

To: Economics and Finance Committee
From: Olav Jones, Philippe Angelis
cc: Financial Reporting Working Group
Date: 16-06-2020
Reference: ECO-20-040

Subject: Insurance Europe position on European carve-in/out to IFRS standards

Input requested

At the recent ECOFIN on June 9th a potential Insurance Europe position on the use of carve-in/carve-outs to solve the IFRS annual cohort issue for Europe was discussed. Members are asked to inform the secretariat of any blocking concerns over the draft position provided here which is in line with the points agreed at ECOFIN.

This will be discussed at the Financial Reporting Working Group on 23 June. Members are therefore kindly invited to raise any blocking concern with the proposed position by **22 June COB**.

Background

In May 2019, the IASB rejected, yet again, the request by EFRAG to address annual cohorts and indicated that there would be no further changes to the standard. The CFO Forum and the French and Spanish standard setters provided potential solutions to the annual cohort issue which were subsequently shared with the IASB. On 5 June, the IASB responded to all 3 associations stating once more that no further changes would be brought to the standard.

As we look forward to next engagement steps towards EFRAG and the European Commission, Insurance Europe sought member's views on potential support for the proposed solutions and on the issue of carve-in / carve-out at the 9 June ECOFIN meeting and agreed to follow up by written procedure.

Draft Insurance Europe position on IFRS 17 and carve-in/carve-outs

The European Insurance industry continues to support IFRS international accounting standards and the role they play in supporting international comparability among insurers and a global level playing field.

However, we regret that the IASB has decided not to address the concerns raised on the annual cohorts issue and as a result, IFRS 17 will not adequately reflect the true economic nature of insurance contracts with risk sharing between generations and contracts that are cashflow-matched over different generations (together referred to as 'mutualisation'). Failure to address this issue will reduce the usefulness of the reporting information and increase the costs of compliance with reporting.

The CFO Forum, the French standard setter and the Spanish standard setter have provided potential solutions and we are convinced that these can be used as the basis to create appropriate mechanisms to identify the contracts where annual cohorts should not be required.



*Given the IASB's decision not to address the annual cohorts issue and its significant impact on insurers, **Insurance Europe recognises that a European carve-in or carve-out is necessary to ensure a solution to the annual cohort issue is applied for European insurers.***

*Any such carve-in/carve-outs should be designed to **ensure that European companies can still apply the full IFRS 17** and should not impact the **effective date of 1 January 2023.***

***We hope that any carve-in/out will only be temporary** because the IASB, in its post implementation review, will recognise that the European changes are warranted, justified and have been proven to work and will introduce the same elements into an updated IFRS 17 standard.*