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IFRS 17 *Insurance Contracts* **Project Plan**

Objective

- 1 The objective of this session is to consider the approach and project plan for preparing the endorsement advice for IFRS 17 *Insurance Contracts*.
- 2 This paper contains a number of sections, each seeking views from the EFRAG Board:
 - (a) Request from the European Commission;
 - (b) Economic study;
 - (c) Other consultations;
 - (d) Project plan; and
 - (e) EFRAG Board monitoring processes.

A. REQUEST FROM THE EUROPEAN COMMISSION

3 The following table lists the specific items raised in the endorsement advice request letter from the European Commission, and the source(s) of information used to meet that request. The analysis arising from the information collected will be considered by the relevant groups within EFRAG before being considered by the EFRAG Board. The sources listed do not include elements that are part of EFRAG’s normal due process (i.e. input from the EFRAG IAWG, EFRAG TEG and EFRAG Board and from the Invitation to Comment on a Draft Endorsement Advice).

Issue raised in EC letter	Sources of information
<i>General</i>	
What are the benefits brought by the harmonisation under IFRS 17 compared to the existing situation?	Preparer case study Survey of existing accounting practices User outreach
Will IFRS 17 deliver consistent and understandable reporting of financial performance for insurance contracts within a group?	Appendix 2 analysis User outreach
How does IFRS 17 take into account the specificities of the insurance sector?	Preparer case study Appendix 2 analysis
Do the different accounting methods reflect properly the different business models and is the delineation between these different accounting methods such as the scope of the variable fee approach clear?	Preparer case study
Is the level of aggregation striking the right balance between the usefulness of the information and the complexity and costs of its implementation?	Preparer case study User outreach Secretariat paper
How does the pattern of release of the CSM for insurance contracts with direct participation features reflect the business models of the insurance sector?	Preparer case study Secretariat paper
<i>Potential effects on financial stability</i>	
EFRAG asked to analyse the impacts, both positive and negative, with a view to assessing how IFRS 17 is expected to affect financial stability. To the extent that is deemed feasible and useful, the analysis should cover sensitivity analyses as well as stress testing of the impact on the financial statements.	Seek input from official observers Preparer case study
<i>Potential effects on competitiveness</i>	
EFRAG asked to analyse how IFRS 17 could affect the competitiveness of European insurers taking into account the diversity in their business models vis-à-vis their major competitors outside Europe.	User outreach Information on expected use of IFRS 17 outside Europe US GAAP comparison
<i>Potential impact on the insurance market</i>	
EFRAG asked to analyse the potential impact of the new standard on the range of insurance products available to policyholders, the design and pricing of insurance products as well as prospective impact on the demand for various products. In this respect, it would be useful to make a clear distinction between life and non-life insurance products.	Preparer case study Economic study

IFRS 17 Insurance Contracts – Project Plan

Issue raised in EC letter	Sources of information
<p>EFRAG asked to analyse the potential impact of IFRS 17, taking into account its interaction with IFRS 9, on long-term investment including the investments held by insurance groups.</p>	<p>Preparer case study Economic study Evidence obtained in IFRS 9 post-endorsement research project EIOPA's existing study on insurers' investment trends</p>
<i>Cost-benefit analysis</i>	
<p>The assessment should separately identify one-off costs of implementing the standard, ongoing incremental costs of applying it and possible cost savings e.g. resulting from simplifications, synergies with existing IT systems, potential ability for the companies to benefit from the work undertaken in reporting under Solvency II regime (following the comparison of the estimated impact on the financial statements with the information provided under Solvency II to understand the size of the differences between IFRS 17 and Solvency II) or possible savings in case of insurance companies in multiple jurisdictions.</p>	<p>Preparer case study Economic study</p>
<p>The assessment should also consider whether the complexity of the standard is justified in terms of costs of application, in particular as regards the subdivision of products into subgroups (onerous, non-onerous and the remaining contracts) and annual cohorts.</p>	<p>Preparer case study</p>
<p>The assessment shall also consider the consequences of the requirement to provide comparative numbers for the year preceding the application date of IFRS 17.</p>	<p>Preparer case study User outreach Secretariat paper</p>
<p>In terms of benefits, the analysis should cover those resulting from improved quality of financial information, increase in comparability of financial statements with the EU insurance industry and globally, an accounting level playing-field for companies, increased understanding of the sector by capital providers, possible increased attractiveness of the sector to investors, possible positive effect on the cost of capital of insurers.</p>	<p>Preparer case study User outreach Economic study</p>

Question for the EFRAG Board

- 4 Does the EFRAG Board have any comments on the sources of information in the above table?

B. ECONOMIC STUDY

- 5 The objective of the outsourced economic study is to gather input on a number of areas. Specific areas on which advice is sought are:
- (a) *Product offerings*: This will include past trends and anticipated changes, together with the sources of changes in past trends and anticipated changes. This information will complement the information collected from the case study.
 - (b) *Investing behaviour*: Past trends in investments in asset classes by the insurance industry and whether IFRS 17 will change the investing behaviours of the insurance industry.
 - (c) *Investor behaviour*: How investor behaviours have changed with past impacts on the insurance sector such as Solvency II and expected changes arising from changes in financial reporting that would be brought by IFRS 17. Will IFRS 17 affect the current reliance on alternative performance measures provided by insurance entities? Further, anecdotal evidence that the insurance industry is undervalued due to difficulties in understanding the financial statements of insurers and the lack of comparability. The study will be expected to consider the validity of this anecdotal evidence and to assess whether IFRS 17 would address any real concerns.
 - (d) *Allocation of capital to specific product groups*: Is there any evidence that IFRS 17 would affect capital allocated to specific product portfolios by insurers?
- 6 Some parts of the economic study may duplicate data collected from other sources and will act as a check. Any differences between data collected from other sources and data collected through the economic study will warrant specific attention.

Question for the EFRAG Board

- 7 Does the EFRAG Board have views on other information to be addressed through the economic study?

C. OTHER CONSULTATIONS

- 8 Given the controversial nature of some aspects of IFRS 17, the EFRAG Secretariat proposes to develop short consultation papers that analyse key topics. The papers will include concerns raised by members of the EFRAG IAWG and other industry participants. The topics proposed for these separate studies are:
- (a) Level of aggregation;
 - (b) CSM run-off; and
 - (c) Transition to IFRS 17.
- 9 The EFRAG Secretariat proposes to develop a short factual EFRAG Board paper on the structure of the European industry to provide useful background information. This would cover:
- (a) Number and size of listed insurers;
 - (b) Information about insurers that apply IFRS Standards through the Member State options in the IAS Regulation.
- 10 Nearer to the consultation period, the EFRAG Secretariat will consult with the standard setters in major non-European jurisdictions in order to advise the EFRAG Board of the anticipated adoption of IFRS 17 in key international economies.
- 11 A paper comparing IFRS 17 to US GAAP is already under development as an input into the draft endorsement advice.

Question for the EFRAG Board

- 12 Does the EFRAG Board consider that other aspects of IFRS 17 warrant specific studies or EFRAG Board papers?

D. PROJECT PLAN

13 The following charts provide a summary of the anticipated progress of the project.

14 Based on the tables below, it would appear that the following additional meetings will be needed if the consultation period on the draft endorsement advice is to be extended to 8 weeks:

- (a) EFRAG Board:
 - (i) Week commencing 30 July
 - (ii) Week commencing 20 August
 - (iii) Week commencing 3 September
 - (iv) Week commencing 3 December
- (b) EFRAG TEG: Week commencing 13 August
- (c) EFRAG IAWG: Week commencing 12 November.

Week Starting	Dec 2017			Jan 2018					Feb 2018				Mar 2018				
	11	18	25	1	8	15	22	29	5	12	19	26	5	12	19	26	
Case study	IAWG BRD	TEG				TEG	IAWG		BRD	IAWG			TEG	IAWG	BRD		
Insurers prepare																	
Review of results																	
Simplified case study				Design	As for Case study												
Studies																	
Economic study		Design	Consult														
Level of aggregation			Draft	Consult													
CSM run-off				Draft	Consult												
Transition					Draft	Consult											
Other																	
User outreach				Design	Conduct												
DEA																	
Draft DEA																	
Consult																	
FEA																	

IFRS 17 Insurance Contracts – Project Plan

Week Starting	Apr 2018					May 2018				Jun 2018			
	2	9	16	23	30	7	14	21	28	4	11	18	25
	TEG	IAWG		BRD			TEG	IAWG	BRD	IAWG	TEG		
Case study													
Insurers prepare	[Blue bar]												
Review of results							[Blue bar]						
Studies													
Econ study	[Green bar]												
Level of aggregation	[Green bar]												
CSM run-off	[Green bar]												
Transition	[Green bar]												
Other													
User outreach	[Red bar]												
DEA													
Draft DEA										[Orange bar]			
Consult													
FEA													

IFRS 17 Insurance Contracts – Project Plan

Week starting	Jul 2018					Aug 2018				Sep 2018			
	2	9	16	23	30	6	13	20	27	3	10	17	24
	BRD TEG	IAWG								TEG	IAWG	BRD	TEG
DEA													
Draft DEA													
Consult													
FEA													

Week Starting	Oct 2018					Nov 2018				Dec 2018				
	1	8	15	22	29	5	12	19	26	3	10	17	24	31
		IAWG	BRD			IAWG		BRD	TEG	IAWG		BRD TEG		
DEA														
Draft DEA														
Consult														
FEA														

Question for the EFRAG Board

15 Does the EFRAG Board agree to add the proposed extra meetings?

E. EFRAG BOARD MONITORING PROCESSES

- 16 At the EFRAG Board meeting in November 2017, the EFRAG Board decided that the project to develop the endorsement advice on IFRS 17 was of such importance that it warranted additional oversight by the EFRAG Board. The EFRAG Secretariat was asked to provide options for the EFRAG Board to consider at its meeting in December 2017.
- 17 The EFRAG Secretariat has identified the options as listed below. At its November 2017 meeting, the EFRAG Board noted that the option selected should balance the demand on EFRAG Board and EFRAG Secretariat resources and the objective of the oversight.

Option	Effectiveness	Impact on EFRAG resources
More frequent meetings of the EFRAG Board	<ul style="list-style-type: none"> • Will allow a high level of decision-making oversight. • Oversight at this level of frequency is likely to bring the EFRAG Board to manage the technical as well as the strategic agenda. • Based on past experience, effectiveness would require EFRAG Board members to meet in person. 	<ul style="list-style-type: none"> • High – as preparing discussion papers and holding additional meetings of the EFRAG Board is resource intensive.
Establishing a sub-committee of the EFRAG Board	<ul style="list-style-type: none"> • To be effective, a sub-committee would need to be empowered to make decisions that are binding on the EFRAG Board. • Based on past experience, effectiveness would require sub-committee members to meet in person. 	<ul style="list-style-type: none"> • High – as preparing discussion papers and holding additional meetings of the EFRAG Board is resource intensive.
Project update meetings for available EFRAG Board members and official observers	<ul style="list-style-type: none"> • Will enable EFRAG Board members to monitor developments. • Will not require EFRAG Board members to meet in person. • Not appropriate for decision-making as the update meetings will not be formal EFRAG Board meetings. 	<ul style="list-style-type: none"> • Low.

- 18 Assuming that the objective of the oversight is to monitor the progress of developing the draft endorsement advice, the EFRAG Secretariat recommends the introduction of project update conference calls where EFRAG Board meetings are more than 3 weeks apart. These would not be formal EFRAG Board meetings, but would be attended by any available EFRAG Board members and official observers. This will be non-decision-making sessions designed to enable EFRAG Board members to monitor progress without the overheads (for both EFRAG Board members and the EFRAG Secretariat) of formal meetings of the EFRAG Board.

Question for the EFRAG Board

- 19 Does the EFRAG Board agree with the recommendation in paragraph 18 above?