



Summary of Discussions and Decisions EFRAG TEG meeting held on 25 July 2018

The EFRAG Secretariat has prepared a summary of the discussions and decisions taken during the EFRAG TEG meeting held on 25 July. The summary has been prepared for the convenience of EFRAG TEG, but has not been subject to any due process and should not be taken as a formal record of the meeting.

IFRS 17 Insurance Contracts

- Objectives*
- To seek EFRAG TEG's views on the issues raised by the Insurance Industry and how these issues should be addressed in EFRAG's draft endorsement.
 - To discuss the findings from the full and simplified case studies (except for the findings related to the Insurance industry issues, this discussion was postponed due to lack of time).
 - To discuss an issues paper on the use of coverage units versus cohorts (this discussion was postponed due to lack of time).

1 - Acquisition cash flows (Measurement)

- Discussions/
Decisions*
- It was agreed to:
 - refine some of the analysis, e.g., the issue may impact relevance, referring to disclosures; and
 - further explain why the endorsement criteria are met.
- Vote*
- The following members agreed with the EFRAG Secretariat proposals subject to the above-mentioned drafting refinements (i.e. contributing positively to endorsement): Andrew Watchman, Nicklas Grip, Anthony Appleton, Ana Cortez, Silvia Dinova, Heinz Hense, Sven Morich, Andrew Spooner, Ambrogio Virgilio and Jed Wrigley.
 - The following members did not agree with the EFRAG Secretariat analysis, i.e. there is an issue: Geert Ewalts and Cédric Tonnerre.
 - Abstention: Tommaso Fabi.
 - Günther Gebhardt, Emmanuelle Guyomard and Søren Kok Olsen were absent.

2 - CSM amortisation (Measurement)

Discussions/ Decisions

- It was agreed to:
 - focus on the position under the General Model on the assumption that the IASB would include investment services for contracts under the VFA. The DEA would focus on IFRS 17 as written.
 - refine some of the analysis, e.g., tighten wording and references to the standard; explain that failure of 1 criterion may be sufficient to be in the General Model; consider profit pattern if unbundling was allowed on the basis where product can be sold by a bank and compare to IFRS 17; include some more of the IFRS 17 requirements and Basis for Conclusions.

Vote

- The following members agreed with the EFRAG Secretariat proposals subject to the above-mentioned drafting refinements (i.e. contributing positively to endorsement): Andrew Watchman, Nicklas Grip, Andrew Spooner, Ambrogio Virgilio and Jed Wrigley.
- The following members did not agree: Ana Cortez, Geert Ewalts, Heinz Hense, Sven Morich, and Cédric Tonnerre.
- Abstention: Anthony Appleton, Tommaso Fabi, and Silvia Dinova.
- Andrew Watchman used his casting vote so that the final position was to agree with the EFRAG Secretariat analysis.
- Günther Gebhardt, Emmanuelle Guyomard and Søren Kok Olsen were absent.

3 - Discount rates

Discussions/ Decisions

- It was agreed that whilst there may be cost-benefit considerations that would form part of the Appendix 3 analysis, EFRAG TEG agreed with the requirements in IFRS 17.

Vote

- The following members agreed that the requirements in IFRS 17 contributed positively to the endorsement criteria: Andrew Watchman, Nicklas Grip, Anthony Appleton, Silvia Dinova, Tommaso Fabi, Heinz Hense, Sven Morich, Andrew Spooner, Ambrogio Virgilio and Jed Wrigley.
- Abstention : Ana Cortez, Geert Ewalts, Cédric Tonnerre.
- Günther Gebhardt, Emmanuelle Guyomard and Søren Kok Olsen were absent.

4 - Multi-component contracts (Measurement)

- Discussions/ Decisions*
- EFRAG TEG members noted that the issue was raised at the IFRS 17 Transition Resource Group (TRG). It was agreed that:
 - a principle-based definition of insurance contracts continues to be needed; and
 - there is currently no clear view and EFRAG TEG will reconsider after discussions by the TRG.

- Votes*
- The following members agreed with the above: Andrew Watchman, Nicklas Grip, Anthony Appleton, Ana Cortez, Silvia Dinova, Geert Ewalts, Tommaso Fabi, Heinz Hense, Sven Morich, Andrew Spooner, Cédric Tonnerre, Ambrogio Virgilio and Jed Wrigley.
 - Günther Gebhardt, Emmanuelle Guyomard and Søren Kok Olsen were absent.

5 - Reinsurance (Measurement)

- Discussions/ Decisions*
- It was agreed to:
 - amend the analysis to address each of the issues raised by the CFO Forum separately, e.g. reinsured onerous contracts, reinsurance (both ceded and assumed) cannot be accounted for under the VFA, coverage period and contract boundary; and
 - be more precise on the IFRS 17 requirements supported or not supported by EFRAG TEG.

- Vote*
- The following members voted in favour, subject to drafting refinements (i.e. some aspects of IFRS 17 may detract from the technical endorsement criteria): Andrew Watchman, Nicklas Grip, Anthony Appleton, Ana Cortez, Silvia Dinova, Geert Ewalts, Tommaso Fabi, Heinz Hense, Sven Morich, Andrew Spooner, Cédric Tonnerre, Ambrogio Virgilio and Jed Wrigley.
 - Günther Gebhardt, Emmanuelle Guyomard and Søren Kok Olsen were absent.

6 - Scope of the hedging adjustment (Measurement)

- Discussions/ Decisions*
- Some EFRAG TEG members asked for further explanation regarding the implications of the CFO Forum views.
 - It was agreed to:
 - separate the analysis by the CFO Forum issues;
 - include from the IFRS 17 Basis for Conclusions, commentary on the IASB creation of an exception in IFRS 17 for the VFA and why IFRS 17 does not address normal hedge accounting; and
 - refine the wording on support for the concern on prohibition of retrospective application on transition for VFA contracts.

Summary of Discussions and Decisions of the EFRAG TEG meeting held on 25 July 2018

- Vote*
- The following members voted in favour of EFRAG Secretariat proposals subject to above-mentioned refinements (i.e. the issue may contribute negatively to the endorsement criteria): Anthony Appleton, Ana Cortez, Silvia Dinova, Geert Ewalts and Cédric Tonnerre.
 - The following members did not support EFRAG Secretariat analysis (i.e. agreement with IFRS 17 as issued): Andrew Spooner, Ambrogio Virgilio and Jed Wrigley.
 - Abstentions: Tommaso Fabi, Heinz Hense and Sven Morich.
 - Andrew Watchman, Nicklas Grip, Günther Gebhardt, Emmanuelle Guyomard and Søren Kok Olsen were absent.

7 - Scope of the VFA vs General Model and PAA (Measurement)

- Discussions/ Decisions*
- Some EFRAG TEG members did not consider that the IFRS 17 requirements contributed positively to the endorsement criteria. They questioned whether IFRS 17 had the line in the right place for contracts applying the General Model versus the VFA and considered that business practice needed to be considered. Contracts where ambiguity could arise include contracts with constructive obligation(s) and contracts that only meet one or two of the VFA scope criteria.
 - However, most EFRAG TEG members agreed that IFRS 17 had the scope line drawn in the right place.

- Vote*
- The following members voted in favour of EFRAG Secretariat analysis subject to the above-mentioned drafting refinements (i.e. IFRS 17 requirements are sufficient): Nicklas Grip, Anthony Appleton, Heinz Hense, Andrew Spooner, Ambrogio Virgilio and Jed Wrigley.
 - The following members disagreed (i.e. the issue introduces ambiguity): Geert Ewalts and Cédric Tonnerre.
 - Abstention: Tommaso Fabi and Sven Morich.
 - Andrew Watchman, Ana Cortez, Silvia Dinova, Günther Gebhardt, Emmanuelle Guyomard and Søren Kok Olsen were absent.

8 - Transition (Measurement)

- Discussions/ Decisions*
- It was agreed to:
 - update the issue with further comments received from case study participants around the operational challenges faced in applying the modified retrospective approach; and
 - elaborate on why the lack of an option to set OCI to nil at transition for assets classified at FVOCI is not an issue arising from IFRS 17 but from IFRS 9.

- Vote*
- The EFRAG Secretariat to update its analysis with further comments received from case study participants and bring it to the next EFRAG TEG meeting.
 - EFRAG TEG to vote on the issue at the next meeting.

- Other issues The following topics were postponed to the next EFRAG TEG meeting due to lack of time:
- Business combinations (Operational complexity);
 - Level of aggregation (Operational complexity);
 - Presentation issues (Operational complexity); and
 - Pressure on implementation timeline (Other implementation challenges).
- Next steps
- The EFRAG Secretariat to update the analysis for the above issues for consideration at the meeting on 8 August.

IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Amendments to IAS 8)*

- Objectives
- To discuss and agree to recommend to the EFRAG Board a Final Comment Letter on the ED and approve a feedback statement.
- Discussions/ Decisions
- EFRAG TEG agreed to recommend a Final Comment Letter (FCL) for consideration by the EFRAG Board subject to the following drafting changes:
 - Reinstate the suggestion that the IASB considers whether to provide relief from retrospective application to all voluntary changes in accounting policy based on an assessment of costs and benefits;
 - Remove the suggestion in paragraph 18 of the FCL that the IASB develops a step-by step guidance on the assessment of costs and benefits that could be structured similarly to the process for making materiality judgements set out in IFRS Practice Statement 2 *Making Materiality Judgements*.
 - Clarify, in the feedback statement, the reference made to the potential loss of comparability.
- Vote
- The following members voted in favour: Andrew Watchman, Nicklas Grip, Anthony Appleton, Ana Cortez, Silvia Dinova, Geert Ewalts, Tommaso Fabi, Emmanuelle Guyomard, Heinz Hense, Sven Morich, Andrew Spooner, Cédric Tonnerre, Ambrogio Virgilio.
 - The following member did not attend the meeting: Günther Gebhardt; Søren Kok Olsen and Jed Wrigley
- Next steps
- EFRAG Secretariat to update the Final Comment Letter for consideration by the EFRAG Board at its 21-22 August meeting.

IASB Research Project *Financial Instruments with Characteristics of Equity (FICE)*

- Objective*
- To discuss EFRAG's draft comment letter (DCL) in response to the IASB's Discussion Paper *Financial Instrument with Characteristics of Equity*.
- Discussions/ Decisions*
- EFRAG TEG members provided comments on the first five sections of the DCL.
 - EFRAG TEG members highlighted the need for the IASB to carefully evaluate the balance of the potential benefits of rearticulating the principles in IAS 32, which results in a limited number of classification changes, against the potential risks of unnecessary disruption and unintended consequences;
 - EFRAG TEG members expressed some concerns about the IASB's articulation of the timing and amount features. For example, the timing feature focuses on liquidation at initial recognition of the financial instruments. This may result in financial instruments that are only required to be settled on liquidation being classified as financial liabilities. Additionally, for the amount feature, members considered that there was a need to have a separate analysis for derivatives and non-derivatives on the relevance of the final accounting outcome under the IASB's preferred approach.
 - Considered that the IASB should further consider the option of accounting for all derivatives on own equity as derivative assets or derivative liabilities under the scope of IFRS 9. EFRAG TEG agreed to include a question to constituents.
 - Considered that current exceptions in IAS 32, such as puttable instruments, should be retained until the IASB finds a solution that solves all the issues that gave rise to the exceptions. EFRAG TEG agreed to include a question about the implementation challenges on the puttable exception.
 - Provided a number of drafting suggestions to clarify the key messages in the DCL (e.g. do not use 'comprehensive review'; clarify the importance of 'resolution' for financial institutions, splitting the question on the puttable exception, etc).
 - Derivatives on own equity should rather be classified as financial assets or liabilities under the scope of IFRS 9.
 - Assuming that derivatives on own equity would continue to be under the scope of IAS 32, a number of members also considered that there should be symmetry on the accounting for asset/equity and liability/equity exchanges. That is, considered that a liability for the redemption amount should not be recognised. EFRAG TEG agreed to include a question to constituents.
 - No vote was taken at the meeting.
- Next steps*
- EFRAG TEG to discuss other sections (6 and following) at the 8 August 2018 webcast meeting.
 - EFRAG Secretariat to revise the first 5 sections of the Draft Comment Letter with EFRAG TEG's input.

IASB Research Project *Equity Instruments - Impairment and Recycling*

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| <i>Objective</i> | <ul style="list-style-type: none">• To finalise the draft technical advice to be recommended to the EFRAG Board |
| <i>Discussions/
Decisions</i> | <ul style="list-style-type: none">• EFRAG TEG decided not to express a preference on the impairment solution.• EFRAG TEG asked for a number of changes to the arguments and wording in the draft advice.• No vote was taken at the meeting. |
| <i>Next steps</i> | <ul style="list-style-type: none">• EFRAG Secretariat to incorporate the suggestions and bring the revised draft advice to the EFRAG Board at its August meeting. |