



European Financial Reporting Advisory Group  
35 Square de Meeûs  
1000 Brussels  
Belgium  
[commentletters@efrag.org](mailto:commentletters@efrag.org)

## **Comments on EFRAG's draft comment letter on IASB Exposure Draft ED/2019/4 Amendments to IFRS 17 Insurance Contracts**

We are pleased to provide BNP Paribas' comments on the EFRAG's Draft comment letter on IASB Exposure Draft Amendment to IFRS 17 (ED).

In addition to being one of the largest financial institutions in Europe, BNP Paribas has significant insurance activities, in more than 35 countries worldwide, particularly in the field of participating life insurance contracts, investment contracts with a discretionary participating feature ("DPF investment contracts"), and creditor insurance contracts.

As a member of the CFO Forum, and of the Fédération Française de l'Assurance (FFA), we have contributed to their respective responses to EFRAG's Draft comment letter on the ED. However, we also wish to provide you with the view of the group, as a conglomerate operating both in banking and insurance activities.

We take this opportunity to thank the EFRAG for its efforts in understanding the concerns of the Insurance industry regarding the implementation of IFRS 17, and its willingness to help finding solutions, as illustrated by the EFRAG 3 September 2018 letter to the IASB.

We also appreciate the IASB's efforts to consider the issues raised by the different stakeholders (including those mentioned in the EFRAG's letter), and to offer solutions to some of them through the proposed amendments presented in the Exposure Draft.

However, like the CFO Forum and the other organizations we belong to, we still believe some significant issues remain partly or fully unsolved. We will insist below on those mentioned by the CFO Forum and the FFA, which are the most relevant to us.

### **1. Level of Aggregation**

As most of the Insurance industry, we do not believe that the annual cohort requirement is in line with the usual management of the insurance business. However, we consider that this issue is particularly important in the case of contracts eligible to the variable fee approach, which significantly share the return of the same underlying items due of their legal or contractual framework. Such contracts are managed together based on their technical characteristics (contractual fees, brokerage and management expenses...) independently from their year of underwriting. Thus allocating the



Contractual Service Margin by annual cohort to comply with IFRS 17 requirement would require an allocation, which is not currently done in practice, will be costly, and may not correctly reflect their economics. We strongly support the EFRAG comments on the necessity to find a solution for contracts whose cash flows and results are mutualized between different underwriting generations (see our detailed answer to Topic 1 Annual cohorts in Appendix 2).

## **2. Transition**

We believe that more flexibility should be introduced in the Modified Retrospective Approach in order to promote the use of that retrospective transition approach. Another reason is that there is a widespread opinion that the Fair Value approach would result in a lower level of CSM at transition compared to the retrospective approaches. We share the view of several preparers that the Fair Value approach should provide a level of opening CSM closer to the retrospective approaches, and that the choice of the transition approach should not impact post-transition results so significantly.

We also believe that transitional relief should be provided for risk mitigation (especially for reinsurance), and for past business combinations (due to the Fair Value issue mentioned above).

## **3. Presentation**

As a financial conglomerate with a worldwide coverage, several of our subsidiaries are located in countries where IFRS are or will become the accounting framework for statutory reporting. For these entities, the current wording of IFRS 17 regarding interim accounts creates differences between interim reporting group reporting and solo annual financial statements, source of inconsistency and additional costs. We believe the standard should be amended on that matter, allowing a year to date calculation of the CSM whatever the frequency of the reporting.

Besides, we share the CFO Forum's proposal that the presentation of comparative information should be optional (as it has been allowed for IFRS 9).

We strongly believe that it is necessary that IFRS 17 and IFRS 9 should be implemented at the same date. We wish to remind that the new implementation date should also apply to the extended deferral of IFRS 9 given through the EU endorsement process to the insurance sector of financial conglomerates.

Appendix 1 and 2 of this letter include our comments on EFRAG's Draft comment letter to questions raised by the IASB in the ED, and our responses to EFRAG's questions on topics not addressed by the ED.

Should you have any questions regarding our comments, please do not hesitate to contact us.

Yours sincerely,

Lars Machenil



## Appendix 1 - Responses to the questions raised in the ED

### **Question 1 – Scope exclusions – credit card contract and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9-BC30)**

(a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Do you agree with the proposed amendment? Why or why not?

(b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)–(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

Do you agree with the proposed amendment? Why or why not?

We agree with the comments of EFRAG regarding the proposed amendment of IFRS 17 providing a scope exception for these two types of contracts.

The scope exclusion relating to credit card contracts that meet the definition of insurance contracts would be applicable for instance to credit cards falling under the obligations of section 75 and 75a of Consumer credit act in the UK: under these rules, the card issuer is required to refund the customer in case of a claim related to goods or services purchased with a credit card financing. The issuer will then look to recover the funds from the merchant's bank. We consider that the proposed amendment would adequately permit to apply IFRS 9 to these contracts, as the card issuer acts more like an agent in providing the insurance coverage and rather bear a credit risk on the merchant than an insurance risk.

However, we share EFRAG's concern that the restricted wording "credit card" would exclude from the scope exclusion other financing arrangements with similar features (ie similar insurance coverage with no assessment of the insurance risk associated with an individual customer in setting the price of the contract).



**Question 2 – Expected recovery of insurance acquisition cash flows (paragraphs 28A – 28D, 105A – 105C, B35A – B35C and BC31 -BC49)**

Paragraphs 28A–28D and B35A–B35C propose that an entity:

- (a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;
- (b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and
- (c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

Paragraphs 105A–105C propose disclosures about such assets.

Do you agree with the proposed amendments? Why or why not?

We generally agree with EFRAG's view supporting the proposed amendment of IFRS 17 for the accounting treatment of acquisition cash flows, which may increase the consistency with IFRS 15.

Regarding EFRAG's question to constituents (§18), we do not think that expected contracts renewals should be further defined in IFRS 17, consistently with IFRS 15 which does not include a definition of contract renewals and with a "principles based" approach. We also do not think there should be significant divergent practices in this respect.

**Question 3 – Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44-45, 109 and 117(c) (v), Appendix A, paragraphs B119-B119B and BC50-BC66)**

(a) Paragraphs 44, B119–B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Paragraph B119B specifies criteria for when contracts may provide an investment-return service.

Do you agree with the proposed amendment? Why or why not?

(b) Paragraphs 45, B119–B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c) (v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Do you agree with the proposed disclosure requirements? Why or why not?

We agree with the comments of EFRAG regarding the proposed amendment of IFRS 17 on contractual service margin attributable to investment-return service and investment-related service.



We agree that the principle of the proposed amendments to require an investment-return service to be considered when allocating the contractual service margin using coverage units is an improvement to the current requirements in IFRS 17.

However, to answer EFRAG's question to constituents (§35), we agree that the criteria chosen in the amendment may not cover all the types of contracts which provide in substance an investment-return service. The qualification of investment-return service is subject to the existence of an investment component, or the right to withdraw an amount, or to transfer the contract to another insurer. The existence or absence of such features may vary according to the jurisdictions. For instance, in France, for some saving products related to retirement, the right to withdraw an amount or to transfer can be very limited. Due to the diversity in the legal or contractual frameworks, a definition based on the economical substance rather than on the legal features would eventually avoid measuring and accounting in a different way similar products providing the same service.

For both investment-return and investment-related services, we concur that the coverage units should be determined to reflect that service, in addition to the insurance service if any. However, we believe some flexibility should be allowed to determine coverage/service units, which should take into account the relative weight of the different services of the contracts without being too costly to implement.

We have also noted that the ED considers (B119A) that "For the purpose of applying paragraph B119, the period of investment-return service or investment-related service ends at or before the date that all amounts due to current policyholders relating to those services have been paid, without considering payments to future policyholders included in the fulfilment cash flows applying paragraph B68." In the case of investment-related service, we believe that it may not be applicable to some saving contracts, when the insurer has discretion to allocate the participation to policyholders within a defined time (in France, 8 years). Therefore, we do not believe that the exclusion of payments to future policyholders is relevant for such contracts.

Regarding EFRAG's question to constituents (§36), we are not opposed to the quantitative disclosure on the expected recognition in profit or loss of the contractual service margin, unless this information is considered as too sensitive to be disclosed.

In respect of CSM, we agree that the Variable Fee Approach is well suited to reflect the interaction between assets and liabilities for the valuation of direct participating contracts, However we believe it may not correctly reflect in the IFRS financial statements the annual performance of these contracts in stressed market conditions (for instance, durable low interest rates), because it may overemphasize the valuation of future options which would never be paid to the policyholders.

**Question 4 – Reinsurance contracts held – recovery of losses on underlying insurance contracts (paragraphs 62, 66A-66B, B119C-B119F and BC67-BC90)**

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

- (a) the loss recognised on the group of underlying insurance contracts; and
- (b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Do you agree with the proposed amendment? Why or why not?

We agree with the comments of EFRAG regarding the proposed amendment of IFRS 17 on reinsurance contracts held.



However, we believe that the IASB current definition of “proportionate reinsurance” is too restrictive, and thus excludes some reinsurance treaties for which the reinsurance effect should be recognized similarly with the loss component on the underlying contracts. This may be the case:

- with surplus reinsurance, where the insurer engagement is limited, and
- with some so called “stop loss” or “excess loss” reinsurance treaties/programs, where the potential loss is fully covered when in excess of a defined amount clearly identifiable in the reinsurance contract(s).

Regarding EFRAG’s questions to constituents (§45 to 47), it should be noted that surplus reinsurance and other non proportionate reinsurance exist for both Life and Property & Casualty (P&C) business. In particular, non proportionate reinsurance is mainly used:

- in Life business, as a protection for clearly identified risks (pandemic risk) or guarantees (Guaranteed Minimum Death Benefit in the unit-linked contracts),
- in P&C business, for risks with a low frequency and high intensity, or to cap the loss on severe claims.

Therefore we believe that the accounting treatment should be determined based on the analysis of the contractual term of the reinsurance contract. If the ceding company is clearly protected against a loss in excess of a defined engagement, and a loss component is recognized on the underlying contracts, we believe that the accounting treatment of the reinsurance held should reflect the fact that the loss net of reinsurance ceded is capped.

**Question 5 – Presentation in the statement of financial position (paragraphs 78-79, 99, 132 and BC91-BC100)**

The proposed amendment to paragraph 78 would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Do you agree with the proposed amendment? Why or why not?

We agree with the comments of EFRAG regarding the proposed amendment of IFRS 17 on the balance sheet presentation.

**Question 6 – Applicability of the risk mitigation option (paragraphs B116 and BC101-BC109)**

The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

Do you agree with the proposed amendment? Why or why not?

We agree with the comments of EFRAG regarding the proposed amendment of IFRS 17 on the risk mitigation option.

Regarding EFRAG’s question to constituents (§64 and 65), as non derivative instruments may be used by insurers in a hedging strategy clearly documented, and we concur with the CFO Forum’s view that it may be useful to extend the risk mitigation option to such instruments.



**Question 7 – Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs C1 [Draft] Amendments to IFRS 4 and BC110-BC118)**

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date.

(a) The proposed amendment to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

(b) The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

We agree with the comments of EFRAG regarding the proposed amendment of IFRS 17 to defer the application dates for both IFRS 17 and IFRS 9.

Regarding EFRAG's question to constituents (§73), we believe that the proposed deferral of the effective date to 1 January 2022 would be sufficient if the presentation of 2021 comparative information in the first 2022 IFRS 17 reporting was made optional as suggested by the CFO Forum "IFRS 17 Priorities" document.

However, considering the very tight timeline for the EU endorsement process and the number of technical issues still unsolved, we are concerned by the additional difficulties which may arise in terms of reporting and external communication if the endorsement was expected to be finalized late in 2021. Furthermore, several countries outside the EU will implement IFRS 17 in their statutory accounts, and we consider that the implementation date should be aligned inside and outside the EU.

We support the willingness of EFRAG that the necessary amendment to IFRS 4 extending the deferral of IFRS 9 should be published as early as possible to allow its endorsement in Europe before its current expiry date. We also wish to remind that this should also apply to the extended deferral of IFRS 9 given through the EU endorsement process to the insurance sector of financial conglomerates.

**Question 8 – Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119-BC146)**

(a) Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.

Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims.

Do you agree with the proposed amendments? Why or why not?

(b) The proposed amendment to paragraph C3 (b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option.

Do you agree with the proposed amendment? Why or why not?



(c) Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Do you agree with the proposed amendment? Why or why not?

We agree with the comment of EFRAG regarding the transition relief for business combination. We also consider that such a relief would be also useful for business combinations which will take place after transition, because liabilities for incurred claims are usually managed by the entity in the same way whether they have arisen from current activity or have been acquired in a business combination.

In respect with EFRAG's question to constituents (§94), we also agree with the approach suggested by EFRAG to prefer retrospective application of paragraph B115 instead of supporting the two consequential amendments induced by this non retrospective application (i.e. the possibility to apply the risk mitigation from the transition date and the option to apply the fair value approach). Indeed, we concur with EFRAG comments that a prospective only approach would lead to potential accounting mismatches in CSM and equity.

The retrospective use of risk mitigation should also be clearly allowed for reinsurance of contracts measured under the Variable Fee Approach, since the use of the VFA remains forbidden for reinsurance contracts. In our opinion, the starting point for that retrospective calculation should be that of the reinsurance contracts.

#### **Question 9 Minor amendments (BC147 – BC163)**

This Exposure Draft also proposes minor amendments (see paragraphs BC147–BC163 of the Basis for Conclusions).

Do you agree with the IASB's proposals for each of the minor amendments described in this Exposure Draft? Why or why not?

We agree with the comments of EFRAG in its draft comment letter and in particular, we have the following comments regarding the specific questions to constituents raised in §99 to 105.

#### Treatment of changes in underlying items (paragraph B128 of IFRS 17)

Although the amendment to paragraph B128(c) refers to "changes in the measurement of a group of insurance contracts caused by changes in the fair value of underlying items", it is no clear whether this apply to all contracts, or only to contracts with direct participation features. We believe this should be clarified.

#### Interaction between the recognition date (paragraphs 28/25) and the limitation to the grouping (paragraph 22)

We concur that there may be some inconsistency between these paragraphs. However, we have not assessed at this stage what may be the consequences.

#### Change to the level at which the variable fee approach eligibility test is performed

The Exposure Draft proposes to change paragraph B107 b (ii) so that the assessment of the variability in the amounts payable to the policyholder (paragraphs B101 (b) and B101(c)) should be performed "over the duration of the insurance contract," whereas previously it was "over the duration of the group of insurance contracts." We are highly concerned by this change, because all the assessments under IFRS 17 are to be performed by groups of contract, and not on an individual basis.

We also note that consequential amendment of IFRS 9 paragraph 2.1(e) (iii) as worded ("However this standard applies to: ...(iii) insurance contracts that meet the definition of a financial guarantee contract.") is likely to bring financial guarantees received in the scope of IFRS 9. If this is not intended, clarifying that only "(iii) issued insurance contracts that meet the definition of a financial



guarantee contract.” are in the scope of IFRS 9 would avoid unintended consequences (such as for example for financial guarantees received in the context of a loan agreement whether these are integral to the lending arrangement or not).

#### **Question 10 Terminology**

This Exposure Draft proposes to add to Appendix A of IFRS 17 the definition ‘insurance contract services’ to be consistent with other proposed amendments in this Exposure Draft.

In the light of the proposed amendments in this Exposure Draft, the IASB is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’. If that change is made, those terms would become ‘service units’, ‘service period’ and ‘liability for remaining service’, respectively, throughout IFRS 17.

Would you find this change in terminology helpful? Why or why not?

Regarding EFRAG’s question to constituent (§110), we understand the rationale of that change in terminology, yet we are concerned that it will imply updating all the documentation related to the standard already prepared, such as guidelines, reporting package and chart of accounts.



## Appendix 2 – Other comments arising from topics in EFRAG’s September 2018 letter to the IASB that have not been addressed by the ED

### Topic 1 - Annual cohorts

#### EFRAG’s questions to Constituents

**140** For contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts:

(a) EFRAG is suggesting to the IASB to provide an exception to the requirement to restrict the grouping of contracts using the annual cohorts. Would Constituents agree with this proposal? Please explain why or why not.

(b) Please provide fact patterns - and their prevalence - for which the application of the annual cohorts requirement results in added complexity that is not justified and, as a consequence, should be captured in such an exception. For example:

(i) Contracts to which the VFA applies compared to other contracts;

(ii) Contracts with full sharing of risks compared to other contracts that only share a substantial or significant part of the risks;

(iii) Contracts that share all risks or only particular risk types; and

(iv) Contracts with sharing of asset returns of underlying pools compared to other contracts.

**141** As reported in paragraph 129, the exception should meet the reporting objectives of IFRS 17 (i.e. depicting profit trends over time, recognising profits of contracts over the duration of those contracts and timely recognising losses onerous contracts).

With reference to the pattern of recognition of the CSM, EFRAG in its case study received mixed results as to whether the resulting information would be impacted by the removal of the annual cohorts.

In your opinion, how would you ensure that the CSM release pattern would be in line with the IFRS 17 stated objectives? Do you envisage any loss of information as contemplated by the IASB in paragraph BC177 of the ED? If so, how would you address that loss of information?

**142** Are there other types of contracts in the life insurance business, other than the contracts with cash flows that affect or are affected by cash flows to policyholders, that create similar complexity?

**143** Some have observed that when a grouping approach broader than annual cohorts is applied, there is a benefit in providing additional information about trends in profitability. Such disclosure could include:

(a) Reconciliations for the CSM of those groups from the opening to the closing balances (according to paragraph 101 of IFRS 17)

(b) Disclosure on profitability trends by presenting the CSM effect of new business joining the groups, extracted from (a), as a series of historical data (for example, the last 3 years);

(c) Disclosure of the actuarial techniques applied for computing the CSM effect of new business joining the group as well as disclosure about the method used for assessing the profitability referred in (b).

Would Constituents consider it appropriate to include these additional disclosures?

We strongly support the EFRAG comments on the necessity to find a solution for contracts whose cash flows – and profits - are mutualized between different underwriting generations.

This is clearly the case for the many European saving contracts (as issued in France, Italy, Luxembourg, where our main life subsidiaries are located) measured using the Variable Fee Approach, which share the investment returns of the same pool of underlying items. Such contracts are managed together without considering the notion of “annual cohort”, and their profit is thus mutualized. For such contracts, the mechanism of annual cohorts will not correctly reflect the legal obligation of sharing the return between the policyholders whatever the underwriting date.

It would also imply developing techniques and tools to model the cross-subsidies between the generations, which do not exist in the cash flow projection models at this stage because the notion of “annual cohort” is neither an accounting requirement in local GAAP, nor a regulatory requirement of Solvency 2 (Solvency 2 models have been very often the basis to build IFRS 17 models). Such techniques will be extremely costly considering the potential number of generations which may co-exist in the portfolios due to the long duration of these contracts (Life insurance contracts in France may have more than 40 years duration). They would also require a specific methodology for



accounting purposes considering that any annual cohort is interacting with all the generations in force.

We believe that the use of relevant coverage/service units would allow the CSM release pattern to be in line with the IFRS 17 stated objectives. For instance, if the release of the CSM was based on the technical reserves recognized in the statutory accounts, the derecognition of these technical reserves would also lead to a release of the CSM corresponding to these contracts.

We do not believe that removing the annual cohort requirement for such contracts could lead to a loss of useful information for users. When the profitability is assessed at a mutualized level, applying the “annual cohorts” requirements would imply either using the cross-subsidy techniques already discussed above, or sharing the overall profit among cohorts using an allocation method. In both cases, the allocation method will have neither an economic substance nor a legal or contractual basis, and thus the corresponding information at cohort level will be irrelevant to the users due to the lack of comparability.

Because the amount of CSM contributed by new business is already required in the variation analysis of the CSM, we believe this already provides information on the profitability trend. If this information was not considered sufficient, we agree that more information could be provided such as those proposed by EFRAG in paragraph 143.

## **Topic 2 - Transition: Modified retrospective approach and fair value approach**

### **Question to Constituents (EFRAG)**

**155** Please provide specific prevalent fact patterns where the application of the modified retrospective approach is proving particularly challenging in practice. This would assist EFRAG in understanding better the interpretation difficulties arising in obtaining reasonable and supportable information and in estimating missing information that is required to apply the modified retrospective approach.

We believe that the current modified retrospective approach requirements should be more principles-based (as proposed by the CFO Forum), for instance to allow more flexibility in practice mainly on:

- the starting date of the retrospective calculations (it may be impractical to reconstitute the date for the oldest contracts which have a limited weight in contracts in force at transition date), and
- the use of estimates to reconstitute past margins consistent with the new IFRS 17 grouping.

This flexibility is all the more needed considering the diverging interpretations currently observed on the level of CSM using the Fair value approach compared to the Modified Retrospective Approach. Indeed, there is a widespread opinion that the Fair Value approach would result in a lower level of CSM at transition compared to the retrospective approaches.

## **Topic 3 - Balance sheet presentation: Non-separation of receivables**

### **Questions to Constituents (EFRAG)**

**161** Do Constituents support the presentation of separate information about premiums receivable? If so, should information about premiums receivable:

- (a) be mandatory?
- (b) be based on a predefined definition of “premium receivables” and , in this case, how should premiums receivable be defined?
- (c) be provided on the face of the balance sheet or in the notes?
- (d) be separated by insurance portfolio?

We consider that information about premium receivable could be useful to users.

If this information was not presented on the balance sheet, it could be disclosed in the notes to the accounts.



However, we do not favor a presentation of premium receivables by insurance portfolio, due to the potential costs of production such a presentation may require, and its limited value. The current information already presented under IFRS 4 (i.e. by anteriority of issuing date) seems relevant enough.

Premium receivables are usually defined as all premiums that have been issued for payment from the policyholder (and, therefore, excluded from the insurance liability), but not yet received. We suggest avoiding the reference to “premiums due” because it would only cover the case when the payment is enforceable.

#### **Topic 4 - Reinsurance contracts: contract boundary**

##### **Questions to Constituents (EFRAG)**

**172** Do Constituents support the IASB’s tentative decision not to amend IFRS 17 for the contract boundary of reinsurance contracts held?

**173** Do Constituents that are Users consider that CSM for the reinsurance contracts held which reflects future expected contracts would provide useful information? Please explain.

**174** EFRAG understands that there is no material impact on the balance sheet and probably not a significant impact on profit or loss (until certain events occur as explained in paragraph 169 above). Please explain the prevalence of holding reinsurance contracts that relate to underlying contracts that have not yet been issued, including volumes and the jurisdictions where the issue arises.

We do not support the IASB’s decision not to amend IFRS 17 for the contract boundary of reinsurance contracts held.

We believe that reflecting potential future insurance contracts in the reinsurance asset, when these contracts are not yet reflected in the underlying insurance liability does not provides useful information, and will require the use of estimates for direct insurers which are not currently using such estimates contrary to professional reinsurers. This will also create a mismatch between the insurance liabilities and the reinsurance held asset.

We believe that this issue is significant, for both its conceptual nature and the impact on operational complexity.