

To: Corporate Reporting WG

Meeting subject: Meeting notes from ESMA workshop on IFRS 17 29032022

Meeting info: Virtual, 29-03-2022

Time: 10:00 – 11:30

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Participants: Alessandro d'Eri (ESMA), Timofei Karnaoukh (ESMA), Andreas Thiele (Allianz), Sebastian Lopez (VIG), Carlos Rami (MAPFRE), Anna Vidal (VidaCaixa), Eduardo Serrano (VidaCaixa), Emmanuel Le Clercq (BNP Paribas Cardif), Pierre Boyer de la Tour (Axa), Massimo Tosoni (Generali), Harm Van de Meerendonk (NN-Group), Geert Ewalts (Aegon)

Secretariat: Philippe Angelis

- As agreed ahead of the meeting, Insurance Europe made the following opening statement:
 - European Insurers' IFRS 9 and 17 implementation projects are well underway and on track to meet the requirements by 1 January 2023.
 - Implementing IFRS 9 and 17 is a major project of unprecedented effort; insurers will therefore need all the time to 1 January 2023 to finalise the implementation.
 - Insurers have been committing significant resources and effort to the implementation of IFRS 9 and 17 and need a period of stability ahead of the standards' entry into force. Any disruption to this process should be avoided.
 - A number of interpretations issues are being finalised by companies internally and with auditors. Whilst ongoing, these do not put the initial application of IFRS 9 and 17 at risk and further guidance/intervention by regulators is not necessary.
 - Disclosure requirements under IAS 8 and IAS 34 are clear and are sufficient to guide insurers through their formal disclosures ahead of the initial implementation. There is no need for further guidance or requirements, and, as any additional guidance would come very late in the implementation process, it may be more disruptive than helpful.
 - Formal disclosures ahead of the implementation of IFRS 9 and 17 should focus on the transitional impact (balance sheet and equity). P&L disclosures ahead of the application date is too early given the complexity of the ongoing implementation projects.
 - Whilst insurers are currently performing parallel runs on the basis of IFRS 9 and 17, auditors have indicated that the audit thereof (which is a prerequisite for formal external disclosure) will not be completed before the end of 2022 or early 2023.
 - The industry, especially the larger/listed insurers, are already actively engaged on planning market communication and are in discussions to roll out a communication plan to inform markets around Q4 2022.
 - Any guidance to be issued by ESMA should remain within the boundaries of IAS 8 and IAS 34 and should carefully consider the potential disruption of implementation projects. We welcome a dialogue on the need and format of any additional guidance.
 - The industry would appreciate if ESMA could share what ESMA has planned in terms of next planned actions and calendar.
- The ESMA representative explained that they were in the process of considering some form of public communication to raise practical issues on IFRS 17, in particular on the impact disclosures under IAS 8. If ESMA decides to go ahead, the communication is not intended to be additional guidance, but to highlight areas where transparency is needed. They shared that they already had a similar meeting with auditors.
- ESMA's intention would be to issue a communication ahead of half year reporting, which would call for transparency under IAS 8 with the objective of preparing the market to IFRS 17. The communication's

areas of judgement would be the focus: what will be the coverage units, reinsurance, discount rate are some of the examples of what would be covered. The idea is to be able to map what is currently happening under IFRS 4 to how it will look like under IFRS 17.

- The ESMA representative started by asking about the **status of implementation**, from what companies are comfortable sharing.
 - Harm Van de Meerendonk agreed that the market needs to be informed to avoid any surprises over the IFRS 17 numbers. The first results are expected to be published in H1 or Q1 2023 - the markets need to be informed ahead. Some interpretation choices may still want to be reconsidered ahead of the application date. It will take companies well into the summer to iron out the last interpretation choices and results. Insurers expect to inform the market on the figures either in late Q3 or Q4 2022. The communication for half year 2022 is expected to be qualitative, as it is difficult to have audited figures at this stage.
- The ESMA representative argued that IAS 8 disclosures are to be used as a hook for investors to ask further questions. He then asked **how are KPIs expected to change**.
 - Harm Van de Meerendonk replied that on KPIs, you only need to decide on KPIs once you've had a few parallel runs. Moreover, the market needs to take into account the different starting points accounting wise. At the moment, there are still certain interpretation issues being ironed out, and transition needs to be set. He expressed caution towards doing too much around half year reporting, as figures won't be set yet. Harm indicated that at year end, insurance companies would be able to disclose the transitional impact. After year end, P&L comparatives would be available.
 - Massimo Tosoni added that transition is a very strategic moment in implementation - transition won't be set by half year but should be ready for end of year. For P&L figures, it is impracticable to have something for half year reporting. At the moment, insurers are working on separate production environment for the dry runs. The Balance Sheet directional information will be available for half year reporting.
- **ESMA wants to encourage more half year disclosures** and avoid having boilerplate statements. If insurers stick to qualitative information, they may need to explain how disclosures are to change. What are the main aggregates where insurers can explain to the market how - for example discount rate differ from SII, volatility (where might it come from)?
 - Harm Van de Meerendonk shared that companies are experiencing quite some push back from auditors on validating IFRS 17 figures as they are holding up until the end of the year to see how the market allows interpretation to sign off. He explained that it is more helpful to disclose when a more complete picture is available.
 - Pierre Boyer de la Tour stressed that having a pure theoretical approach to reporting in 2022 won't be helpful for investors, and fully agreed on the need to provide a high-level picture. Discussions with auditors are ongoing and they need time to review insurers' assumptions, which means that it will take time to be able to make disclosures, even directionally.
 - Andreas Thiele confirmed auditors' reluctance to provide assurance on IFRS 17 numbers at this stage.
 - Carlos Rami shared that the areas where companies don't get auditor's sign off are where ESMA wanted information.
 - Geert Ewalts explained that companies have to be careful in terms of disclosing opening balance sheet, also considering auditor reluctance to provide assurance.
 - Emmanuel Le Clercq shared that they had started their talks with auditors last July and are only now getting some sort of agreement on normative options. Those were needed before starting transition work.
 - Eduardo Serrano explained that they were in a similar situation - they have reached some agreements with auditors which are now being questioned. Auditors seem to now want to discuss interpretation of the standard at European level which is going to make any half year impact disclosure very difficult.

- Sebastian Lopez also shared that their auditors were not keen on giving views.
- Massimo Tosoni said that the evidence of dry runs on P&L will show how some of the accounting options' impact. It is in the interest of preparers not to close interpretation too early and it will even be challenging to give directional information for the Balance Sheet at half year.
- Harm Van de Meerendonk said that some options can be reconsidered by companies after having done parallel runs. The points where ESMA wants clarity are the points where auditors are having trouble deciding and preparers may want some flexibility at this stage.
- The ESMA representative agreed that IFRS 17 implementation projects were complex but reiterated that **it is not an option to not disclose anything at half year**, with everything being done at end year. Insurers have built significant knowledge with implementation, which needs to be shared - maybe through mapping IFRS 4 and IFRS 17 numbers. This shouldn't be an academic explanation, but rather around implementation of the standard, within what is reasonable. Part of knowledge sharing is maybe explaining the number of options. They continued explaining that we had the same situation with auditors with the implementation of IFRS 9.
 - Harm Van de Meerendonk shared that it was easier to say something on IFRS 9 side – but some difficulty arises because the impact is linked to what happens on IFRS 17. In certain areas, it may not be informative to give an impact on IFRS 9 if you don't give anything on IFRS 17.
 - Emmanuel Le Clercq agreed that on IFRS 9, his company would be more easily ready on the transition because part of BNP Group. He also reiterated that it would be difficult to provide combined IFRS 9 / IFRS 17 figures ahead of the application date. He also explained that the least amount of discussion with auditors are on IFRS 9 options; discussions are mainly on IFRS 17.
 - Massimo Tosoni pointed out that this was particularly true for those who decide to make a re-statement of comparatives. For life in particular, there is a strong link between IFRS 9 and IFRS 17. Companies need to be able to provide full picture.
 - Carlos Rami confirmed that IFRS 9 impact alone would be misleading, in particular on the life business.
 - Geert Ewalts stressed that the reason IFRS 9 has been deferred is because joint application of IFRS 17 and IFRS 9 for insurers is what makes most sense. Having number only on IFRS 9 doesn't make sense and should be done in combination with IFRS 17.
- The ESMA representative asked about insurers' **internal governance discussion - how are IFRS 17 figures being communicated to top management?**
 - Industry experts confirmed that this was being done and that IFRS 9 and IFRS 17 needed a lot of education to top management. A lot of educational events have taken place in 2021, but much remains to be done. Top management are being informed on both parallel runs and remaining areas of uncertainty. In Germany, educational sessions for workers representatives are being organised too. Audit committees are also being provided with educational sessions. For listed companies, the idea is to inform board ahead of the market, as agreed with the Board. Listed companies cannot provide information to the market that hasn't been discussed in the Boards.
- The ESMA representative asked whether we are aware of any companies who are planning on using the **exception for annual cohorts**, what will be the disclosure on CSM allocation over time, and how will it be explained to the market. What disclosures are we planning to give to explain change in profitability patterns, given that estimate has been made.
 - Emmanuel Le Clercq shared that the exception would be used for French savings contract. The exception was needed to reflect the true economics of the contracts. He is not aware of any French life insurer not going to use the exception. Furthermore, he does not expect to provide more information than what is asked by the standard or in the EU regulation. On whether insurers will make double calculations to disclose the impact of using the exception, this is not something insurers intend to do.

- Massimo Tosoni shared that this was the same for the Italian market. All the market will apply the exemption – and some already provided this information in the EOY 2021 accounts as part of IAS 8 disclosures. He agreed that the degree of disclosure will be limited to IFRS 17 and what is required under the carve out. An indication about the volume of contracts under the exemption will not be provided.
 - Anna Vidal and Carlos Rami agreed and shared that in Spain the carve out will be used for life portfolios. To provide figures on the impact of the exemption, companies would need to run two separate sets of accounts, which is not practicable.
 - Pierre Boyer de la Tour shared that given mutualisation, using the exemption wouldn't have much of an impact on the outcome for French contracts.
 - Experts from Germany and the Netherlands confirmed that they would not be using the exemption.
 - Sebastian Lopez shared that they would use the exemption in Austria.
- The ESMA representative wrapped up by reiterating that **they would not issue guidance, but rather a statement recalling requirement of IAS 8**. There is no public consultation envisaged ahead of the publication. In terms of timing, if ESMA decides to go ahead, publication would be no later than end of May. The idea is not to say "please disclose XYZ", but rather to have a roadmap.