

To: Financial Reporting Working Group  
From: Insurance Europe secretariat  
cc:  
Date: 13-04-2017  
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Subject: Quick summary of the meeting with EC and IASB on 12 April 2017

## Introduction

You will find below a summary of the Insurance Europe meeting with the EC and the IASB on 12 April 2017.

The EC had invited both the IASB and EFRAG to attend the meeting. The purpose of the meeting was to help the EC understand whether the issues raised and solutions proposed by Insurance Europe in its letter to the Commission dated 24 March 2017 are justified and feasible from a technical perspective.

*Present at the meeting were:* Valerie Ledure (EC), Darrel Scott (IASB), Patricia McBride and Didier Andries (EFRAG), Olav Jones and Sebastian Harushimana (Insurance Europe).  
*By telephone:* Richard Olswang (Prudential) and *in mute* David Martin (Prudential) and Andrew Carpenter (ABI).

The meeting started with Olav Jones stressing that the insurance industry had many concerns with the proposed IFRS 17 other than just the three issues raised in the letter, but that Insurance Europe had limited the issues to those the industry believes can and should be addressed by the IASB before finalising IFRS 17, in line with the Commission's request. Olav Jones also insisted that during the endorsement process, many other issues may arise once the final text is known.

## Annual cohorts requirement

### Darrel Scott's position:

Darrel Scott stated that the IASB had seen Insurance Europe's letter but indicated that the IASB had not intended to make annual cohorts mandatory, saying that:

- The overall objective of the Standard is to ensure that the CSM is fully amortised when related contracts expire, lapse or are derecognised;
- There are many ways in which entities can achieve that objective;
- The IASB believes that annual cohorts is one way of achieving that objective, however entities are not precluded from using other mechanisms to achieve that objective;
- No specific text is needed since, under IFRS, a general principle (run-off of CSM when contracts end) overrides a specific requirement (annual cohorts), and this is true for many other IFRS Standards;
- Similarly, the general principle of a fully mutualised portfolio would override the annual cohorts requirement;
- Therefore, annual cohorts are a means to end rather than an end in itself and are not mandatory;
- Some text will be included in the Basis of Conclusions to highlight the fact that the overall objective of CSM run-off was important and that could be achieved by various means, including annual cohorts or coverage units;

- No final text can be shared with the industry before the publication of the Standard, this is because the IASB has completed its balloting and sharing any extract of the standard might raise unhelpful adversarial interpretation;
- Once the Standard is published, the IASB is open to further amendments of the Standard before it is effective if the TRG identifies area that will still be of significant concern.

Insurance Europe secretariat's observation:

- Actually, under IFRS a general principle, such as the objective of CSM run-off, applies until there is a specific requirement. A specific requirement always overrides a general principle; therefore it is important that a specific text makes it clear that annual cohorts are not mandatory;
- So far the IASB staff proposals have indicated that annual cohorts would still be required (i.e. mandatory), even for a fully mutualised portfolio;
- It is unclear whether Darrel Scott's statements represent the IASB's view, thus there is a need to somehow ensure the promise made in front of the Commission is effectively delivered in the final text of the Standard.

**Initial onerous contract assessment**

Darrel Scott's position:

Darrel Scott stated that the IASB was amending paragraph 18 of IFRS 17 extract on the level of aggregation and commended Insurance Europe for nailing down correctly the IASB's intention of a top-down approach, saying that:

- The IASB has reconfirmed the top-down approach for onerous contract assessment at inception;
- However, the IASB would not accept the text proposed by Insurance Europe because assessing whether a "set of contracts" is onerous might lead to some insurers making such an assessment at the whole entity level;
- The IASB is currently redrafting paragraph 18 focusing rather on product pricing. Where the pricing of a particular group of contracts is expected to make that group of contracts profitable, the whole group would be deemed to be not onerous;
- However, where the insurer knowingly ignores existing specific risks and decides to price a contract at a loss, he would have to report that contract separately as onerous;
- In essence, the insurer will be not be allowed to price other customers higher price to compensate the other loss making contracts, except where the insurer is not aware of the specific risks that makes that contract onerous;
- Once again, no final text would be shared before the Standard is published, but any further concerns will be addressed through a TRG.

Insurance Europe secretariat's observation

- The IASB redrafting is likely to alleviate some industry's concerns but not all. For example, generally product pricing would take into account the existence of certain contracts that may be onerous because they are riskier than others, but on the overall the portfolio is profitable, it is not clear how the IASB will require the insurer to fish out those known onerous contracts without some kind of individual contract assessment.

## **Mandatory restatement of comparatives at initial application**

### Darrel Scott's position:

- The IASB offered a relief for IFRS 9 restatement primarily based on the fact that entities would change their business models on first application and it would then be difficult to restate comparatives without the use of hindsight;
- Unlike IFRS 9, it would be difficult for users to understand the 2021 information without comparative 2020 information prepared on the same basis;
- Furthermore, the request for IFRS 17 optional restatement is fairly new as it was never raised during the 2013 Exposure Draft;
- The IASB has looked at this issue and has decided not to consider it therefore restatement of the 2020 comparatives will be mandatory;
- Entities were always aware that they would have to restate comparatives, therefore the idea of shortening the implementation period had always been accepted;
- If entities would like to avoid inconsistent 2020 comparatives, they should simply voluntarily restate IFRS 9 comparatives.

### Insurance Europe secretariat's observation:

- It is unlikely the IASB will back down on this issue, perhaps it should be raised during a TRG.