REPORT TO THE BOARD

IFRS 17 Amendments – report from TEG discussion on 4 and 5 December 2019

1. EFRAG TEG discussed the following two topics:
   - IFRS 17 Amendments: EFRAG TEG provided input on the feedback statement on EFRAG's comment letter regarding the IASB Exposure Draft and received a presentation of the IASB approach to the re-deliberations.
   - ongoing activities for the preparation of the DEA: EFRAG TEG received a status update of the EFRAG ongoing analysis on hedge accounting for insurance contracts and discussed the scope of possible supplementary analysis to be done on (i) the user outreaches, (ii) the economic study and (iii) the case study.

IASB redeliberations

2. EFRAG TEG members were provided with a summarised presentation of the IASB approach to the re-deliberations. The topics that the IASB will consider for further deliberation are in general the same that EFRAG final comment letter suggested to reconsider. The following observations were made by TEG members:
   - there was no separate deliberation step for the postponement of IFRS 9 first time adoption, which was a separate point for consideration in EFRAG's final comment letter. This topic is linked to the discussion of the effective date of IFRS 17. The IASB staff expect to discuss the effective date of IFRS 17 and the proposed extension of IFRS 9 temporary exemption in IFRS 4 towards the end of the redeliberations;
   - the IASB plans to reconsider the annual cohort requirement for insurance contracts with intergenerational sharing of risks between policyholders. The IASB Staff paper (Agenda paper 2C paragraph 12 c) for November) did not report the reasons for reconsidering this requirement, as illustrated for example in EFRAG's final comment letter in paragraph 74 ("for contracts with intergenerational mutualisation, the application of the annual cohort requirement, while being operationally complex, would not provide additional useful information to users, as no specific generation of contracts has rights and obligations over a slice of the underlying items").

Hedge accounting and interactions between IFRS 9 and IFRS 17

3. EFRAG TEG members discussed the outcome of the survey and of the feedback from the IAWG meeting held on 12 November 2019. EFRAG TEG members noted that the evidence got so far was not conclusive but was helpful to identify an area for which further understanding is needed, i.e. life contracts that are not eligible for the VFA. In particular the risk mitigation option was emerging as the key tool to account for risk strategies that are in place for the contracts under the VFA. It was also noted that non-life contracts under the general model have generally a short duration and, as such, the need to mitigate the residual mismatch in volatility is less relevant.

4. EFRAG TEG members noted that the area related to how the combined application of IFRS 9 and IFRS 17 would allow to represent the risk mitigation for life contracts not eligible for the VFA should be further investigated. This included assessing the relevance of both the economic and the accounting mismatches of strategies that mitigate the financial risk embedded in the participating features that may exist in these contracts. The EFRAG Secretariat will continue to investigate this issue, including in one-to-one discussions with insurers.

5. One EFRAG TEG observer noted that two jurisdictions in ARC had raised the issue about additional volatility in profit or loss coming from contracts in the general model.

Scope of supplementary analysis to be done on the user outreaches, the economic study and the case studies

6. EFRAG TEG members agreed with the EFRAG Secretariat's recommendation that no update was needed for the user outreach.

7. EFRAG TEG members agreed with the EFRAG Secretariat's recommendation that no update was needed for the economic study. However EFRAG TEG members recommended to provide in the DEA a counter-argument for the observation reported in the Executive summary of the economic study that the majority of the life insurance undertakings interviewed anticipated that IFRS 17 implementation would have negatively affected the industry and disagreed with the potential positive outcomes for the industry itself. EFRAG TEG members observed that the feedback obtained during the consultation on the IASB ED/2019/4 *Amendments to IFRS 17* had shown that there was support from the industry for IFRS 17 and for the Amendments, provided that the remaining priority concerns were addressed in the re-deliberations. In addition, EFRAG TEG members recommended to include in the DEA appropriate wording to acknowledge the developments in the US GAAP that have occurred since the study was issued.

8. EFRAG TEG members agreed with the EFRAG Secretariat's recommendation that only a limited update of the case study is appropriate at this stage.

9. One reason for not updating the case study entirely is the feasibility in the context of the current plan and timing (including the need for the insurance entities that would participate to commit to provide granular and updated data in the first quarter of 2020, where they will be preparing their annual reports).

10. The other reason is that the information needs of EFRAG in the context of the DEA may more effectively be covered by a qualitative approach. Thanks to the detailed and simplified case-study run in 2018 EFRAG has collected information that allowed to assess the implications of IFRS 17 for European insurance entities. The subsequent IASB developments, the issuance of the ED and the current re-deliberation process relate primarily to changes to the standard that would alleviate operational concerns in the implementation of the standard. Compared to the outcome of the case studies run in 2018, these developments are not expected to impact the understanding of the implications of IFRS 17 for the European insurance entities. On the contrary, they are expected in principle to address the concerns about the implementation challenges identified in those case studies.

11. EFRAG TEG members agreed with the approach suggested by the EFRAG Secretariat, i.e. to ask, to the extent possible, for some quantitative data and rely on qualitative information for the rest. The limited update of the case study would include the request to update quantitative information about the implementation costs, including costs already incurred and remaining costs. Some EFRAG TEG members recommended to assure that all the items in the letter from the EC and in the motion of the EP are properly covered by the analysis and that the tight timeline for the activity does not ultimately compromise the quality of the assessment done. Other EFRAG TEG members noted that the studies had been costly for preparers. In order to reduce the burden of the limited update of the case study, they suggested to reassess the proposed questionnaire with

the purpose of identifying further areas where a qualitative approach only would be sufficient.