

To: Financial Reporting Working Group
From: Financial Reporting
cc:
Date: 11-02-2021
Reference: ECO-FRG-21-032

Subject: Revised Insurance Europe solution to annual cohorts issue following meeting with EC Accounting Unit

On 3 February, Insurance Europe met the EC Accounting unit and communicated our position on annual cohorts and potential wording for a solution as laid out in our letter ([ECO-FRG-21-028](#)). The minutes of the meeting can be consulted [here](#).

During the meeting, the EC said they were considering using a reference to “contracts with direct participation features” instead of referring to B101 as we had suggested in our proposal. Contracts with direct participation features are defined in Appendix A of the standard – see the annex of the this note for the exact text.

An advantage of this would be that referring to contracts with direct participation features would mean that the B101 criteria **only need to be met at inception**.

We note that CFO Forum have commented to their members that one other potential difference between the two approaches is that with reference to the direct participation features the carve out may not work for reinsurance contracts.

Potential solution for European carve out

An entity is not required to apply paragraph 22 for contracts which, at initial recognition, fulfil either of the following criteria:

- a) Contracts described in IFRS 17 B67 and B68 that also meet the criteria of ~~IFRS 17 B101~~ contracts with direct participation features.

Or

- b) Contracts and related assets meet the conditions set out in Article 77b of the Solvency II - Directive 2009/138/EC

Members are invited to raise any concerns or objections they may have with Insurance Europe adapting its proposed solution for defining the limited scope carve out to refer to direct participation features – as indicated above. Please respond by email by **17:00 CET on Friday 19 February**.

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Annex: Selected IFRS 17 extracts

Appendix A:

Insurance contract with direct participation features

An **insurance contract** for which, at inception:

- (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

B101: Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

- (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs B105–B106);
- (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph B107); and
- (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph B107).