067 of 22 November 2016	29.11.2016	01.01.2018
Issued standards and amendments to standards				
Under scrutiny period				
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)		Published by the IASB on 12 September 2016. EFRAG sent its endorsement advice on 13 January 2017. ISC closed on 18 May 2017. Arc members gave a favourable opinion at the meeting on 29 June 2017. Scrutiny period until 7/10/2017.	October 2017	01.01.2018
IFRS 16 Leases		Published by the IASB on 13 January 2016. EC sent its request for advice to EFRAG on 9 June 2016. EFRAG closed a consultation on the first part of its endorsement advice in December 2016 and plans on carrying out a short consultation on the	October 2017	1.01.2019

Item V - Pending endorsement procedures – Commission's update

Standard	ARC opinion	Current status	Publication date (planned)	Application date
		<p>remaining part in February 2017.</p> <p>EFRAG issued its final endorsement advice on 27 March 2017.</p> <p>Translation of the standard (annex to the Regulation) circulated to ARC members in December 2016.</p> <p>ISC closed on 24 May 2017</p> <p>Positive ARC vote - 29 June 2017</p> <p>Scrutiny period until 7/10/2017</p>		
Amendments to IAS 7 Disclosure Initiative		<p>Published by the IASB on 29 January 2016.</p> <p>EC sent its request for advice to EFRAG on 10 February 2016.</p> <p>EFRAG sent its endorsement advice on 6 June 2016.</p> <p>Translation of the standard (annex to the Regulation) circulated to ARC members in July 2016.</p> <p>ISC closed on 9/01/2017.</p> <p>ARC vote - written procedure closed on 5 June 2017 (favourable opinion)</p> <p>Scrutiny period until 6/10/2017</p>	October 2017	1.01.2017
Amendments to IAS 12		Published by the IASB on 19 January 2016.	October	1.01.2017

Item V - Pending endorsement procedures – Commission's update

Standard	ARC opinion	Current status	Publication date (planned)	Application date
Recognition of Deferred Tax Assets for Unrealised Losses		<p>EC sent its request for advice to EFRAG on 9 February 2016.</p> <p>EFRAG sent its endorsement advice on 8 June 2016.</p> <p>Translation of the standard (annex to the Regulation) circulated to ARC members in July 2016.</p> <p>ISC closed on 9/01/2017.</p> <p>Positive ARC vote (written procedure) - 3 July 2017</p> <p>Scrutiny period until 7/10/2017</p>	2017	
Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)		<p>EFRAG sent its endorsement advice on 06 July 2016</p> <p>ISC closed</p> <p>Translation of the standard (annex to the Regulation) circulated to ARC members in December 2016 (corrections are ongoing).</p> <p>Positive ARC vote (written procedure) - 3 July 2017</p> <p>Scrutiny period until 7/10/2017</p>	October 2017	01/01/2018
Annual Improvements to IFRS Standards 2014–2016.		<p>Published by the IASB on 8 December 2016</p> <p>EFRAG issued its final endorsement advice on 6 April 2017</p> <p>ISC closed on 15 June.</p>	Dec 2017	<p>IFRS 12 01/01/2017</p> <p>IFRS 1 01/01/2018</p>

Meeting of the Accounting Regulatory Committee (ARC), Brussels, 25 September, 2017

Item V - Pending endorsement procedures – Commission's update

Standard	ARC opinion	Current status	Publication date (planned)	Application date
		Positive vote (written procedure from 31/07/2017 with deadline 31/08/2017). Sent for scrutiny period on 14 September 2017		IAS 28 01/01/2018
ARC vote in written procedure				
Amendments to IFRS 2 - Clarifications of Classification and Measurement of Share-based Payments		Published by IASB on 10 June 2016. EC sent its request for advice to EFRAG on 2 August 2016. EFRAG issued its final endorsement advice on 14 December 2016. Translation of the standard (annex to the Regulation) circulated to ARC members in December 2016. ISC closed on 9 June 2017. The draft regulation sent to ARC members for linguistic consultations – deadline: 12/08/2017. ARC vote in written procedure launched on 4/09/2017 with deadline 4/10/2017.	Q4 2017	1.01.2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration		Published by the IASB on 8 December 2016 EFRAG issued its final endorsement advice on 6 April 2017 ISC closed on 22 August ARC vote in written procedure launched on 11/09/2017 with deadline	Q4 2017	01/01/2018

Item V - Pending endorsement procedures – Commission's update

Standard	ARC opinion	Current status	Publication date (planned)	Application date
		11/10/2017.		
Amendments to IAS 40: Transfers of Investment Property		Published by the IASB on 8 December 2016 EFRAG issued its final endorsement advice on 6 April 2017 ISC closed on 14 August Next step: ARC vote (written procedure)	Jan 2018	01/01/2018
Request for advice / ongoing EFRAG advice				
IFRS 17: Insurance Contracts		Published by the IASB on 18 May 2017 Request for advice under finalisation		01/01/2021
IFRIC 23: Uncertainty over Income Tax Treatments		Published by the IASB on 7 June 2017 Request for advice to EFRAG sent on 10 July 2017		01/01/2019
Standards and amendments to standards whose endorsement has been suspended or postponed				
IFRS 14 interim standard IFRS 14 Regulatory Deferral Accounts		Published by the IASB on 30 January 2014. Endorsement suspended	NA	
Amendments to IFRS 10 and IAS 28		Endorsement postponed	NA	Indefinite

Item V - Pending endorsement procedures – Commission's update

Standard	ARC opinion	Current status	Publication date (planned)	Application date
Sale or contribution of assets between an investor and its associate or joint venture				

Last update: 11-09-2017

Overview table endorsement status

		June	July	Aug	Sep	Oct	Nov	Dec	Jan	Comment
Annual improvement cycle 2014-2016			ISC	written vote	scrutiny	scrutiny	scrutiny	adoption		Uploaded for scrutiny on 14 Sep
IFRS2			ISC	written vote	scrutiny	scrutiny	scrutiny	adoption		Written vote launched on 4 Sep - deadline 4 Oct
IFRIC 22			ISC	Written vote	scrutiny	scrutiny	scrutiny	adoption		Written vote launched on 11 Sep – deadline 11 Oct
IAS 40			ISC	written vote	scrutiny	scrutiny	scrutiny	adoption		Act post ISC in translation
Amend. to IFRS 4	Written vote			scrutiny	scrutiny	scrutiny	adoption			Scrutiny ends 7/10
IFRS 16	Written vote			scrutiny	scrutiny	scrutiny	adoption			Scrutiny ends 7/10
IAS 7	Written vote		scrutiny	scrutiny	scrutiny	adoption				Scrutiny ends 6/10
Clarifications to IFRS 15	Written vote		scrutiny	scrutiny	scrutiny	adoption				Scrutiny ends 7/10
IAS 12	Written vote		scrutiny	scrutiny	scrutiny	adoption				Scrutiny ends 7/10

State of endorsement status as at 12 Sep 2017

Item VI – IASB ongoing projects

One of the conclusions in our evaluation report on the IAS Regulation (COM/2015/301) included the earlier involvement of all the actors, and in particular ARC, in the endorsement process and standard development.

Members are invited to share preliminary views on standards to be published by IASB shortly, as listed below, or more generally on ongoing IASB projects (IASB plans for standard development are accessible at: <http://www.ifrs.org/projects/work-plan/>)

Standard	Current status
I Upcoming new <u>standards</u>	
<p>Long-term interests in associates and joint ventures (amendments to IAS 28)</p> <p>(split off from annual improvements 2015 -2017 cycle)</p>	<p>The Board has proposed clarifying that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture if it does not apply the equity method to those interests.</p> <p>Standard expected October 2017</p>
<p>Rate regulated entities</p>	<p>The Board is exploring whether IFRS Standards (IFRS 14) should be amended to reflect the effects of rate regulation.</p> <p>Discussion Paper or Exposure Draft H1 2018</p>
<p>PM: Revision of the conceptual framework</p>	<p>Update to the Conceptual Framework for Financial Reporting to provide a more complete, clear and updated set of concepts to use when the IASB develops or revises IFRS Standards. PM because not endorsed in the EU.</p> <p>Update expected to be published at the end of 2017</p>

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Standard	Current status
II Upcoming amendments to existing standards in expected chronological order	
<p>Prepayment Features with Negative Compensation</p> <p>(Proposed amendments to IFRS 9; previously called Symmetric Prepayment Options)</p>	<p>The objective of the project is to examine whether amortised cost measurement would provide relevant and useful information for instruments that contain symmetric prepayment options and otherwise have contractual cash flows that are solely payments of principal and interest (SPPI).</p> <p>Exposure draft published on 21 April 2017;</p> <p>EFRAG sent comment letter on 31 May</p> <p>Amendment expected to be published in October 2017</p>
<p>Previously Held Interests in a Joint Operation</p> <p>(amendments to IFRS 3 and IFRS 11)</p>	<p>The Board has proposed amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements to clarify how a company accounts for obtaining control (or joint control) of a joint operation if the company already holds an interest in the joint operation.</p> <p>Amendment expected to be published in Q4 2017</p>
<p>Plan Amendment, Curtailment or Settlement / Availability of a Refund</p> <p>(Amendments to IAS 19 and IFRIC 14)</p>	<p>The IASB published an Exposure Draft of proposed amendments to IAS 19 Employee Benefits and IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.</p> <p>Amendments expected to be published in H1 2018</p>
<p>Availability of a refund</p> <p>(Amendments to IFRIC 14)</p>	<p>The Board is finalising amendments to IFRIC 14 IAS 19—<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction</i> to clarify the accounting when other parties have rights to make particular decisions about a company’s defined benefit plan.</p>

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Standard	Current status
	Amendments expected to be published in H1 2018
Classification of Liabilities (Amendments to IAS 1)	The Exposure Draft Annual Improvements to IFRSs 2010-2012 Cycle proposed to amend paragraph 73 of IAS 1 to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms. Amendment expected to be published H1 2018
Definition of a Business (Amendment to IFRS 3)	The objective is to provide clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3. Amendment expected to be published H1 2018
III Ongoing and upcoming Exposure Drafts in expected chronological order	
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	The Board has proposed narrow-scope amendments to reduce the diversity in accounting for those proceeds by determining how to account for the proceeds from selling items produced while testing an item of plant or equipment before it is used for its intended purpose. Exposure Draft is open for comment until 19 October 2017
Accounting Policies and Accounting Estimates (Amendments to IAS 8)	Provide a clarification of the distinction between a change in accounting policy and a change in an accounting estimate — the two are accounted for differently. Exposure draft published on 12 September 2017 comment until 15 January 2018
Disclosure Initiative: Definition of Materiality	The project objective is to refine the definition of materiality and clarify its characteristics (proposed clarifications). The proposed clarifications were originally discussed during the

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Standard	Current status
(Proposed amendments to IAS 1 and IAS 8)	<p>development of the Principles of Disclosure Discussion Paper.</p> <p>In December 2016, the Board decided to separately publish the proposed clarifications in an Exposure Draft. Consequently, the Definition of Materiality project is now separate from the Principles of Disclosure project.</p> <p>Exposure draft expected to be published in September 2017</p>
IAS 23 borrowing cost (split off from annual improvements 2015 -2017 cycle)	<p>The Board also proposes to amend IAS 23 to clarify which borrowing costs are eligible for capitalisation as part of the cost of an asset in particular circumstances.</p> <p>Amendment expected to be published in Q4 2017</p>
IAS 12 Income Taxes (split off from annual improvements 2015 -2017 cycle)	<p>The proposed amendments to IAS 12 clarify that an entity should account for all income tax consequences of dividends in the same way, regardless of how the tax arises.</p> <p>Amendment expected to be published in Q4 2017</p>
Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)	<p>The Board published the Exposure Draft of the amendments on 29 March 2017.</p> <p>The Board completed its post-implementation review (PIR) of IFRS 8 Operating Segments in July 2013 with the publication of its Report and Feedback Statement Post-implementation Review: IFRS 8 Operating Segments ('the Feedback Statement'). The PIR identified some areas for potential improvement and amendment to IFRS 8:</p> <ul style="list-style-type: none"> a.The identification of the chief operating decision maker; b.The aggregation of operating segments into reportable segments;

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Standard	Current status
	c.Improvements to the understandability of the segment reconciliation; d.Increasing the number of reported line items; and e.The preservation of trend data on a change in composition of reportable segments. Exposure draft feedback expected in Q4 2017
Fees in the ‘10 per cent’ test for de-recognition (Amendments to IFRS 9)	The Board will publish a proposal to amend IFRS 9 Financial Instruments to clarify which fees and costs a company includes in a quantitative ‘10 per cent’ test for assessing whether to derecognise a financial liability. The timing of publication of the proposed amendments depends on the identification of other matters for inclusion in the annual improvements process.

Last update: 12-09-2017