IFRS 17 Insurance Contracts - Final Endorsement Advice

Summary and analysis of the comment letters received

Structure of the paper

1 This comment letter analysis contains:

(a) Background;

(b) Summary of respondents;

(c) Summary of respondents' views;

(d) Main positions in EFRAG's proposed final endorsement advice;

(e) Appendix 1: Detailed analysis of responses;

(f) Appendix 2: list of issues for a PIR of IFRS 17;

(g) Appendix 3: list of respondents; and

(h) Appendix 4: Further details of responses to questions 2 and 3

Background

2 On 30 September 2020, EFRAG published its draft endorsement advice ('DEA') on IFRS 17 Insurance Contracts as resulting from the June 2020 Amendments.

3 EFRAG's draft endorsement advice package consisted of the following:

(a) Cover Letter;

(b) Appendix I (description of the requirements in IFRS 17);

(c) Appendix II (DEA assessment and conclusion about the qualitative technical characteristics of all the other requirements in IFRS 17 - apart from the requirement covered in Annex 1);

(d) Appendix III (DEA assessment and conclusion about European Public Good on all the other requirements in IFRS 17 - apart from the requirement covered in Annex 1); and

(e) Annex 1 (observations about the use of annual cohorts to intergenerationally mutualised and cash-flow matched contracts that are relevant for the DEA assessment of topics usually presented in Appendices II and III).

4 EFRAG's overall preliminary assessment in the DEA is reported below:

(a) The EFRAG Board has concluded on a consensus basis that, apart from the requirement to apply annual cohorts to intergenerationally-mutualised and cash-flow matched contracts, all the other requirements of IFRS 17, on balance (i) meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent

accounting, and that they are not contrary to the true and fair view principle; and (ii) are conducive to the European public good;

(b) Solely with reference to the requirement to apply annual cohorts to intergenerationally-mutualised and cash-flow matched contracts, EFRAG Board members do not have a consensus. Nine EFRAG Board members believe that the annual cohorts requirement meets the above endorsement criteria, whereas seven EFRAG Board members believe it does not.

(c) The DEA also provided preliminary conclusions on a number of specific issues that the European Commission and/or the European Parliament considered in their request for endorsement of IFRS 17.

Summary of respondents

5 39 comment letters have been received. Refer to Appendix 3 for a list of the respondents which includes country where located and type of respondent.

6 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents. EFRAG was also informed of a response by a national association of audit firms to their national standard setter that concurred with the views of that standard setter. As this response was not addressed to EFRAG, it has not been counted as an additional letter, however their views are reported in the footnote to questions 2(a), (b) and 3(a), (b) Summary of respondents' views

7 For further detail of responses on questions 2 and 3, please refer to Appendix 4.

Question 2(a) – Technical criteria assessment for all other IFRS 17 requirements

Technical endorsement criteria met for all other requirements?	Yes	No	Both Yes and No	No answer[1]	Other[2]	Total
ITC	18 (1 user)	3	2	-	1 (European user organisation)	24
Letter	6[3]	-	-	8	1 (international user organisation)	15
Total	24	3	2	8	2	39

8 Of those that responded to the question a large majority noted that all the other IFRS 17 requirements meet the technical endorsement criteria. In addition, respondents provided various comments on:

(a) Issues that are not resolved but are to be addressed in a Post Implementation Review;

[1] This refers to (i) no responses being provided or to (ii) responses that were not in the 'Invitation to Comment' structure and so there was no specific response to the question or (iii) not applicable to the respondent. Please refer to paragraphs 82 to 89 for the detailed comments.

[2] Following consultation with these respondents, their feedback has been interpreted as supporting the requirement to apply annual cohorts to all contracts, however the European user organisation would support a simplified implementation approach and the international user organisation had a small minority in dissenting position. For transparency, these two respondents have been categorised in the 'Other' bucket for questions 2a/b/c and questions 3a/b/c.

[3] One entity did not reply to EFRAG but supported the comment letter of a respondent and noted to support the comment letter and the views expressed in that comment letter in relation to the application of the annual cohort requirement to insurance contracts with intergenerational mutualisation.

(b) Spill-over issues relating to IFRS 9 *Financial Instruments* and the Capital Requirements Regulation.

9 Of the eight respondents that did not directly answer the question, three supported the endorsement of the standard without necessarily differentiating between the annual cohorts and other requirements.

Question 2(b) - Technical criteria assessment for application of annual cohorts to intergenerationally-mutualised contracts

Technical endorsement criteria met for annual cohorts relating to intergenerationally-mutualised contracts?	Yes	No	No answer[4]	Other[5]	Total
ITC	8 (1 user)	14	1	1 (European user organisation)	24
Letter	5	6[6]	3	1 (international user organisation)	15
Total	13	20	4	2	39

10 A large majority of those that responded were of the view that the technical endorsement criteria are not met for annual cohorts relating to intergenerationally mutualised contracts. Respondents provided many reasons for this. For example:

(a) It brings a distorted representation of the CSM within single groups - not possible to determine objectively the allocation of cash flows to the cohorts – artificial allocation;

(b) When the cash flows are contractually or legally determined jointly for all policyholders, there is no reason to track the profitability of contracts at a lower level of granularity. There is no onerous contract until the portfolio as a whole becomes onerous; or

(c) Implementation and operational costs will not provide any benefit to such contracts.

11 A minority of respondents was of the view that the annual cohort requirement does fulfil the endorsement criteria. Also here various reasons were provided. For example:

(a) (Dis)aggregating profits is a compromise on any level of aggregation. Disaggregation is neither costly nor impossible in absolute terms but is a relative method to achieve more (or less) granular presentation of profitability at more (or less) costs. Entities are experienced in disaggregation on an annual cohort level for contract pricing, controlling and management purposes, and entities are accustomed to also do this for accounting purposes; or

(b) Reasonable approximations can be used to allocate cash flows from policyholder participation to annual cohorts which overcomes significant

[4] Please refer to paragraphs 92 to 99 for the detailed comments.

[5] Following consultation with these respondents, their feedback has been interpreted as supporting the requirement to apply annual cohorts to all contracts, however the European user organisation would support a simplified implementation approach and the international user organisation had a small minority in dissenting position. For transparency, these two respondents have been categorised in the 'Other' bucket for questions 2a/b/c and questions 3a/b/c.

[6] One entity (national audit association) did not reply to EFRAG but supported the comment letter of a respondent (national standard setter) and noted to support the comment letter and the views expressed in that comment letter, opposing to the application of the annual cohort requirement to insurance contracts with intergenerational mutualisation.

degree of judgement. Also, an assessment would need to focus on additional costs resulting from segregation of annual cohorts compared to segregations that would be required anyway (e.g., portfolio and onerousness).

	No. of respondents[7]
IFRS 17 should be endorsed as a whole, i.e., no EU specific modification	18
In favour of a solution to the annual cohort issue (**total**) of which: • In favour for both intergenerationally-mutualised contracts and cash-flow matched contracts • In favour for intergenerationally-mutualised contracts • No specification of which contracts	21 • 10 • 10 • 1
• No answer	1
Annual cohort issue should be optional, i.e., option to apply annual cohorts or a solution to the issue.	11
Those that indicated that there should not be a delay of IFRS 17's effective date of 1 January 2023	21

12 While this was not a specific question in the ITC, many respondents provided their views on whether IFRS 17 should be endorsed or not. Overall, views were split whether there is a necessity for an annual cohort solution or not.

Question 2(c) - Technical criteria assessment for application of annual cohorts to cash-flow matched contracts

Technical endorsement criteria met for annual cohorts relating to cash-flow matched contracts?	Yes	No	No answer[8]	Other[9]	Total
ITC	7 (1 user)	6	10	1 (European user organisation)	24
Letter	5	4	5	1 (international user organisation)	15
Total	12	10	15	2	39

13 There were fewer comments on the application of annual cohorts to cash flow matched contracts. Slightly more respondents found that that the technical endorsement criteria were met for cash flow matched contracts than those that found the opposite

Question 2(d) – Any other issues

14 Not many respondents replied to this question[10]. Issues to be highlighted here are:

(a) EFRAG to consider proposals for a more formal role of actuaries;

(b) EFRAG to recommend the EC to consider specific changes to the Capital Requirements Regulation to the benefit of financial conglomerates.

[7] One user organisation is included twice, with a majority and a minority view.

[8] Please refer to paragraphs 101 to 104 for the detailed comments.

[9] Following consultation with these respondents, their feedback has been interpreted as supporting the requirement to apply annual cohorts to all contracts, however the European user organisation would support a simplified implementation approach and the international user organisation had a small minority in dissenting position. For transparency, these two respondents have been categorised in the 'Other' bucket for questions 2a/b/c and questions 3a/b/c.

[10] Please refer to paragraphs 106 to 113 for the detailed comments.

Question 3(a) – All other IFRS 17 requirements

European public good criteria met for other requirements?	Yes	No	No answer[11]	Other[12]	Total
ITC	20 (1 user)	3	-	1 (European user organisation	24
Letter	6[13]	-	8	1 (international user organisation)	15
Total	26	3	8	2	39

15 Two European regulators agreed that IFRS 17 is on balance conducive to European public good.

16 Other respondents that agreed that the European public criteria have been met, indicated that:

(a) the IFRS 17 requirements would improve financial reporting, would reach an acceptable cost-benefit trade-off and is not expected to have major adverse effect on the European economy, including financial stability and economic growth; and

(b) an EU 'carveout' to the requirements of IFRS 17 could result in significant additional costs for some entities.

17 While agreeing that the European public good criteria have been met, others were less positive in their comments:

(a) the IFRS 17 requirements are unnecessarily complex and that the objective of consistent insurance financial reporting could have been achieved at a much lower cost;

(b) the perceived imbalance between the benefits and costs (i.e., significant implementation costs versus questionable increase of the information usefulness) is an important argument in the assessment whether the annual cohort requirement contributes to the European public good; and

(c) it is very difficult to quantify and measure the benefits of IFRS 17.

18 One respondent that answered no referred to the existence of three transition approaches which would impair comparability given the different outcomes.

19 As for question 2(a), of the nine respondents that did not provide an answer, four supported the endorsement of IFRS 17.

[11] Please refer to paragraphs 115 to 126 for the detailed comments.

[12] Following consultation with these respondents, their feedback has been interpreted as supporting the requirement to apply annual cohorts to all contracts, however the European user organisation would support a simplified implementation approach and the international user organisation had a small minority in dissenting position. For transparency, these two respondents have been categorised in the 'Other' bucket for questions 2a/b/c and questions 3a/b/c.

[13] One entity (national audit association) did not reply to EFRAG but supported the comment letter of a respondent (national standard setter) and noted to support the comment letter and the views expressed in that comment letter, opposing to the application of the annual cohort requirement to insurance contracts with intergenerational mutualisation.

Question 3(b) - Application of annual cohorts to intergenerationally-mutualised contracts

European public good criteria met for annual cohorts relating to IGM contracts?	Yes	No	No answer[14]	Other[15]	Total
ITC	8 (1 user)	14	1	1 (European user organisation)	24
Letter	5	6[16]	3	1 (international user organisation)	15
Total	13	20	4	2	39

20 The comments from respondents that considered the application of the annual cohort requirement as conducive to the European public good include the following:

(a) IFRS 17 provides transparency and comparability within the industry and across industries. Policyholders deserve to see trends in profits for insurers and how historic policyholders have been used to subsidise the acquisition of new business over time. This is in the wider public interest.

(b) The clear measurement principles of IFRS 17 will lead to more comparable financial statements than currently and, on balance, the standard (including annual cohorts) will be beneficial for the European good.

(c) Non-application of the annual cohort requirement obfuscates what is happening and allows too much management discretion.

(d) New modifications could endanger the 2023 application date and a European solution will impair comparability.

(e) No evidence of an adverse effect on business competitiveness and financial stability due to the annual cohort requirement despite such concerns. Furthermore, the benefits of applying the annual cohorts requirement to outweigh the costs.

(f) No awareness of any micro- or macroeconomic implications due to the annual cohort requirement. No evidence that requirements would contradict the underlying economics in a way that can be attributed to the accounting model rather than the underlying economics.

(g) Many sophisticated users support the annual cohort requirement which with the use of approximations need to be factored into any cost-benefit analysis.

21 Some of the arguments from respondents who opposed to the application of the annual cohort requirement to IGM contracts as it is not conducive to the European public good are as follows:

[14] Please refer to paragraphs 129 to 134 for the detailed comments.

[15] Following consultation with these respondents, their feedback has been interpreted as supporting the requirement to apply annual cohorts to all contracts, however the European user organisation would support a simplified implementation approach and the international user organisation had a small minority in dissenting position. For transparency, these two respondents have been categorised in the 'Other' bucket for questions 2a/b/c and questions 3a/b/c.

[16] One entity (national audit association) did not reply to EFRAG but supported the comment letter of a respondent (national standard setter) and noted to support the comment letter and the views expressed in that comment letter, opposing to the application of the annual cohort requirement to insurance contracts with intergenerational mutualisation.

(a) The annual cohort requirement adds costs that do not outweigh benefits in terms of financial reporting improvements. Methods to determine the information on an annual cohort basis may not be comparable.

(b) The annual cohort requirement may not depict an insurer's profitability faithfully.

(c) Increased volatility in the profit or loss results would introduce further complexity in reporting and communication of the financial results and may result in insurers withdrawing these products or increasing their prices.

(d) The requirement risks pro-cyclical reporting effects as the group would include a limited number of contracts and would create greater variability in the CSM, increase the scope of onerous cohorts and greater volatility of profit or loss. The market could react negatively to volatile results, making it more difficult for insurers to obtain finance, or requiring recapitalisation or the sale of strategic assets.

(e) There is a risk that the cost of implementation will affect the policyholders, without providing a relevant information to the users.

(f) Stakeholders (including sophisticated users) are not very interested in the Solvency II results which is expensive to prepare.

(g) The lower aggregation cuts across management, pricing and risk-management decisions and so the outcome is not appropriate.

(h) The design of insurance products, financial asset management policy and current coverage system while approved by the regulator may be impacted by the annual cohort requirement.

Question 3(c) - Application of annual cohorts to cash-flow matched contracts

European public good criteria met for annual cohorts relating to CFM contracts?	Yes	No	No answer [17]	Other[18]	Total
ITC	7 (1 user)	6	10	1 (European user organisation)	24
Letter	5	4	5	1 (international user organisation)	15
Total	12	10	15	2	39

22 Some respondents indicated that there are not material portfolios of these contracts in their territories of Austria, France, Belgium, United Kingdom while others used the same or similar arguments as for IGM contracts to apply annual cohorts.

23 One respondent that answered yes asserted that these contracts are not identified in IFRS 17 and that the DEA does not provide a clear scope definition.

24 Another respondent that answered yes commented that it is more important to apply the annual cohort requirements to these contracts that fall under the general model

[17] Please refer to paragraphs 136 to 144 for the detailed comments.

[18] Following consultation with these respondents, their feedback has been interpreted as supporting the requirement to apply annual cohorts to all contracts, however the European user organisation would support a simplified implementation approach and the international user organisation had a small minority in dissenting position. For transparency, these two respondents have been categorised in the 'Other' bucket for questions 2a/b/c and questions 3a/b/c.

where the impacts of changes in the capital market affects the CSM more directly than under the VFA.

25 Respondents who answered no, indicated that these contracts promote long-term savings in Spain and usually include long-term fixed rate guarantees. The requirement is inconsistent with the business model and would lead to artificial variability for senior cohorts and increase the scope of onerous contracts. Not addressing this issue will significantly increase the cost of preparing the financial reporting and the resulting financial information will not be useful. This is a significant issue that should be resolved as part of the endorsement of IFRS 17 by the European Union, but such a solution should be optional and furthermore should not delay IFRS 17's effective date of 1 January 2023.

Question 4 - Improvement in financial reporting[19]

26 25 respondents (including one user, one International user organisation and one European user organisation) agreed that IFRS 17 is an improvement to financial reporting compared to IFRS 4. The arguments used often relate to improved transparency, effective measurement of risks and profitability and improved comparability due to the consistent application of requirements.

27 5 respondents of which 2 respondents answered both yes and no, did not agree that IFRS 17 is an improvement to financial reporting compared to IFRS 4. The shortcomings in IFRS 17 as reported under question two and question three of the ITC are used as an argument. However, the respondents confirmed that these issues should not prevent the endorsement of the Standard. These issues are also shared by respondents who agreed that IFRS 17 is an improvement to financial reporting.

28 9 respondents did not answer to this question.

Question 5 - Costs and benefits

Benefits of all the other IFRS 17 requirements in IFRS 17 exceeds the related costs?	Yes	No	Both Yes and No	No answer[20]	Total
ITC	18 (1 user)	3 (1 European user organisation)	1	2	24
Letter	-	-	-	15 (1 international user organisation)	15
Total	18	3	1	17	39

29 Respondents provided a range of comments such as:

(a) IFRS 17 requirements are unnecessarily complex and it is very difficult to quantify and measure the benefits of IFRS 17;

(b) Benefits of IFRS 17 may be more visible at an industry level than for individual companies, however given the significant costs already incurred, the cost/benefit assessment should not block the endorsement of IFRS 17;

[19] Please refer to paragraphs 146 to 150 for the detailed comments.

[20] Please refer to paragraphs 154 to 161 for the detailed comments.

(c) The costly requirements relating to certain topics should not delay endorsement but should be followed up as part of the IFRS 17 PIR at the latest;

(d) Benefits will outweigh the costs if the principles can be consistently interpreted and applied by preparers;

(e) The monitoring of cohorts over time will add unnecessary complexity and costs and that a failure to find a solution would significantly increase the costs of compliance;

(f) The advantages to all stakeholders of having a globally consistent standard for insurers outweighs the cost relating to annual cohorts;

(g) An EU-adapted IFRS 17 could lead to additional costs; and

(h) No alternative workable solutions to the annual cohort requirement which may provide a simpler approach at a lower cost while achieving the same objectives have been identified.

Question 6 - Potential effects on financial stability[21]

30 20 respondents (one user and one European user organisation) agreed that IFRS 17 does not negatively affect financial stability. Three respondents disagreed and 16 (one international user organisation) provided no answer.

Question 7 - Potential effects on competitiveness[22]

31 22 respondents (one user and one European user organisation) agreed that the underlying economics and profitability will always be more decisive in taking up a business in a particular region or a particular insurance product than changes to the accounting that is used to report on it. 17 respondents (one international user organisation) provided no answer.

Question 8 - Potential impact on the insurance market (including impact on social guarantees)[23]

32 22 respondents (one user and one European user organisation) agreed with the assessment on pricing and product offerings. 17 respondents (one international user organisation) provided no answer.

33 21 respondents (one user and one European user organisation) agreed with the assessment on asset allocation. Two respondents disagreed and 16 respondents (one international user organisation) provided no answer.

34 16 respondents (one user and one European user organisation) agreed with the assessment on SMEs, four respondents disagreed, one respondent answered both yes and no and 18 respondents (one international user organisation) provided no answer.

Question 9 - Presentation of general insurance contracts[24]

35 14 respondents (including one user) agreed that the presentation requirements of IFRS 17 provides useful information.

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[21] Please refer to paragraphs 164 to 169 for the detailed comments.

[22] Please refer to paragraphs 173 to 175 for the detailed comments.

[23] Please refer to paragraphs 183 to 198 for the detailed comments.

[24] Please refer to paragraphs 201 to 205 for the detailed comments.

36 7 respondents of which one respondent answered both yes and no, disagreed that the presentation requirements of IFRS 17 provides useful information based on the issues identified under Question 2(a) – Technical criteria assessment for all other IFRS 17 requirements and Question 3(a) – All other IFRS 17 requirements.

37 18 respondents (including one International user organisation and one European user organisation) did not answer to this question.

Question 10 - Interaction between IFRS 17 and Solvency II[25]

38 23 respondents (including one user and one European user organisation) agreed with EFRAG's assessment on the interaction between IFRS 17 and Solvency II while 16 respondents (including one international user organisation) did not answer this question.

39 One respondent indicated that while there may be some synergies, the change from Solvency II to IFRS 17 is comparable to scaling up required to change from Solvency I to Solvency II. Another stated that IFRS 17 has to consider the differences between non-life and life businesses as envisaged by Solvency II.

Question 11 - Impact of the new Standard on financial stability, long-term investment in the EU, procyclicality and volatility

40 21 respondents (one user and one European user organisation) agreed with the assessment on long-term investment, one respondent disagreed and 17 respondents (one international user organisation) provided no answer.

41 18 respondents (one user and one European user organisation) agreed with the assessment on procyclicality and volatility, 5 respondents disagreed and 16 respondents (one international user organisation) provided no answer.

Question 12 - IFRS 17 and IFRS 9

42 15 agreed (one user and one European user organisation) with the assessment on hedge accounting, three respondents disagreed, one respondent answered both yes and no and 20 respondents (one international user organisation) provided no answer. Some respondents added that the lack of a macro hedge solution also played a role in the ability to apply hedge accounting.

43 12 agreed with the assessment on OCI balances and risk mitigation (one user), 8 respondents disagreed, one respondent answered both yes and no and 18 respondents (one European and one international user organisation) provided no answer.

44 Some respondents provided comments that went beyond IFRS 17 and advocated:

(a) Resolving recycling of gains or losses on equity investments under IFRS 9;

(b) A carve out of IFRS 9 to permit a full IFRS 9 comparative information;

(c) Resolving the effects of applying IFRS 9 and IFRS 17 on the calculation of the regulatory capital requirements of financial conglomerates (change of CRR).

Question 13 - Application of IFRS 15[26]

45 20 respondents (including one user and one European user organisation) agreed with EFRAG's assessment on the application of IFRS 15.

46 Two respondents who did not respond to this question, expressed a different view and noted that insurance contracts will be measured either under IFRS 17 or under

[25] Please refer to paragraphs 214 to 217 for the detailed comments.

[26] Please refer to paragraphs 275 to 277 for the detailed comments.

IFRS 9, with no unbundling of service components (no distinct performance obligations).

47 19 respondents (including one International user organisation) did not answer to this question.

Question 14 - Implications of transitional requirements[27]

48 18 respondents (including one user and one European user organisation) agreed, three respondents disagreed with EFRAG's assessment on the implications of the transitional requirements while two respondents both agreed and disagreed. 16 respondents (including one international user organisation) did not answer this question.

49 Concerns raised in general related to the different approaches allowed on transition and the restrictive nature of the full and modified retrospective approaches which may encourage use of the fair value approach. One of the respondents that answered "no" referred to the noncomparable results on interest rate and equity depending on the transition approach used while another referred to the complexity of the MRA.

Question 15 - Impact on reinsurance[28]

50 15 respondents (including one user) agreed with EFRAG's assessment on the impact on reinsurance.

51 7 respondents of which one respondent answered both Yes and No, did not agree with EFRAG's assessment on the impact on reinsurance. These respondents noted that the application of IFRS 17 will result in several mismatches as explained under question 2 and 3 of the ITC.

52 17 respondents (including one International user organisation and one European user organisation) did not answer to this question.

Question 16 - Implementation timeline

Question 16a - Delay of the implementation of IFRS 17 till 2023[29]

53 22 respondents (including one user and one European user organisation) agreed with EFRAG's assessment relating to the delay of the implementation of IFRS 17 till 2023.

54 Some respondents additionally emphasised that a timely application of IFRS 17 is important as the current requirement brings regulatory and financial stability risk. Any further delay is not supported and would lead to the disruption of the implementation process, increase in implementation costs and further delay of the application of IFRS 9 by insurance companies.

55 17 respondents (including one International user organisation) did not answer to this question.

Question 16b - Early application[30]

56 21 respondents (including one user and one European user organisation) agreed with EFRAG's assessment relating to the early application.

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[27] Please refer to paragraphs 280 to 287 for the detailed comments.

[28] Please refer to paragraphs 291 to 301 for the detailed comments.

[29] Please refer to paragraphs 305 to 306 for the detailed comments.

[30] Please refer to paragraphs 308 to 310 for the detailed comments.

57 One respondent supported the early application option for the financial year 2022, therefore requesting a timely endorsement. According to the respondent stakeholders in their jurisdiction are ready and willing to early apply. Another respondent explained that the early application option should be available timely for those who want to early apply.

58 One respondent disagreed with EFRAG's assessment relating to the early adoption. The respondent noted that some companies in its jurisdiction would like to benefit from the early adoption as per 1 January 2022. Therefore, emphasised the importance of timely endorsement of the current Standard without any additional delay or modifications.

59 17 respondents (including one International user organisation) did not answer to this question.

Question 17 – Other factors to consider[31]

60 20 respondents (including one user) agreed that there are no other factors to be considered.

61 Two respondents provided additional factors:

(a) Use of IFRS 9 under the comparative 2022 period (not being able to apply IFRS 9 to financial instruments derecognised at date of initial application);

(b) Amounts to be recognised in OCI at transition under the fair value approach.

(c) The impact on CET1 of financial conglomerates as a result of applying IFRS°9 and IFRS 17 together;

(d) The backloading effect of CSM for life insurance contracts measured under the VFA.

62 Two respondents (including one European user organisation) did not agree and noted that the issues relating to the volatility in OCI, the possible under-estimation of the impact of annual cohorts on life contracts and the difference with Solvency II regarding the classification of life and non-life contracts need to be addressed.

63 17 respondents (including one International user organisation) did not answer to this question.

Question 18(a) - Portion of IGM contracts and CFM contracts of all (life) insurance liabilities[32]

64 Generally, responses confirmed the EFRAG DEA estimates and showed that for Austria, France, and Italy, a significant proportion of life insurance liabilities are intergenerationally-mutualised contracts under the VFA. These countries consider the annual cohort requirement as a significant concern for these contracts. While these types of contracts are also a similarly significant proportion of life insurance liabilities in Germany, it is not considered a significant concern there.

65 In Spain a lower, but still significant proportion of life insurance liabilities are considered to be cashflow-matched contracts for which the annual cohort requirement is a significant concern.

66 A UK respondent had a much lower proportion of intergenerationally-mutualised contracts and indicated that this is not a significant concern. It also stated that as cash-flow matching is a common risk mitigation technique that is routinely applied

[31] Please refer to paragraphs 314 to 316 for the detailed comments.

[32] Please refer to paragraphs 321 to 336 for the detailed comments.

to all types of contracts and it is impossible to identify the portion of business that is subject to such cash-flow matching.

Question 18(b) - Proportion of IGM contracts for which the requirement around annual cohorts is considered a significant issue[33]

67 In Italy, intergenerationally-mutualised contracts amount to 72% of the total life technical provisions as of 30 September 2020.

68 While almost 100% of all life (and health) insurance liabilities, and 1/2 to 2/3 of all insurance liabilities fall under IFRS 17 paragraphs 67 to 71 and qualify for the VFA in Germany, the requirement is not regarded as a significant issue. Insurers have found and implemented solutions.

69 In France, the annual cohorts requirement is an issue for all life and health contracts and investment contracts with discretionary participation features which are not unit-linked.

70 A respondent from the UK does not consider this a significant issue for their business.

Question 18(c) – Envisaged approach to implement the annual cohorts requirement to IGM contracts[34]

71 One respondent indicated that the following approach can be used to achieve the required annual cohort split and to separate mutualisation effects:

(a) Determine the stochastic cash flows for subsequent measurement at a higher level of aggregation than groups of contracts.

(b) Adjust the CSM (or unlock the CSM) at the same level.

(c) Allocate CSM to each group of contracts while reflecting the mutualisation effects between groups of contracts.

(d) Calculate the CSM release at group level.

Question 18(d) - Proportion of CFM contracts for which the requirement around annual cohorts is considered a significant issue[35]

72 Annual cohorts are an issue for 89% for contracts where the matching adjustment is applied in Spain.

Question 18(e) - Envisaged approach to implement the annual cohorts requirement to CFM contracts[36]

73 Entities will disaggregate contracts based on year of issuance, but this does not reflect how assets and liabilities are managed.

Question 19(a) – Implication of Covid-19 on the impact of IFRS 17 in the insurance market[37]

74 Respondents made the following comments:

(a) The pandemic would impact IFRS 17 reporting as follows:

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[33] Please refer to paragraphs 337 to 342 for the detailed comments.

[34] Please refer to paragraphs 343 to 347 for the detailed comments.

[35] Please refer to paragraphs 349 to 352 for the detailed comments.

[36] Please refer to paragraphs 354 to 356 for the detailed comments.

[37] Please refer to paragraphs 358 to 366 for the detailed comments.

(i) The impact of financial market variables (e.g., the level and volatility of equity markets, bond yields, credit spreads, credit defaults) on asset and liability values;

(ii) Changes in policyholder behaviour and new business volumes (e.g., resulting from personal economic circumstances, financial markets, reduction in face-to-face contact with the distributors of insurance products);

(iii) Changes in mortality and morbidity experience as well as additional claims;

(iv) The impact that large proportions of the staff of insurance companies and third-party service providers working remotely might have on insurers' operations;

(b) IFRS 17 is even more important during the pandemic as it will provide comparable, transparent, meaningful and instructive financial reporting;

(c) A possible risk of procyclical effects of IFRS 17 in adverse market conditions due to increased volatility in financial markets resulting in limited ability to support public mitigation measures;

(d) Greater volatility in general, may be perceived negatively by users and may increase cost of capital, restrict access to finance and a decrease in market capitalisation. This may be amplified during the pandemic;

(e) Insurers would need to increase their efforts to comply with new legal or accounting requirements in a context of economic recession; and

(f) The pandemic should not impact the timely endorsement decision for the 2023 effective date.

Question 19(b) – Impact of Covid-19 on implementation of IFRS 17 and IFRS 9[38]

75 Some respondents indicated that while the pandemic has had an impact on the implementation project, it is expected that these delays will be rectified in the coming months and no delays to the effective date is required. There were some calls to maintain the current effective date with no respondent requesting a further delay.

Question 19(c) – Other aspects around implications of Covid-19[39]

76 Where there were replies on this question, respondents indicated that the pandemic is no reason for a delay to the effective date of 1 January 2023.

Question 20 – Other comments[40]

77 Respondents comments varied. They repeated their support for the endorsement of the standard and/or their request for a solution for the issue of annual cohorts. They also noted other issues that remain unsolved and for some of them pleaded to deal with these in a post implementation review.

[38] Please refer to paragraphs 115 to 375 for the detailed comments.

[39] Please refer to paragraph 376 for the detailed comments.

[40] Please refer to paragraphs 380 to 405 for the detailed comments.

Appendix 1 - Detailed analysis of responses

78 The format of the comment analysis below is based on the invitation to comment.

79 Question 1 relates to general details of the respondents and these are provided in Appendix 3 to this document.

80 For further detail of responses on questions 2 and 3, please refer to Appendix 4.

Part I: EFRAG's initial assessment with respect to the technical criteria for endorsement

DEA initial assessment

81 EFRAG's initial assessment of IFRS 17 is that:

(a) The EFRAG Board has concluded on a consensus basis that, apart from the requirement to apply annual cohorts to intergenerationally-mutualised and cash-flow matched contracts, as explained in the attached Cover Letter, on balance, all the other requirements of IFRS 17 meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support 'economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting.

(b) EFRAG has concluded that all the other requirements of IFRS 17 are not contrary to the true and fair view principle. EFRAG Board members were split into two groups about whether the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts meet the qualitative characteristics described above.

(i) Nine EFRAG Board members consider that overcoming in a timely manner the issues of IFRS 4 brings sufficient benefits despite the concerns on annual cohorts. They believe that, in the absence of an alternative principles-based approach to grouping of contracts, on balance the annual cohorts requirement provides an acceptable conventional approach that enables to meet the reporting objectives of the level of aggregation of IFRS 17.

(ii) Seven EFRAG Board members consider that in many cases in Europe the requirement to apply annual cohorts for insurance contracts with intergenerational mutualisation and cash-flow matched contracts will result in information that is neither relevant nor reliable. This is because the requirement does not depict an entity's rights and obligations and results in information that represents neither the economic characteristics of these contracts nor the entity's underlying business model. These EFRAG Board members also consider that this requirement is not conducive to the European public good because it (i) adds complexity and cost and does not bring benefits in terms of the resulting information, (ii) may lead to unintended incentives to change the way insurers cover insurance risks and (iii) may produce pro-cyclical reporting effects.

Question 2(a) – Technical criteria assessment for all other IFRS 17 requirements

Do you agree with this assessment for all the other requirements of IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts? If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

Summary of respondents' comments

Technical endorsement criteria met for all other requirements?	Yes	No	Both Yes and No	No answer[41]	Other	Total
ITC	18 (1 user)	3	2	-	1 (European user organisation)	24
Letter	6	-	-	8	1 (international user organisation)	15
Total	**24[42]**	**3**	**2**	8	**2**	**39**

82 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

83 Those that answered Yes provided the following comments:

(a) Endorsement of IFRS 17 should not be blocked (1 respondent);

(b) One respondent provided topics which should be addressed as part of the post-implementation review of IFRS 17 or other standards maintenance projects.

84 Two respondents indicated both Yes and No:

(a) 'Yes' in the context of the overall endorsement advice – the topics in paragraph 82(b) should not block the endorsement of IFRS 17 by the European Union in time for the 2023 effective date;

(b) 'No' because they do not completely agree with EFRAG's assessment with regard to the details of the specific topics raised (including CSM amortisation, reinsurance, multi-component contracts, scope of hedging and business combinations, scope of VFA paragraph B107 of IFRS 17, retrospective application of the risk mitigation option, CSM locked-in discount rate for the general model). However, they recommend re-evaluating these topics in a post implementation review of IFRS 17.

85 Those who answered No also indicated that the issues should not block IFRS 17 endorsement. They provided the following comments:

(a) One respondent indicated that there are issues remaining which will have a negative impact on the true and fair view principle:

(i) IFRS 9 and IFRS 17 will introduce artificial P&L and solvency ratio volatility for the financial conglomerates requiring an amendment to CRR. There is a need to address volatility in OCI for financial conglomerates arising from (i) changes in discount rates which do not affect OCI for CSM while the full fair value changes of all the assets of the investment portfolio will impact in OCI for FV-OCI portfolios, and (ii) uncertainties regarding the application of macro hedge accounting for risk mitigation purposes.

[41] This refers to (i) no responses being provided or to (ii) responses that were not in the 'Invitation to Comment' structure and so there was no specific response to the question or (iii) not applicable to the respondent.

[42] One entity (national audit association) did not reply to EFRAG but supported the comment letter of a respondent (national standard setter) and noted to support the comment letter and the views expressed in that comment letter, opposing to the application of the annual cohort requirement to insurance contracts with intergenerational mutualisation.

(ii) Other concerns are listed in Appendix 2 whereby they should be addressed in a post-implementation review of IFRS 17 or sooner if possible.

86 Another respondent identified several issues - transition under Fair Value approach – accumulated OCI, further simplifications under MRA, CSM amortisation, scope of hedging and interaction with IFRS 9.

87 For respondents indicated as 'No answer' in the table above:

(a) One respondent indicated that they support endorsement even though there are many points of detail in IFRS 17 upon which opinions differ.

(b) Another respondent stated that it is not apparent whether EFRAG recommends the adoption of IFRS 17 as a whole – or whether IFRS 17 fails to meet the adoption criteria.

88 One respondent noted the transition requirements do not lead to relevant, reliable, comparable and understandable information.

89 One respondent noted a list of topics to be addressed during the post implementation review.

90 Of the nine respondents that did not directly answer the question, four supported the endorsement of the standard without necessarily differentiating between the annual cohorts and other requirements. The support is inferred from the fact that they supported either no delay to the effective date of IFRS 17 or no European version of IFRS 17. The remaining five required a solution for annual cohorts.

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91 As these topics have been addressed, the EFRAG Secretariat recommends no further changes.

Question 2(b) - Technical criteria assessment for application of annual cohorts to intergenerationally-mutualised contracts

Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to intergenerationally-mutualised contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above does the requirement to apply annual cohorts to intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17) meet the qualitative characteristics described above? Please explain your technical reasons for supporting your view.

Summary of respondents' comments

Technical endorsement criteria met for annual cohorts relating to intergenerationally-mutualised contracts?	Yes	No	No answer	Other	Total
ITC	8 (1 user)	14	1	1 (1 European user organisation)	24
Letter	5	6	3	1 (international user organisation)	15
Total	**13**	**20**[43]	**4**	**2**	**39**

[43] One entity (national audit association) did not reply to EFRAG but supported the comment letter of a respondent (national standard setter) and noted to support the comment letter and the views expressed in that comment letter, opposing to the application of the annual cohort requirement to insurance contracts with intergenerational mutualisation.

	No. of respondents
IFRS 17 should be endorsed as a whole, i.e., no EU specific modification[44]	18
In favour of a solution to the annual cohort issue (**total**) of which: • In favour for both intergenerationally-mutualised contracts and cash-flow matched contracts • In favour for intergenerationally-mutualised contracts • No specification of which contracts	21 • 10 • 10 • 1
No answer	1
Annual cohort issue should be optional, i.e., option to apply annual cohorts or a solution to the issue.	11
Those that indicated that there should not be a delay of IFRS 17's effective date of 1 January 2023	21

92 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

93 One international user organisation (indicated under 'other' in the table above) stated that all its members believe that a compromise on the annual cohorts topic is preferable. A vast majority of its members support the application of annual cohorts to all business (common practice in the non-life market; many life companies already provide new business numbers; can provide disclosures on intergenerationally-mutualised and cash-flow matched contracts; annual cohorts should be a good way to describe management's actions and judgements) while a small minority of its members are against annual cohorts for business with intergenerational management (artificial construct; unlikely to be useful and could add more confusion). It was later clarified that the compromise envisaged by the respondent refers to all preparers applying the annual cohort requirement.

94 One respondent strictly advocated against any specifically European approach to accounting and to endorse IFRS 17 as a whole.

95 The respondents who indicated that the annual cohorts requirement for intergenerationally-mutualised contracts **meet** the technical criteria for endorsement provided the following explanations:

(a) Management have discretion to move value between policyholders (and often shareholders) so annual cohorts seeming to be a sensible compromise. Management can adjust the impact by phasing of gains realisation, volumes of new business written, adjusting minimum guarantees, etc. Therefore, it is not correct to assume that the returns are pooled and therefore should be accounted for as an open-ended pool. (2 respondents)

(b) Some cohorts are more profitable and have larger value transfers over time. Disclosure of new business information is not enough to understand the trends in profits. (1 respondent)

(c) Management teams produce value of new business statistics in their current financial communications implying that they are able to allocate value and expected profit emergence for an annual cohort. (1 respondent)

(d) (Dis)aggregating profits is a compromise on any level of aggregation. Disaggregation is neither costly nor impossible in absolute terms, but is a relative method to achieve more (or less) granular presentation of profitability

[44] One respondent noted to be in favour of endorsement but also noted the existence of mixed views across Member States in the EU with respect to annual cohorts.

at more (or less) costs. Entities are experienced in disaggregation on an annual cohort level for contract pricing, controlling and management purposes, and entities are accustomed to also do this for accounting purposes (1 respondent).

(e) The annual cohorts requirement achieves the three reporting objectives of level of aggregation of IFRS 17 (3 respondents);

(f) Reasonable approximations can be used to allocate cash flows from policyholder participation to annual cohorts which overcomes significant degree of judgement. Also, an assessment would need to focus on additional costs resulting from segregation of annual cohorts compared to segregations that would be required anyway (e.g. portfolio and onerousness) (1 respondent);

(g) The alternatives proposed cannot be considered to be more effective and efficient than the annual cohort requirement (1 respondent);

(h) Provides an acceptable conventional approach to grouping of contracts to meet the reporting objectives of IFRS 17 (1 respondent);

(i) One respondent noted if other reported issues are put forward for inclusion in the PIR, then the requirements for endorsement can be considered to be met.

96 The respondents who indicated that the annual cohorts requirement for intergenerationally-mutualised contracts **do not meet** the technical criteria for endorsement provided the following explanations:

(a) The annual cohort is not the level at which an entity is able to determine profitability (1 respondent);

(b) Applying the annual cohort requirement to contracts for which the entity's management can contractually exercise its discretion will result, after their initial recognition, in a subjective determination of a cohort's CSM (1 respondent);

(c) The annual cohort requirement does not faithfully reflect the investment service to the policyholders (1 respondent);

(d) The annual cohort requirement necessitates the use of judgement to such an extent that it results in information that is neither reliable nor comparable (1 respondent);

(e) An entity is unable to perform a rational allocation of FCF – and thus, to determine a CSM at a cohort level – after the initial recognition of a group of contracts (1 respondent).

(f) An entity is unable to rationally allocate the changes in the amount of its share of the fair value of the underlying items between annual cohorts (1 respondent).

(g) The annual cohort requirement has no added value with regard to the contracts that include a financial guarantee which reduces the payments to policyholders in other groups of contracts (1 respondent).

(h) The requirement in IFRS 17 to use annual cohorts for such contracts will significantly reduce the usefulness of reported information. (3 respondents);

(i) In periods of financial stress, the risk of reflecting a different accounting reality than the economic substance is higher. In the absence of a proper solution, the increased volatility, relating to investors' invested capital no longer being stable over time (2 respondents);

(j) It brings a distorted representation of the CSM within single groups - not possible to determine objectively the allocation of cash flows to the cohorts – artificial allocation (8 respondents);

(k) When the cash flows are contractually or legally determined jointly for all policyholders, there is no reason to track the profitability of contracts at a lower level of granularity. There is no onerous contract until the portfolio as a whole becomes onerous. (4 respondents);

(l) Implementation and operational costs will not provide any benefit to such contracts. (3 respondents);

(m) The annual cohorts' requirement could influence the way insurance coverage system is organised and lead to a change in the pricing and/or in the design of insurance products for sole accounting purposes (2 respondents);

(n) Subdivision into annual cohorts demands artificial operational actions such as the allocation of assets by contract generation (3 respondents);

(o) Does not reflect economic reality.

  (i) The most commonly shared and relevant unit of account that would lead to comparable and understandable figures is the group of contracts without annual cohorts; (1 respondent);

  (ii) Contracts of a portfolio are contractually or legally sharing the overall returns of the same pool of underlying asset and not granular (5 respondents);

  (iii) The management of this business does not provide for separation into cohorts and considers all the contracts within the Segregated Funds as a single set. (2 respondents);

(p) It would be difficult for auditors to confirm/challenge the compliance to the principles that would rely on arbitrary criteria and involve a high degree of judgement at cohort level. (1 respondent);

(q) One respondent suggested a number of disclosures to replace the annual cohort requirement:

  (i) Qualitative disclosure describing the grouping criteria for contracts to which the annual cohort requirement is not applied;

  (ii) An explanation of actuarial techniques for measuring the value of new business and the allocation of the underlying items between the existing business and the new business;

  (iii) An analysis of the amount of Fulfilment Cash Flow ("FCF") split by the level of minimum revaluation guaranteed to policyholders (i.e. 4%, 3%) together with a comparison with respect to previous year figures.

(r) One respondent noted that from a users' perspective annual cohorts are useful for non-life insurance contracts but not for life insurance contracts under the VFA. In their letter, they support to provide an exception to the annual cohort principle for these contracts. In order to clarify this position, EFRAG Secretariat had an exchange with the respondent: they would not support a European solution, but rather they would support a practical simplified approach to the implementation of annual cohorts as described in paragraph 71 of this document.

97 Some respondents who favoured a solution for the annual cohort issue indicated that a solution can be based on existing proposals from the ANC, CFO Forum and the Spanish standard setter.

98 One respondent indicated that they have not responded to the question because it is not a significant issue for them. This respondent also indicated that there should not be a delay of IFRS 17's effective date of 1 January 2023.

99 One respondent supported endorsement of IFRS 17 provided that there is (i) an appropriate prudential solution that addresses the negative impact and volatility arising in OCI for financial conglomerates and (ii) an accounting solution for the annual cohorts' issue. Both issues must be resolved as part of the endorsement process, addressing the first issue as a change in the Capital Requirements Regulation (CRR), and both should not impact the 1 January 2023 effective date of IFRS 17.

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100 Annex 1 will be updated to reflect:

(a) The description of a practical way to implement the annual cohort requirement as described in paragraph 70 of the comment letter analysis (paragraph 23 Appendix II in Annex 1);

(b) Concerns about the impact of allocation techniques when implementing the annual cohort requirement on comparability and reliability of information (Appendix II: paragraphs 18 and 20 in Annex 1);

(c) Enhancing the description of the operation of IGM and CFM contracts (paragraphs 54 to 56; 59; 63; 65 in Annex A); and

(d) Other changes to capture the following additional comments received that the annual cohort requirement:

(i) does not faithfully reflect the investment service to policyholders (Appendix II: paragraph 37 in Annex 1); and

(ii) supporters overstate the importance of guarantees in these contracts (Appendix II: paragraph 42 in Annex 1).

Question 2(c) - Technical criteria assessment for application of annual cohorts to cash-flow matched contracts

Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to cash-flow matched contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above does the requirement to apply annual cohorts to cash-flow matched contracts meet the qualitative characteristics described above? Please explain your technical reasons for supporting your view.

Summary of respondents' comments

Technical endorsement criteria met for annual cohorts relating to cash-flow matched contracts?	Yes	No	No answer	Other	Total
ITC	7 (1 user)	6	10	1 (European user organisation)	24
Letter	5	4	5	1 (1 international user organisation)	15
Total	**12**	**10**	**15**	**2**	**39**

101 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

102 For respondents under the 'No answer' section in the table above:

(a) Not applicable as no such [material] contracts in their jurisdiction (5 respondents);

(b) Do not have sufficient/robust information to provide an assessment (2 respondents);

103 The respondents who indicated that the annual cohorts requirement for cash-flow matched contracts meets the technical criteria for endorsement provided the following explanations:

(a) Does not understand how the scope of these can be ring-fenced from normal ALM activities from insurers or are these all to be included (effectively rendering annual cohorts obsolete). Furthermore, for Solvency II the assets already need to match the expected cash outflows of the contract at inception, therefore it is not clear why applying annual cohorts would create application problems. The profitability of these contracts would also change over time and is important even if just as trend information and not separately. (1 respondent of which one is a user);

(b) Same comments as per paragraph 95(d) (1 respondent);

(c) Same comments as per paragraph 95(e) above (2 respondents);

(d) Same comments as per paragraph 95(e) above (1 respondent);

104 The respondents who indicated that the annual cohorts' requirement for cash-flow matched contracts **do not meet** the technical criteria for endorsement provided the following explanations:

(a) Having a reduced number of contracts in the cohort together with a different profile composition) will generate more variability in the adjustments in the CSM and increase the scope for "onerous" cohorts. (2 respondents);

(b) No solution for the issue will increase significantly the cost of preparing the financial reporting and the resulting financial information will not be as useful (1 respondent);

(c) The respondent is aware that the annual cohort criticism also relates to other contracts, mainly cashflow-matched contracts even though, for them, the issue is relevant to contracts with risk-sharing between generations (1 respondent);

(d) Same reason as in paragraph 96(h) above; (1 respondent)

(e) One respondent noted that annual cohorts will not result in information that is either relevant or reliable. They noted that cash flow matched contracts are associated with a pool of assets. The assets are regulated and, managed in a separated way from the rest of the company. These contracts are used to promote the long-term savings of population in Spain in the form of life annuities, both immediate and deferred annuities. Spanish insurers mainly provide a long-term fixed guarantee on interest rate to policyholders that does not change over time even if the market interest rates change. This guaranteed interest rate credited to the policyholder is set by companies based on the observable market yield of the investment portfolio assigned for the expected duration of the benefits (life expectancy in life annuities) when the contract is underwritten. Only under exceptional circumstances, the policyholder will surrender. If this is the case, the amount of surrender will be closely linked with the market value of the underlying portfolio (i.e. insurance companies do not bear the underlying market risk in case of a surrender benefit payment).

Considering the above pricing methodology, insurers earn an expected constant financial margin that is the difference between the internal rate of return of financial assets and the guaranteed interest rate credited to the policyholder, while they are exposed to other non-financial risks that would determine the overall margin.

Under cash flow matching techniques, insurers group contracts issued more than one year apart. The groups are mainly defined considering the aggregation of homogenous insurance and financial risks. The optimisation of the asset and liability management mechanism and the underlying cash flows require that the size of these groups of assets and policies be big enough. The objective of these techniques is to ensure that the expected cash flows to be paid to policyholders match the future cash flows arising from the financial assets held by insurers (mainly fixed-debt instruments), in terms of timing, amount and currency. Calculations are prescribed by regulation and require monitoring the matching of the cash flows in monthly buckets until the extinction of the in-force group of contracts. There are also compulsory quarterly reviews to ensure there is not a mismatch. By applying these techniques, there is an intergenerational risk sharing among policyholders, in particular longevity and financial risks, which is also the basis on which the pricing of these contracts is established and how are built the internal actuarial statistical models used to estimate expected cash flows.

For these reasons, the respondent considers that allocate a contractual service margin to annual cohorts is going to be artificial and it is not going to result in useful information. That is because the result for these contracts is an expected constant financial margin. The objective of providing useful information about cash flow matched contracts could be reached through other means. For instance, they suggest including additional disclosures.

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105 The EFRAG Secretariat proposes an update to the description of the working of these contracts in paragraph 48 of Appendix II, Annex 1 as well as a comment about how broad the population potentially may be (paragraph 53 of Appendix II, Annex 1).

Question 2(d) – Any other issues

Are there any issues that are not mentioned in Appendix II, Annex 1 and the Cover Letter regarding the endorsement of IFRS 17 that you believe EFRAG should take into account in its technical evaluation of IFRS 17? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Summary of respondents' comments

106 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

107 This section was not filled in by most respondents. The following respondents had comments.

108 One respondent identified three issues – refer to paragraph 392(a) relating to Question 20 for more details:

(a) Proposals for a more formal role of actuaries;

(b) CSM release – systematic backloading of CSM release for VFA contracts; and

(c) Potential OCI mismatch for VFA business with modified retrospective approach for transition.

109 One respondent indicated that the cover note should mention that EFRAG recommends the EC consider specific changes in the CRR made in conjunction with the IFRS 17 endorsement process to address the volatility issue. Furthermore, a post implementation review is needed for issues for financial conglomerates with respect to apply both IFRS 17 and IFRS 9. Also, based on EFRAG's field test on the IASB ED on Primary Financial Statements, there are concerns that for financial conglomerates the core revenues that would be shown in the PL will not be comparable between both businesses and would not portray faithful information on the return of those activities.

110 One respondent stated that IFRS 17 is a compromise package of principles and rules the IASB had developed at the global level in response to various stakeholders' concerns and comments over more than 20 years of the history of this project. The standard should be assessed on a holistic basis.

111 One respondent had concerns on the eligibility for the VFA at the individual contract level.

112 One respondent believed that the usefulness of annual cohorts for users is limited, since, instead of being able to identify a trend and have additional information on the trend in profitability over time, users would be faced with a real " results volatility" (up or down) from one year to the other (and clear pro-cyclical effects), which would not be useful for analysing the trend in the profitability of contracts and the whole company over time.

113 In their answer they expanded on two of the most used KPIs for analysing life insurance contracts with characteristics of intergenerationally mutualised and cash-flow matched contracts: i) Life Embedded Value and ii) Life Running Insurance Yield.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

114 As these comments have been addressed elsewhere, no further changes are proposed.

Part II: The European public good

Question 3(a) – All other IFRS 17 requirements

Do you agree with this assessment for all the other requirements apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts? If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

Summary of respondents' comments

European public good criteria met for other requirements?	Yes	No	No answer	Other	Total
ITC	20 (1 user)	3	-	1 (European user organisation)	24
Letter	6	-	8	1 (international user organisation)	15

Total	**26**[45]	**3**	**8**	**2**	**39**

115 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

116 One respondent agreed that the requirements in IFRS 17 would be **conducive to the European public good** as it improves financial reporting and reaches an acceptable cost-benefit trade-off. The IFRS 17 requirements are also not expected to have major adverse effect on the European economy, including financial stability and economic growth.

117 One European regulator commented that it "regards the implementation of IFRS 17 as beneficial for the European public good: IFRS 17's current, market-consistent and risk-sensitive measurement of insurance obligations better reflects economic reality, which supports efficient risk management and allows stakeholders to gain important insights into the entity's business model, exposures and performance."

118 Another European regulator indicated that on balance, IFRS 17 is conducive to European public good and will have a positive impact on investor protection and financial stability.

119 One respondent indicated that "an EU 'carveout' to the requirements of IFRS 17 could result in significant costs incurred by entities with operations in the EU as well as other jurisdictions. Additionally, creating a difference between IFRS 17 as applied globally versus in the EU would introduce transaction costs for entities considering entering, or expanding operations in, the EU market. This could result in a disincentive for entities and others to invest in European insurance entities and operations and would result in a significant lack of comparability in amounts reported by entities in the EU in comparison with other jurisdictions, which we believe are not conducive to the European public good."

120 **While the majority of respondents agreed that the European public good criteria have been met, many referred to remaining concerns about the standard.** These were not considered sufficient to block endorsement, but respondents indicated that these should be re-evaluated in the context of IFRS 17 PIR.

121 Two respondents referred to remaining issues such as CSM amortisation, reinsurance, multi-component contracts, scope of hedging and business combinations but consider that this should not block endorsement for 2023. These issues should be re-evaluated in the context of an IFRS 17 PIR.

122 One respondent indicated "yes", but indicated that:

(a) IFRS 17 requirements are unnecessarily complex and that the objective of consistent insurance financial reporting could have been achieved at a much lower cost;

(b) It is very difficult to quantify and measure the benefits of IFRS 17.

123 The respondent also indicated that the following topics should not delay endorsement but should be followed up as part of the IFRS 17 PIR at the latest:

(a) reinsurance contracts not qualifying for the VFA;

[45] One entity (national audit association) did not reply to EFRAG but supported the comment letter of a respondent (national standard setter) and noted to support the comment letter and the views expressed in that comment letter, opposing to the application of the annual cohort requirement to insurance contracts with intergenerational mutualisation.

(b) presentation of (re)insurance receivables and payables and related costs;

(c) liabilities acquired during the settlement period in a business combination or portfolio transfer; and

(d) measurement of TVOG.

124 Another respondent agreed with the first two comments in the previous paragraph and highlighted:

(a) the contract boundaries of reinsurance contracts; and

(b) the presentation of (re)insurance receivables and payables and collateral deposits as topics that require attention.

125 Another respondent answered 'Yes' but do consider that IFRS 17 do not reach an acceptable cost-benefit trade-off, due to the costs incurred even in the context of the benefits of current, consistent and transparent reporting. Areas specified:

(a) Scope of the VFA (amendment to paragraph B107);

(b) Complexity of the MRA on transition;

(c) Locked-in discount rates under the general model;

(d) Exclusion of investment components from revenue and claims;

(e) Disclosure of portfolios in an asset or liability position; and

(f) Equivalent confidence level disclosure for the risk adjustment.

126 Those that consider that IFRS 17 is **not conducive** to European public good referred to:

(a) The existence of three transition approaches would impair comparability given the different outcomes.

(b) "[T]he perceived imbalance between the benefits and costs (i.e., significant implementation costs versus questionable increase of the information usefulness) constitutes an important argument in the assessment whether the introduction of the annual cohort requirement contributes to the European public good. Therefore, this issue should be resolved at the EU level in order to address the European concerns in this regard. One possible solution could be to allow the prepares in the EU not to apply the annual cohort requirement to certain insurance contracts."

(c) Remaining issues (including mismatches that arise at transition under fair value approach, CSM amortisation, scope of hedging and interaction with IFRS 9), but these should not block the IFRS 17 endorsement for the 2023 effective date. Therefore, these issues should be re-evaluated in the context of an IFRS 17 PIR.

127 Of the nine respondents that did not directly answer the question, are the same as those mentioned for question 2(a). Four supported the endorsement of the standard without necessarily differentiating between the annual cohorts and other requirements. The support is inferred from the fact that they supported either no delay to the effective date of IFRS 17 or no European version of IFRS 17. The remaining five required a solution for annual cohorts.

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128 All topics have been addressed elsewhere and no further changes are proposed.

Question 3(b) - Application of annual cohorts to intergenerationally-mutualised contracts

EFRAG Board members were split between two groups, as described in the Cover Letter and above, with reference to the requirement to apply annual cohorts for contracts with intergenerational mutualisation and cash-flow matched contracts. Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to intergenerationally-mutualised contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above, is the requirement to apply annual cohorts to intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17) conducive to the European public good? Please explain your technical reasons for supporting your view.

Summary of respondents' comments

European public good criteria met for annual cohorts relating to intergenerationally-mutualised contracts?	Yes	No	No answer	Othr	Total
ITC	8 (1 user)	14	1	1 (European user organisation)	24
Letter	5	6	3	1 (international user organisation)	15
Total	**13**	**20**[46]	**4**	**2**	**39**

129 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

130 Respondents that considered the application of the annual cohort requirement as **conducive to the European public good** had the following arguments:

(a) There is no linkage between applying annual cohorts and pro-cyclicality as capital availability drives underwriting capacity and this is determined by Solvency II rather than IFRS 17. Transparency is also usually the best way to avoid pro-cyclicality.

(b) IFRS 17 provides transparency and comparability within the industry and across industries. The annual cohort requirement is part of a compromise package and is conducive to the European public good.

(c) Policyholders also deserve to see trends in profits for insurers and how historic policyholders have been used to subsidise the acquisition of new business over time. This is clearly in the wider public interest.

(d) The negative comments raised on business models and costs and benefits are the same as those in question 2 under reliability and relevance but argued that the requirement is conducive to the European good. (2 respondents)

(e) The clear measurement principles of IFRS 17 will lead to more comparable financial statements than currently and, on balance, the standard (including annual cohorts) will be beneficial for the European good.

[46] One entity (national audit association) did not reply to EFRAG but supported the comment letter of a respondent (national standard setter) and noted to support the comment letter and the views expressed in that comment letter, opposing to the application of the annual cohort requirement to insurance contracts with intergenerational mutualisation.

(f) Non-application of the annual cohort requirement obfuscates what is really going on, allowing management too much discretion.

(g) New modifications could endanger the 2023 application date and that the Belgian insurance sector requests a stable platform as well as no carve-out.

(h) IFRS 17 will better provide relevant information to investors and other users while a European solution will impair comparability.

(i) No evidence of an adverse effect on business competitiveness and financial stability due to the annual cohort requirement despite such concerns. Furthermore, the benefits of applying the annual cohorts requirement to outweigh the costs.

(j) No awareness of any micro- or macroeconomic implications due to the annual cohort requirement. No evidence that requirements would contradict the underlying economics in a way that can be attributed to the accounting model rather than the underlying economics.

(k) Many sophisticated users support the annual cohort requirement which with the use of approximations need to be factored into any cost-benefit analysis.

131 Respondents who argued that the application of the annual cohort requirement to IGM contracts are **not conducive to the European public good** argued as follows:

(a) The annual cohort requirement adds costs that do not outweigh benefits in terms of financial reporting improvements. (nine respondents)

(b) Methods to determine the information on an annual cohort basis may not be comparable. Such methods include allocation of the asset return based on a) the reserve balance (presumably the best estimate of the liability excluding discounting), b) the change in the present value of future cash flows (the best estimate of the liability) or c) based on the CSM at inception. (two respondents)

(c) The annual cohort requirement may not depict an insurer's profitability faithfully. (two respondents)

(d) Increased volatility in the profit or loss results would introduce further complexity in reporting and communication of the financial results and may result in insurers withdrawing these products or increasing their prices. (two respondents)

(e) Consistent with the annual cohorts' requirements, asset-liability management may be performed at the cohorts' level and would result in a significant efficiency loss because it has no economic or contractual substance. (two respondents)

(f) The requirement risks pro-cyclical reporting effects as the group would include a limited number of contracts and would create greater variability in the CSM, increase the scope of onerous cohorts and greater volatility of profit or loss. The market could react negatively to volatile results, making it more difficult for insurers to obtain finance, or requiring recapitalisation or the sale of strategic assets.

(g) There is a risk that the cost of implementation will affect the policyholders, without providing a relevant information to the users which would be negative for the European public good.

(h) The annual cohort requirement would introduce subjectivity with a highly questionable outcome considering that the information is inconsistent with the contractual terms and how the assets are managed.

(i) The information is costly to be understood.

(j) Stakeholders (including sophisticated users) are not very interested in the Solvency II results which is expensive to prepare.

(k) The lower aggregation cuts across management, pricing and risk-management decisions and so the outcome is not appropriate.

(l) The annual cohort requirement is inconsistent with the business model and how these contracts are designed and managed. (two respondents)

(m) It could add unnecessary complexity and could disincentivise these savings contracts.

(n) The design of insurance products, financial asset management policy and current coverage system while approved by the regulator may be impacted by the annual cohort requirement.

(o) One respondent indicated that there is an urgent need to find a European solution to the problem of intergenerationally-mutualised contracts as part as the European endorsement process for the European public good.

132 One respondent was concerned that the requirement could impact pension funds which often adopt life insurance products with a guaranteed minimum return. The concern is that products may not be offered to these funds any longer or at an increased price and the consequences of such changes.

133 Another two respondents indicated that the issue regarding the annual cohort requirement is specifically relevant to contracts with risk sharing between generations and cash-flow matched contracts over different generations. Three respondents considered that an optional solution should be found should that it should not delay the 2023 effective date.

134 One respondent provided no answer but commented that this is not a significant issue for them.

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135 Annex 1 has been updated to indicate that the IASB has acknowledged that the annual cohort requirement has significant costs that may exceed the benefits (Appendix III: paragraph 39 in Annex 1). It has also been updated for reported arguments that annual cohorts would not cause procyclical effects (Appendix III: paragraph 20 in Annex 1).

Question 3(c) - Application of annual cohorts to cash-flow matched contracts

EFRAG Board members were split between two groups, as described in the Cover Letter and above, with reference to the requirement to apply annual cohorts for contracts with intergenerational mutualisation and cash-flow matched contracts. Having considered the technical arguments for those that support and those that oppose the application of annual cohorts to cash-flow matched contracts, as described in Annex 1, and having considered the two views from the EFRAG Board above, is the requirement to apply annual cohorts to cash-flow matched contracts conducive to the European public good? Please explain your technical reasons for supporting your view.

Summary of respondents' comments

European public good criteria met for annual cohorts relating to cash flow matched contracts?	Yes	No	No answer	Other	Total

ITC	7 (1 user)	6	10	1 (European user organisation)	24
Letter	5	4	5	1 (international user organisation)	15
Total	**12**	**10**	**15**	**2**	**39**

136 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

137 Seven respondents concluded the same on these contracts as for intergenerationally-mutualised contracts. These views were mixed with five agreeing that the IFRS 17 requirements are conducive to the European public good and two disagreeing.

138 A German respondent indicated that it is unable to provide a robust assessment as these contracts are not applicable to its territory; these contracts are not identified in IFRS 17 and that the DEA does not provide a clear scope definition.

139 Five respondents indicated that there are not material portfolios of these contracts in their territories of Austria, France, Belgium, United Kingdom while another did not collect sufficient information to express an opinion.

140 One respondent commented that the reasons to use the annual cohort requirement for IGM contracts apply also to CFM contracts. However, the need to see capital markets (i.e. movements in interest rates and other fair value factors) reflected more accurately annually is more important for CFM contracts in the absence of the smoothed impact of these factors in the CSM under the VFA.

141 Another respondent indicated that while the issue regarding the annual cohort requirement relates to all insurance contracts, it is specifically relevant to contracts with risk sharing between generations and cash-flow matched contracts over different generations. A solution should be found but should be optional and should not delay the 2023 effective date.

142 One respondent indicated that these contracts are used to promote long-term savings in Spain and usually include long-term fixed rate guarantees. The requirement combined with the persistent low interest rate environment could discourage the sale of these contracts in favour of unit-linked type products. The requirement would increase the implementation and ongoing costs as the actuarial statistical models used to estimate expected cash flows are based in asset liability management.

143 Another respondent indicated that annual cohort requirement for the Spanish long-term savings-products (cash-flow matched products) is not justified and inconsistent with the insurance business principles. Furthermore, it would lead to artificial variability in the adjustments of the CSM in senior cohorts and increases the scope of potential onerous cohorts. However, any solution should be optional and should not delay the 2023 effective date.

144 Another respondent indicated that IFRS 17 will not adequately reflect the economic nature of certain Spanish insurance contracts that are cash flow-matched over different generations of policyholders.

(a) The insurance business model manages the interest rate (reinvestment) and insurance (longevity/survival) risks of a large pool of contracts by matching cash flows from the pool of assets to the expected benefits of policyholders.

(b) Longevity risk is estimated on the basis of internal models that group together a large number of elements covering a population of multiyear contracts.

(c) Grouping by cohorts distorts the profitability reporting of these contracts that do not exist in a broader view. This will not provide useful information because of the pricing, the business and risk management techniques are applied at portfolio level and not on an annual cohort basis.

(d) Senior cohorts will have a lower number of policyholders of a similar age over time, resulting in a sample of contracts that are not representative of the insured population or the actuarial assumptions. This increases variability in the adjustments to the CSM and the scope for "onerous" cohorts as in the actuarial assumptions are based on the whole population.

(e) Therefore, cohorts would generate "artificial" variability in performance, and not be aligned with the economic performance. The product would be expected to provide a stable margin with no significant variation from the pricing assumptions in relation to longevity risk of the global population.

(f) The resulting financial information provided would not be easily understandable by users and could be confusing, leading investors to consider that an entity lacks a good risk management framework.

(g) The requirement will significantly increase the cost of preparing the financial reporting and the resulting financial information will not be useful.

(h) This should be resolved as part of the endorsement of IFRS 17 by the European Union, but such a solution should be optional and furthermore should not delay the effective date of 1 January 2023.

(i) A potentially simple solution would be that an entity is not required to apply paragraph 22 to contracts and the related assets that meet the conditions set out in Article 77b of the Solvency II - Directive 2009/138/EC (i.e. eligible for the matching adjustment).

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145 Annex 1 has been amended to reflect that the annual cohort requirement could support a move from annuities to unit-linked products (Appendix III: paragraph 10 in Annex 1) and could impact asset liability management activities (Appendix III: paragraph 11 in Annex 1).

Part III: The questions in Part III relate to all the other requirements in IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts.

Question 4 - Improvement in financial reporting

EFRAG has identified that, in assessing whether the endorsement of IFRS 17 is conducive to the European public good, it should consider whether the Standard is an improvement over current requirements across the areas which have been subject to changes (see paragraphs 15 to 27 of Appendix III). To summarise, for all the other requirements in IFRS 17 apart from the requirement to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts, EFRAG considers that they provide better financial information than IFRS 4. Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Improvement in financial reporting	Yes	No	Both Yes and No	No answer	Total
ITC	18 (1 user and 1 European user organisation)	3	2	1	24
Letter	7 (1 international user organisation),	-	-	8	15
Total	**25**	3	2	9	39

146 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

147 Two of the respondents answered **both Yes and No** to the question. The respondent agreed with the general statement that IFRS 17 provides better overall information than IFRS 4 in general, apart from the requirement to apply annual cohorts. However, IFRS 17 does not provide better information for certain specific topics. The respective arguments are processed in the following paragraphs. Another respondent agreed with this approach but answered No to the question.

148 The following arguments are used to **support** that IFRS 17 is **conducive to the European public good**:

(a) One of the European regulators explained that IFRS 17 introduces a current measurement of insurance contracts and, for the first time, clear principles for performance reporting which will better align insurance accounting with the principles applicable to other transactions under IFRS. The European regulator expects that these principles will greatly improve the available information and the level of transparency of the insurance sector as a whole.

(b) Another European regulator noted that IFRS 17's current, market-consistent and risk-sensitive measurement of insurance obligations better reflects economic reality, which supports efficient risk management and allows stakeholders to gain important insights into the entity's business model, exposures and performance.

(c) One auditor noted that IFRS 17 is a principle-based standard, which provides a set of requirements to be applied consistently, which satisfies the qualitative characteristics of relevance, reliability, comparability and understandability.

(d) One user organisation explained that IFRS 17 is especially better regarding:

(i) The comparability within the insurance sector across Europe.

(ii) The recognition of merging profitability from some kinds of contracts not reflected through the current accounting requirements.

(iii) The elimination of valuation mismatches between assets and liabilities due to the simultaneous adoption of IFRS 9 and IFRS 7.

149 Four of the respondents – three preparer organisations and a European regulator – pointed out that some of the issues still need to be solved. The **issues pointed out** relate to the following subjects which **should not prevent the endorsement** of IFRS 17 and should be followed up as part of the IFRS 17 PIR or other maintenance projects (which are also listed in Appendix 2):

(a) Scope of the VFA.

(b) Presentation of insurance receivables and payables and collateral reinsurance deposits.

(c) Contracts acquired in their settlement period in a business combination or portfolio transfer.

(d) Measurement of TVOG.

(e) IFRS 17 allows entities to determine the discount rate and risk adjustment based on entity-specific inputs which consequently may give rise to inconsistent implementation and decreases comparability.

150 Five respondents who did **not agree** added that this should not prevent the endorsement of IFRS 17 by the European Union in time for the 2023 effective date. The following requirements are not agreed with:

(a) The comparability between insurance entities will be reduced due to the different methodologies that can be applied and judgment required (e.g. release of CSM, calculation of risk adjustment, VFA eligibility, accounting policy choice related to estimate made in the previous interim periods).

(b) The disclosure requirements under IFRS 17 are broader compared to IFRS 4 as disclosure is required for the new amounts reported in the balance sheet/profit or loss and for the underlying main assumptions in the valuation. It is essential that disclosure requirements focus only on material information considered useful for the users, without excessive details requiring unbalanced effort.

(c) The issues described in paragraph 121 and paragraph 126(c) in response to the assessment whether all other IFRS 17 requirements are conducive to the European public good. The identified issues relate to mismatches that arise under fair value approach, CSM amortisation, reinsurance, multi-component contracts, scope of hedging, interaction with IFRS 9 and business combinations. Although they should not block the approval of IFRS 17 by the European Union in time for the effective date of 2023.

(d) Those that affect the calculation of the regulatory capital requirements of financial conglomerates, they should be resolved before IFRS 17 enters into force with a change in CRR.

(e) The requirements of IFRS 17 to measure insurance contracts using updated current estimates reflecting the time value of money and making explicit allowance for uncertainty is already part of the respondent's current reporting under IFRS 4. Therefore, such objectives could have been achieved without much of the cost and complexity of IFRS 17.

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151 The EFRAG Secretariat notes that the majority of the respondents agreed with EFRAG's initial assessment.

152 Some issues were identified by respondents who both agreed and disagreed with the assessment in the DEA. However, all of the respondents indicate that these issues should not prevent endorsement of IFRS 17 in time for the 2023 effective date. Also, all these issues are either already covered or to be discussed by EFRAG TEG for inclusion or not in the endorsement advice.

153 The EFRAG Secretariat therefore does not propose any changes to the Draft Endorsement Advice in relation to Question 4.

Question 5 - Costs and benefits

EFRAG's initial assessment is that taking into account the evidence obtained from the various categories of stakeholders, the benefits of all the other IFRS 17 requirements in IFRS 17 exceeds the related costs. Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice

Summary of respondents' comments

Benefits of all the other IFRS 17 requirements in IFRS 17 exceeds the related costs?	Yes	No	Both Yes and No	No answer	Total
ITC	18 (1 user)	3 (1 European user organisation)	1	2	24
Letter	-	-	-	15 (1 international user organisation)	15
Total	18	3	1	17	39

154 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

155 Respondents who answered **'yes'** provided the following comments:

(a) The IFRS 17 requirements are unnecessarily complex and costly. Furthermore, it is very difficult to quantify and measure the benefits of IFRS 17. (3 respondents)

(b) Benefits of IFRS 17 may be more visible at an industry level than for individual companies. Given the significant implementation work that has already been undertaken, with the related significant costs having already been incurred, the cost/benefit assessment should not block the endorsement of IFRS 17.

(c) The costly requirements relating to contract boundaries of reinsurance contracts and presentation of (re)insurance receivables and payables should be amended during the PIR or sooner.

(d) Benefits will outweigh the costs if the principles can be consistently interpreted and applied by preparers.

(e) A significant proportion of the implementation costs has already been incurred and there are benefits to the insurance industry as a whole of a current, consistent and transparent approach to financial reporting.

156 One of these respondents also indicated that the following topics should not delay endorsement but should be followed up as part of the IFRS 17 PIR at the latest:

(i) reinsurance contracts not qualifying for the VFA;

(ii) presentation of (re)insurance receivables and payables and related costs;

(iii) liabilities acquired during the settlement period in a business combination or portfolio transfer; and

(iv) measurement of time value of options and guarantees (TVOG).

157 Respondents who **did not provide an answer** to the question provided the following positive comments about the cost-benefit assessment:

(a) the advantages to all stakeholders of having a globally consistent standard for insurances outweighs the cost relating to annual cohorts.

(b) An EU-adapted IFRS 17 could lead to additional costs. (two respondents)

(c) The IASB made its decision on annual cohorts while knowing about the additional costs.

158 A European regulator noted that “no alternative workable solutions to the annual cohort requirement which may provide a simpler approach at a lower cost while achieving the same objectives … have been identified”.

159 Respondents who answered **“no”** indicated the following reasons:

(a) the costs outweigh the benefits of increased comparability and relevance of accounting due to the complexity of the standard. This would worsen if no solution for annual cohorts for both IGM and CFM contracts can be found.

(b) the IFRS 17 requirements are unnecessarily complex and costly especially when considering the cost introduced by the annual cohorts requirement.

(c) Furthermore, it is very difficult to quantify and measure the benefits of IFRS117. IFRS 17.

(d) A significant proportion of the implementation costs has already been incurred.

(e) The costs relating to the implementation of the annual cohort requirement leads to a negative assessment, but the benefits of the other requirements of IFRS 17 exceed the related costs.

160 The respondent who indicated **both “yes” and “no”** indicated that for the ‘mutualised contracts’, the benefits could exceed the costs. Referring to paragraph 563 of Appendix III of the DEA, they do not agree with EFRAG’s assessment[47]. By solving the annual cohort issue, most European participants could consider the expected benefits outweigh the expected costs.

[47] According to them, the paragraph does not entirely reflect the outcome from the LUCS. The DEA says: "In summary this brings to 46% the share of European participants that provided a specific answer concluding on a positive overall cost/benefit appreciation in the long term. This share would increase to 59% if the Standard were to have a solution for annual cohorts for intergenerationally-mutualised and cash-flow matched contracts." They consider it should rather say “62% of European participants consider that expected benefits do not outweigh the expected costs. This share could decrease to 54% if a long-term perspective were taken and to 41% if the standard had a solution for annual cohorts for intergenerationally-mutualised and cash flow matched contracts. Finally, by solving the annual cohort issue, most European participants could consider the expected benefits outweigh the expected costs.”

161 Two of the respondents who **did not provide an answer** mentioned that the monitoring of cohorts over time will add unnecessary complexity and costs and that a failure to find a solution would significantly increase the costs of compliance.

Other factors

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162 The EFRAG Secretariat notes that the comments with regard to annual cohorts are addressed elsewhere in the endorsement advice.

163 Considering all other comments received, the EFRAG Secretariat proposes no changes to the current text of the DEA as these are already reflected or will form part of the other proposed changes in this document.

Question 6 - Potential effects on financial stability

EFRAG has assessed the potential effects on financial stability based on the ten criteria set out in the framework developed by the European Central Bank "Assessment of accounting standards from a financial stability perspective" in December 2006. Based on this assessment, EFRAG is of the view that, on balance, IFRS 17 does not negatively affect financial stability (Appendix III paragraphs 428 to 482). Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Potential effects on financial stability	Yes	No	Both yes and no	No answer	Total
ITC	19 (1 user and 1 European user organisation)	3	-	2	24
Letter	1	-	-	14 (1 international user organisation)	15
Total	20	3	-	16	39

164 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

165 Three respondents did not agree with the assessment. They noted that the volatility linked with the current measurement model of IFRS 17 may not adequately reflect the behaviour of long-term contracts under stressed market conditions where the changes in the value of options and guarantees will immediately reduce the amount of the contractual service margin. In that regard, downside volatility is procyclical. Hence, they did not see how improved transparency - allowing investors to react more timely - mitigates volatility and procyclicality.

166 One of them noted that the volatility induced by market consistent measurement is artificially amplified by the annual cohorts' requirement (for participating contracts).

167 In contrast to that another respondent who agreed with the assessment noted that one feature of IFRS 17 that is particularly conducive to financial stability is its effectiveness in depicting economic mismatches that may arise from the interplay between insurance liabilities and financial and non-financial assets backing those liabilities. In their view the current measurement approach adopted by IFRS 17,

coupled with its level of aggregation requirements, including annual cohorts, allows for a timely recognition of losses and potential onerous contracts and the fair depiction of the impact that fixed cash flows, for example financial guarantees, may have on the performance of insurance undertakings. In this respect, they note that IFRS 17 is expected to reflect the volatility to which insurers are exposed, while at the same time allow for the fair reflection of any hedging strategies put in place by insurers to mitigate such volatility. In their view, any remaining volatility depicted by the statement of profit or loss will be a reflection of economic reality.

168 One of the respondents that agreed with the assessment agreed subject to solution with regard to annual cohorts, a prudential solution addressing OCI volatility of financial conglomerates, amounts to be recognised in OCI at transition under the fair value approach in IFRS 17 for contracts measured under the general model, separating components from an insurance contract, and the interaction between IFRS 17 and IFRS 9 when entities invest in equities.

169 While agreeing to the assessment, one respondent noted that through the application of the annual cohorts, financial statements are exposed to the risk of not providing an accurate representation of the financial condition of the entity, due to the fact that the artificial division in life annual cohorts does not reflect the real profitability of the contracts (intergenerationally mutualised).

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170 The EFRAG Secretariat notes that the comments with regard to annual cohorts are addressed elsewhere in the endorsement advice.

171 The EFRAG Secretariat disagrees with the comment on downward procyclicality. The comment seems to forget the effects of the upward economic cycle movement and the allocation of CSM over the coverage period (which may go beyond the length of the economic cycle).

172 As a result, the EFRAG Secretariat proposes no changes to the current text of the DEA.

Question 7 - Potential effects on competitiveness

(Appendix III paragraphs 227 to 286)

EFRAG has assessed 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.

EFRAG concludes that the underlying economics and profitability will always be more decisive in taking up a business in a particular region or a particular insurance product than changes to the accounting that is used to report on it.

Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Potential effects on competitiveness	Yes	No answer	Total
ITC	22 (1 user and 1 European user organisation)	2	24
Letter	-	15 (1 international user organisation)	15
Total	22	17	39

173 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

174 22 respondents agreed with the assessment that the underlying economics and profitability will always be more decisive in taking up a business in a particular region or a particular insurance product than changes to the accounting that is used to report on it. Several noted the assessment should not have an impact on endorsement of IFRS 17 by the European Union in time for the 2023 effective date (except annual cohorts).

175 Nevertheless, several of them provided other messages in their detailed comments:

(a) Accounting is relevant for the competitiveness of European insurers vis-à-vis their major competitors outside Europe in the US, Japan, Switzerland and China;

(b) Accounting is relevant for the competitiveness of European insurers vis-à-vis other European insurers not applying IFRS;

(c) The exception remains the application of the annual cohorts in VFA life products which could affect the competitiveness of those companies most active in the minimum-guaranteed life insurance business.

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176 The EFRAG Secretariat notes that the comments with regard to annual cohorts are addressed elsewhere in the endorsement advice.

177 The EFRAG Secretariat recalls the text from the DEA that "*EFRAG acknowledges that insurers operating in several Member States will have to apply different accounting requirements. However, these accounting differences are simply accounting differences and nothing more. Based on the analysis provided in paragraphs 227 to 255 above, EFRAG did not identify any competitive*

(dis)advantages due to the accounting of IFRS 17." The comment letters bring no evidence to contradict this.

178 As a result, the EFRAG Secretariat proposes no changes to the current text of the DEA.

Question 8 - Potential impact on the insurance market (including impact on social guarantees)

DEA initial assessment

179 EFRAG has assessed the potential impact on the insurance market in Appendix III paragraphs 287 to 325.

180 EFRAG commissioned a study from an economic consultancy. This study ('Economic Study') stated that entities may re-consider both their pricing methodologies and product offers when applying IFRS 17 for the first time. The effect on pricing may be more significant than the effect on product offers. However, EFRAG does not have any quantification of the extent of changes in pricing or product design that would result from it.

181 As per the Economic Study, a majority of stakeholders interviewed (i.e.,. supervisory authorities, insurers and external investors) agreed that IFRS 17 alone would not impact the asset allocation of insurance undertakings, because this activity is more driven by risk management and/or asset/liability management.

182 Furthermore, EFRAG has considered how IFRS 17 could affect small and medium-sized entities (SMEs). EFRAG concludes that the number of small insurers that would be affected by IFRS 17 in producing their individual financial statements is very limited (between 27 and 35 depending on the option chosen based on the proposed EIOPA quantitative thresholds).

Question 8(a)

Do you agree with the assessment on pricing and product offerings? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Assessment on pricing and product offerings	Yes	No answer	Total
ITC	22 (1 user and 1 European user organisation)	2	24
Letter	-	15 (1 international user organisation)	15
Total	22	17	39

183 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

184 Two of the respondents that agree with the assessment made an exception for the annual cohort's provisions and their possible effect on the fundamental societal choices made to transfer wealth across generations and allow to provide the policyholders community a stable stream of revenues.

185 One of the respondents that agreed with the assessment noted that the introduction of Solvency II has had notable effects on product design, guarantees and pricing, asset allocation, reinsurance programs etc. They did not expect the application of IFRS 17 to have significant further impacts in these areas.

186 One of the respondents that agreed with the assessment – a European user organisation - noted to overall agree that the IFRS 17 effect will be on both pricing (on which the most significant impact comes from capital requirements), as the use of current make values will bring pricing and underwriting closer, and on product offering, like for the application of annual cohorts. In addition, interest-rate sensitive products are expected to be more affected by the introduction of IFRS 17 due to the onerous contract test and the impact of measuring those portfolios with risk-free rates: this might affect insurance companies' ability to offer certain life insurance products.

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187 The EFRAG Secretariat notes that the comments with regard to annual cohorts are addressed elsewhere in the endorsement advice.

188 Based on the overall comments received, the EFRAG Secretariat proposes no changes to the current text of the DEA.

Question 8(b)

Do you agree with the assessment on asset allocation? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Assessment on asset allocation	Yes	No	No answer	Total
ITC	21 (1 user and 1 European user organisation)	1	2	24
Letter	-	1	14 (1 international user organisation)	15
Total	21	2	16	39

189 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

190 Two of the respondents that agree with the assessment noted agreement to agree except for the annual cohort's provisions and their possible effect on investments in equity and equity-like instruments.

191 One of the respondents that agreed with the assessment referred to the issue of recycling for equity instruments but noted this should be discussed separately from the endorsement of IFRS 17.

192 One respondent disagreed and believed that the asset allocation of insurance companies under IFRS 9 and IFRS 17 will be based mainly on risk management, ALM management but also the accounting treatment of certain financial instruments (for example, insurers may use more or less derivatives depending on the conclusion of whether they are able to apply macro fair value hedges of interest rate

risk, or invest less in equities than currently given that there is no recycling in P&L under IFRS 9 and this will create an accounting mismatch for certain insurance products).

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193 The EFRAG Secretariat notes that the comments with regard to annual cohorts are addressed elsewhere in the endorsement advice.

194 The EFRAG Secretariat acknowledges the comments on recycling for equity instruments on IFRS 9 but notes these are addressed outside the endorsement advice of IFRS 17. The EFRAG Secretariat would like to ask EFRAG TEG members whether a reference to the recycling issue of equity instruments under IFRS 9 should be addressed in the cover letter of the endorsement of IFRS 17.

195 Based on the overall comments received, the EFRAG Secretariat proposes no changes to the current text of the DEA.

Question 8(c)

Do you agree with the assessment on SMEs? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Assessment on SMEs	Yes	No	Both yes and no	No answer	Total
ITC	16 (1 user and 1 European user organisation)	4	1	3	24
Letter	-	-	-	15 (1 international user organisation)	15
Total	16	4	1	18	39

196 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

197 Four respondents that disagreed with the assessment and one respondent that answered both yes and no to the question noted that while this matter should not block the endorsement of IFRS 17 with a 1 January 2023 effective date, EFRAG's analysis on SMEs affected by IFRS 17 is misleading. To define "small" insurers, EFRAG uses EIOPA's definition of small insurers for which Solvency II requirements do not apply. This means that EFRAG's analysis focuses only on extremely small insurers and fails to consider the large number of small and medium unlisted insurers which apply IFRS as part of the option under article 5 of the IAS regulation in Europe. In addition, for those small and medium sized insurers for whom Solvency II does apply there are a range of exemptions and proportionality principles which are intended to facilitate a significant reduction in burden. There is no such relief in IFRS 17, so all insurance companies in Europe who will be under IFRS 17 will have to apply the full standard irrespective of their size.

198 Two of the respondents that disagreed with the assessment noted that a proportionate approach should be adapted and referred to the proportionality principles of Solvency II.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

199 The EFRAG Secretariat disagrees that the SME-analysis in the DEA is misleading. The term "SME" is indeed a defined term and the analysis is based on that definition.

200 Nevertheless, the EFRAG Secretariat understand that the threshold chosen for the analysis is not supported by some constituents. The EFRAG Secretariat proposes to include a remark that the threshold was retained on a conventional basis missing a directly applicable definition.

Question 9 - Presentation of general insurance contracts

EFRAG is of the view the presentation requirements of IFRS 17 would provide relevant information. EFRAG also concludes that providing separate information for contracts that are in an asset, from those in a liability, position would provide useful information to users. (Appendix II paragraphs 118 to 125, 360 to 362). Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Presentation of general insurance contracts	Yes	No	Both Yes and No	No answer	Total
ITC	13 (1 user)	5	1	5 (1 European user organisation)	24
Letter	1	1	-	13 (1 international user organisation)	15
Total	14	6	1	18	39

201 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

202 One of the respondents answered **both Yes and No** to the question. The respondent responded Yes to express that this item should not prevent the endorsement of IFRS 17. However, the respondent does not agree that the presentation requirements of IFRS 17 will provide relevant information. The respective arguments are processed in the following paragraphs.

203 One respondent – European regulator – explained that in general the presentation requirements of IFRS 17 will have a key role in providing necessary complementary information on how management has exercised the key judgments, and how consistent the resulting estimates are across issuers and over time.

204 One of the respondents that disagreed added that this should not prevent the endorsement of IFRS 17 by the European Union in time for the 2023 effective date.

205 The following **arguments are used against** the conclusion that providing separate information for contracts that are in an asset, from those in a liability, position would provide useful information to users (these should not prevent the endorsement):

(a) The issues relating to the presentation of insurance receivables and payables, and collateral reinsurance deposits.

(b) The lack of guidance relating to the presentation of the PL for insurance companies leading to divergence in practice, for example relating to the presentation of expenses by nature or by function.

(c) The Insurance Service Result will not be comparable with the current information provided in the annual report regarding business information (IFRS 8); as it is difficult to explain and reconcile.

(d) Interaction between IFRS 17 and IFRS 9 for financial conglomerates.

(e) Contracts acquired in their settlement period in a business combination or portfolio transfer.

206 One respondent made the following comments:

Presentation of an entity's statement of financial position

207 The respondent notes that insurers currently present information about premium receivables separately. The respondent thinks that the requirements in IFRS 17 inevitably lead to commingle amounts due for payment and future expected cash flow in a same 'package' and as such, deprive users from information that is useful about cash collection. The respondent further thinks there is no effective remedial requirement or provision that would help entities make up for the loss of useful information in the statement of financial position.

Restatement of comparative information applying IFRS 17 and IFRS 9 together

208 The respondent notes that some entities that will initially apply IFRS 17 and IFRS 9 at the same time may wish to restate prior periods to reflect the requirements in IFRS 9. However, the requirement in paragraph 7.2.1 of IFRS 9 that prohibits entities from applying IFRS 9 to items that have already been derecognised practically deter those entities from restating prior periods.

209 The respondent believes the IASB should propose narrow-scope amendments to IFRS 9 to helpfully permit entities to apply IFRS 9 to items that have already been derecognised at the date of initial application of IFRS 9. The respondent further thinks that EFRAG's tentative explanation in paragraph 182 of Appendix III to the DEA for justifying this discrepancy is irrelevant.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

210 The EFRAG Secretariat notes that many of the respondents agreed with EFRAG's initial assessment. The EFRAG Secretariat also notes that many other respondents did not answer to this question.

211 Some of the respondents disagreed with EFAG's initial assessment and identified some issues, but noted that it should not prevent the endorsement. Also, all these issues are either already covered or discussed by EFRAG TEG for inclusion or not in the endorsement advice.

212 While the EFRAG Secretariat sympathises with the problem of comparatives for IFRS 9, it disagrees with the suggestion to amend IFRS 9 to allow optional retrospective application to previously derecognised financial items at the date of initial application. This request relates to an accounting standard (IFRS 9) that is different than the one for which endorsement is being discussed (IFRS 17). Furthermore, it may lead to hindsight for items currently carried at amortised cost and reclassified to a category valued at fair value. It could also result in comparability and understandability issues between insurers willing to apply such an option and entities (including insurers) that already apply IFRS°9 (e.g. by applying the overlay approach).

213 The EFRAG Secretariat therefore does not propose any changes to the Draft Endorsement Advice in relation to Question 9.

Question 10 - Interaction between IFRS 17 and Solvency II

EFRAG concludes that in implementing IFRS 17, there are possible synergies with Solvency II, but the extent of such synergies varies between insurers. In addition, no synergies are expected for building blocks that are specific to IFRS 17 such as the contractual service margin which is not an element of the measurement approach for insurance liabilities under Solvency II. Synergy potential is available in areas that have a high degree of commonality under the two frameworks, i.e. the building blocks for the measurement of the insurance liability needed to establish the cash flow projections, and actuarial systems to measure insurance liabilities. The potential depends, to an extent, on the differences in the starting position of insurers and the investments already made in the implementation of Solvency II. It also depends on the amount of effort to adapt existing actuarial systems, that were developed for the Solvency II environment, to the IFRS 17 reporting requirements. (Appendix III paragraphs 401 to 412).

Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Interaction between IFRS 17 and Solvency II	Yes	No answer	Total
ITC	23 (1 user, 1 European user organisation)	1	24
Letter	-	15 (1 international user organisation)	15
Total	23	16	39

214 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

215 One preparer, while agreeing with EFRAG's assessment, indicated that there may be synergies on some topics, IFRS 17 requires extensive further work on process and system integration. This additional work is comparable to the scaling up required to change from Solvency I to Solvency II.

216 One user stated that IFRS 17 has to take into account the differences between non-life and life businesses as envisaged by Solvency II.

217 One respondent answered 'yes' on the basis of how they leveraged current regulatory reporting systems for use under IFRS 17 even though they no longer report under Solvency II.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

218 No change recommended in the context of significant support for the current drafting.

Question 11 - Impact of the new Standard on financial stability, long-term investment in the EU, procyclicality and volatility

DEA initial assessment

219 On long-term investment in the EU, EFRAG's view is that asset allocation decisions are driven by a variety of factors, among which external financial reporting requirements might play some part but do not appear to be a key driver. There is no indication that IFRS 17 in isolation would lead to any significant changes in European insurers' decisions on asset allocation or holding periods (Appendix III paragraphs 96 to 123).

220 On procyclicality and volatility, EFRAG believes that IFRS 17 has mixed effects on procyclicality. IFRS 17 may result in more volatile financial performance measures because of the use of a current measurement. However, from the evidence collected, it is not likely that this volatility has the potential to play a specific role in producing pro-cyclical or anti-cyclical effects. EFRAG also assesses that IFRS 17 does not have the potential to reinforce economic cycles, such as overstating profits and thus allowing dividends and bonus distributions in good times, as there is no linkage between the accounting equity (cumulative retaining earnings) and amounts available for distributions, which are defined within the requirements of Solvency II or within the requirements at national level, independently from the IFRS accounting. Finally, EFRAG notes that the transparent nature of the IFRS 17 information has the benefit for investors to be able to react timely to any changes at hand, thereby avoiding cliff-effects. (Appendix III paragraphs 483 to 507).

Question 11(a)

Do you agree with the assessment on long-term investment? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Assessment on long-term investment	Yes	No	No answer	Total
ITC	21 (1 user and 1 European user organisation)	1	2	24
Letter	-	-	15 (1 international user organisation)	15
Total	21 (1 user and 1 European user organisation)	1	17 (1 international user organisation)	39

221 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

222 One respondent – user - who agreed with the assessment added that failing to endorse IFRS 17 with annual cohorts will reduce the credibility of insurance accounts in Europe and will raise the cost of capital for these businesses. It will also make it more difficult for regulators and politicians to discharge their responsibilities to safeguard existing policyholders where management transfers value away from them.

223 Two respondents who agreed with the assessment agreed that there is no indication that the application of IFRS 17 in isolation would lead to any significant change in European insurers' decisions on asset allocation. However, the combined application of IFRS 17 and IFRS 9 might lead to such changes. As long-term investors, they support (i) the reintroduction of the recycling for equity instruments measured at fair value through other comprehensive income (FV OCI) together with (ii) an appropriate impairment model and (iii) the eligibility of equity-like instruments to the same accounting approach i.e. to measurement methods different from fair value through profit and loss (FVPL).

224 One European user organisation who agreed with the assessment agreed that except for life portfolio affected by issues of annual cohorts in VFA contracts, IFRS° 17 does not overall materially affect the insurance companies' decisions on asset allocation or holding periods, although its application alongside with the IFRS° 9 raised some doubts. However, the application of the annual cohorts, may not correctly reflect the contracts real profitability, therefore could lead to some extent to short-term asset allocation decisions or active trading policies, as well as hedging policies in order to mitigate any negative performance, which could arise on annual base.

225 One respondent disagreed with the assessment and noted there is a source of mismatch generated for some Spanish Insurance contracts with participating features and not immunized through cash flow matching techniques, backed by an important part of equities regarding the asset side.

226 To solve this, the most suitable solution would be to fix IFRS 9 allowing recycling for these type of equity investments. However, they agree that this remaining issue should not block the endorsement of IFRS 17 by the European Union in time for the 2023 effective date and, therefore, should not lead to amendments to IFRS 17 as part of the European endorsement process. They recommend re-evaluating this issue in the context of a post implementation review of IFRS 17.

227 One respondent who did not respond to the question noted as long-term investors, French bank-insurers are especially concerned by the prohibition to recycle in profit or loss the amounts accumulated in other comprehensive income (OCI) for equity instruments measured at fair value through OCI. They therefore strongly support the suggestions made by EFRAG in its technical advice of 30 January 2020 to the European Commission regarding the measurement of long-term investments in equity and equity-type instruments. They agree with EFRAG's advice that the European Commission should recommend to the IASB an expeditious review of IFRS 9 in order to reintroduce recycling combined with a robust impairment model. They encourage EFRAG to reiterate these solutions as part of the Post-Implementation Review of IFRS 9 that the IASB has just started.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

228 The EFRAG Secretariat notes that the comments with regard to annual cohorts are addressed elsewhere in the endorsement advice.

229 The EFRAG Secretariat acknowledges the comments on recycling for equity instruments on IFRS 9 but notes these are addressed outside the endorsement advice of IFRS 17. The EFRAG Secretariat would like to ask EFRAG TEG members whether a reference to the recycling issue of equity instruments under IFRS 9 should be addressed in the cover letter of the endorsement of IFRS 17.

230 Based on the overall comments received, the EFRAG Secretariat proposes no changes to the current text of the DEA.

Question 11(b)

Do you agree with the assessment on procyclicality and volatility? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Assessment on procyclicality and volatility	Yes	No	No answer	Total
ITC	18 (1 user and 1 European user organisation)	4	2	24
Letter	-	1	14 (1 international user organisation)	15
Total	18	5	16	39

231 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

232 One respondent who did not answer the question noted that the IFRS 17 annual cohort requirement may not only increase the volatility but also favour procyclicality effects, especially in a low-interest rates scenario. It is worth noting that the annual cohort requirement's artificiality could amplify a stressed scenario, not reflecting the real insurance business based on a long-term horizon. Extremely volatile financial performance can impact an entity's reputation, and consequently, an inevitable repercussion on dividend distribution could be expected. These results would be different from the scenario defined by the Solvency II framework, whose requirements foresee several measures to dampen procyclical effects (volatility adjustment and matching adjustment).

233 Two respondents who agreed with the assessment noted to agree with EFRAG that the current and prospective measurement model of IFRS 17 may create a more volatile result that may not appropriately reflect the profitability pattern of certain long-term contracts overtime. This would be the case for direct participating contracts in stressed market conditions where the changes in the value of options and guarantees will drastically reduce the amount of the contractual service margin.

234 Two respondents disagreed and noted in case of insurers that are part of a financial conglomerate, as the IFRS book values of equity of the banking parent company are the basis for the prudential ratios, volatility would affect other comprehensive income and thus the basis of calculating regulatory capital requirements.

235 For one of these respondents, a solution to this issue is a condition for supporting the endorsement of IFRS 17 in Europe and leads them to request that EFRAG recommend the European Commission to consider specific changes in the CRR made in conjunction with the IFRS 17 endorsement process.

236 They propose two different approaches that could be further analysed:

(a) Change in the CRR so that the CSM is considered as eligible own funds, at least in part.

(b) Propose a filter on amounts recognised in OCI arising from a particular type of contracts together with the amounts arising from the backing assets to those

contracts. The scope could be aligned with the contracts that should be excluded from the annual cohort requirement.

237 Another respondent who disagreed noted the locked in discount rate under the general model to an accounting mismatch that does not portray the economic net financial situation of Spanish long-term life-saving products. Spanish insurers will mainly apply the OCI option for the presentation of the insurance finance result, as their related assets will be mainly classified in FV-OCI portfolios under IFRS 9. In this context, the respondent is significantly concerned about the variability that will be recognised in OCI for these products under the general measurement model. It is important to highlight that Spanish users of insurers' financial statements place much emphasis on understanding the trend and evolution of the profit and loss and OCI statements, not expecting significant variability for the current business model under an economically matched balance sheet.

238 In order to solve this variability, a re-measurement of the CSM at each reporting date for changes in the discount rate should be permitted, including the effect in OCI, while keeping the other IFRS 17 current requirements unchanged. This suggestion would not change other current IFRS 17 requirements (i) to use the locked-in rate to accrete interest on the CSM, and (ii) to use the same locked-in rate to determine the adjustments to the CSM for changes in non-financial assumptions that affect future cash flows would remain unchanged under the new proposal.

239 However, they agreed that this remaining issue should not block the endorsement of IFRS 17 by the European Union in time for the 2023 effective date and, therefore, should not lead to amendments to IFRS 17 as part of the European endorsement process. They recommend to re-evaluate this issue in the context of a post implementation review of IFRS 17.

240 One respondent noted to disagree with the assessment included in par. 494 of Appendix III, as dividend policy is assessed not only taking in account Solvency II position and separate financial statements that are normally not influenced by IFRS, but also on the base of consolidated financial statements results. Under IFRS°17 the increase in volatility due, for example, to increase in credit spread, would lead to increased volatility (in equity and/or profit and loss) and, therefore, could lead to increased procyclicality. Furthermore, should the statutory financial statements be prepared according to IFRS Standards, dividend distribution would be directly impacted.

241 One respondent disagreed with the assessment on procyclicality and volatility. The respondent noted that the IFRS requirement to measure the CSM on a locked-in basis for General Model business is leading to artificial accounting volatility. Non-GAAP measures will be required to explain this volatility to users.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

242 The EFRAG Secretariat notes that the comments with regard to annual cohorts are addressed elsewhere in the endorsement advice.

243 The EFRAG Secretariat acknowledges the comments on recycling for equity instruments on IFRS 9 but notes these are addressed outside the endorsement advice of IFRS 17. The EFRAG Secretariat would like to ask EFRAG TEG members whether a reference to the recycling issue of equity instruments under IFRS 9 should be addressed in the cover letter of the endorsement of IFRS 17.

244 The EFRAG Secretariat disagrees with the comment on paragraph 494 of the DEA for the following reasons: i) the comment only focuses on one part of the message and ii) the comment is based upon assumptions '*should* the statutory financial statements be prepared according to IFRS Standards'. The EFRAG Secretariat

recalls the entire para 494 reasoning: "*irrespective of what the applicable standards are, an insurer will not be allowed to pay dividends that bring its reserves below the requirements of Solvency II. In addition, it is noted that the distribution of dividends is now determined at national level and is independent from the IFRS accounting*."

245 The EFRAG Secretariat acknowledges the request to recommend the European Commission to consider specific changes in the CRR made in conjunction with the IFRS 17 endorsement process and proposes to ask TEG members whether such a request should be included in the FEA.

Question 12 - IFRS 17 and IFRS 9

DEA initial assessment

246 EFRAG is of the view that mismatches reported by preparers that contributed to EFRAG's assessment do not arise solely from the application of IFRS 17 and IFRS 9 but are mostly economic in nature. EFRAG considers that reporting the extent of the economic mismatches in profit or loss provides useful information.

247 In EFRAG's view, asset allocation decisions are driven by a variety of factors and disentangling the impact of accounting requirements from other factors is difficult. When defining the accounting for financial assets under IFRS 9, an insurer would not apply business models determined in isolation, but rather business models that are supportive of or complementary to their business model for managing insurance contracts. EFRAG notes that the interaction between each of an entity's internal policy decisions will determine the importance of any accounting mismatches remaining in the financial statements and this may differ largely from one insurer to another.

248 EFRAG has assessed the different tools that both standards offer to mitigate accounting mismatches. EFRAG assesses that:

(a) there is no conceptual barrier against the application of hedge accounting in the context of IFRS 17. However, given the lack of experience and systems by the industry, it would require significant investment both in time and systems development to achieve hedge accounting in this context (Appendix III, Annex 5);

(b) the treatment of OCI balances and risk mitigation at transition will not, on balance, negatively impact the usefulness of the resulting information.

Question 12(a)

Do you agree with the assessment on the application of hedge accounting? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Assessment on hedge accounting	Yes	No	Both yes and no	No answer	Total
ITC	15 (1 user)	3	1	5 (1 European user organisation)	24
Letter	-	-	-	15 (1 international user organisation)	15
Total	15	3	1	20	39

249 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

250 One respondent that answered both yes and no, four respondents that answered yes and one respondent that answered no to the assessment noted the issue was not just lack of experience and systems but also the restrictions pertaining to macro hedging in IFRS requirements (especially in relation to insurance liabilities), the interrelation of interest and insurance risk and linking hedge accounting to risk management.

251 One respondent answering yes to the assessment noted to be less concerned by this issue than other market players as they are mainly using hedging in connection with financial assets, not insurance liabilities.

252 Two respondent that disagreed with the assessment noted a problem remained for long term savings business that are managed through cash flow matching techniques, including the use of derivatives to mitigate interest rate risks and are measured through the general model. Derivatives may also be used to manage financial risk in other saving contracts and not for trading purposes. They are concerned about not being able to offset the underlying impacts on the measurement of liabilities with the corresponding impacts on the asset side.

253 As the mismatch related to some extent to realised gains and losses on equity investments and hence the most suitable solution for this mismatch would be to fix IFRS 9 allowing recycling for these type of equity investments.

254 One of the respondents that disagreed with the assessment agreed that this should not block the endorsement of IFRS 17 in time for the 2023 effective date and recommended to re-evaluate this issue in the context of a post implementation review of IFRS 17.

255 Two of the respondents not providing an answer noted that they would not apply hedge accounting or risk mitigation.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

256 The EFRAG Secretariat is sympathetic to the comments raised with regard to macro hedging. However, the addressee of that message is the IASB, not the EC.

257 Based on the overall comments received, the EFRAG Secretariat proposes no changes to the current text of the DEA.

Question 12(b)

Do you agree with the assessment on the treatment of OCI-balances and risk mitigation? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Assessment on OCI balances and risk mitigation	Yes	No	Both yes and no	No answer	Total
ITC	12 (1 user)	6	1	5 (1 European user organisation)	24
Letter	-	2	-	13 (1 international user organisation)	15
Total	12 (1 user)	8	1	18	39

258 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

259 The respondents that disagreed with the assessment noted that risk mitigation is an integral part of normal business operations in the insurance industry and is routinely planned and documented. There should be no significant difficulty in providing the evidence in practice to support the retrospective application of the risk mitigation option, as all risk mitigation documentation should be readily available.

260 While the fair value and modified retrospective approaches allow the accumulated OCI balance on insurance liabilities to be set to nil on transition no such relief is available to assets measured at fair value through OCI. Setting OCI on the liabilities to nil at transition, whilst maintaining the historical OCI on related assets may significantly distort equity at transition and future results. Assets will generate a yield based on the historical effective interest rate, whilst liabilities will unwind at the market rate at transition date.

261 However, the respondents do not believe that this issue should block the endorsement of IFRS 17 by the European Union in time for the 2023 effective date.

262 Two of the respondents that disagreed with the assessment added that the effects that affect the calculation of the regulatory capital requirements of financial conglomerates should be resolved before IFRS 17 enters into force with a change in CRR.

263 One respondent that disagreed with the assessment noted EFRAG concluded that extending the risk mitigation option to reinsurance contracts would largely address the accounting mismatches issue. The respondent welcomes this acknowledgement but thinks EFRAG should be more nuanced and provided their own analysis.

264 One respondent not replying to the question added a comment that as part of the European endorsement process, a full IFRS 9 comparative information would be allowed for insurers applying IFRS 17 and IFRS 9 simultaneously for the first time. This could be possible with the carve-out of the last sentence of paragraph 7.2.1 of IFRS 9.

265 One respondent made the following comments:

Changes in the fair value of investments in equity instruments

266 The respondent has a long-standing view that amounts presented in OCI shall subsequently be transferred to profit or loss. The respondent notes that paragraphs 108–121 of Appendix III to the DEA discuss this matter and suggests that the cover letter should do this also.

Presentation of changes in the fair value of puttable financial instruments

267 The respondent notes that insurers hold financial instruments that impose on the entity that issued those instruments an obligation to deliver to the holder a pro rata share of the net assets of the entity only on liquidation (‘puttable financial instruments’).

268 In many cases, those puttable instruments represent investments in funds that hold financial assets that are SPPI and are hold within a business model whose objective (i) is to hold those assets in order to collect contractual cash flows, or (ii) is achieved by both collecting contractual cash flows and selling those assets. Accordingly, the funds subsequently measure those assets at amortised cost or at fair value through OCI (FVOCI). If insurers were to hold those assets directly (ie not through a fund), they would subsequently measure them at amortised cost or at FVOCI.

269 Considering the long-term holding of such instruments by insurers, the respondent thinks that the presentation of changes in the fair value of puttable financial instruments in profit or loss is not relevant and introduces unnecessary volatility.

270 One respondent that did not respond to the question noted that risk mitigation would not be applied.

EFRAG Secretariat’s recommendations to EFRAG TEG on EFRAG’s proposed final position

271 The EFRAG Secretariat is surprised about the comment that “*there should be no significant difficulty in providing the evidence in practice to support the retrospective application of the risk mitigation option*”. Given the issues that were reported on application of the retrospective application of the standard (even with modified conditions), it seems unrealistic that no such issues exist for the retrospective application of risk mitigation.

272 The EFRAG Secretariat acknowledges the comments on recycling for equity instruments on IFRS 9 but notes these are addressed outside the endorsement advice of IFRS 17. The EFRAG Secretariat would like to ask EFRAG TEG members whether a reference to the recycling issue of equity instruments under IFRS 9 should be addressed in the cover letter of the endorsement of IFRS 17.

273 The EFRAG Secretariat agrees with the comment on puttable financial assets and proposes to add it in Appendix III. The EFRAG Secretariat refrains from addressing this issue in Appendix II as the comment is unrelated to the standard assessed.

274 The EFRAG Secretariat proposes to nuance the risk mitigation analysis based on the comments received.

Question 13 - Application of IFRS 15

In some instances, an entity (including insurers) may choose to apply IFRS 15 instead of IFRS 17 to contracts that meet the definition of an insurance contract but that have as their primary purpose the provision of services for a fixed fee. EFRAG concludes that this option would probably be made by those entities that do not operate in the insurance business. EFRAG concludes that for these entities accounting for these contracts in the same way as for other contracts would provide useful information and that applying IFRS 17 to these contracts would impose costs for no significant benefit (Appendix III paragraphs 68 to 76). Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Application of IFRS 15	Yes	No answer	Total
ITC	19 (1 user and 1 European user organisation)	5	24
Letter	1	14 (1 international user organisation)	15
Total	20	19	39

275 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

276 Two respondents – preparers – expressed **a different view** and noted that insurance contracts will be measured either under IFRS 17 or under IFRS 9, with no unbundling of service components (no distinct performance obligations).

277 One respondent – user organisation – added that applying the same principles for all the contracts with customers could reduce the complexity for the company, providing a good set of information for the users of the financial statements without any additional costs.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

278 The EFRAG Secretariat notes that the majority of the respondents agreed with EFRAG's initial assessment. The remaining respondents did not answer to this question.

279 The EFRAG Secretariat therefore does not propose any changes to the Draft Endorsement Advice in relation to Question 13.

Question 14 - Implications of transitional requirements

Considering the extent of the information available for each particular group of insurance contracts at transition, EFRAG assesses that the existence of three transition approaches does not result in a lack of relevant information. The alleviations granted under the modified retrospective approach are still leading to relevant information as they enable achieving the closest outcome to a full retrospective application without undue cost or effort. In addition, EFRAG acknowledges that the possible use of three different transition methods may affect comparability among entities and, for long-term contracts, over time. However, the practical benefits of the modified retrospective and fair value approach, which were introduced by the IASB to respond to operational concerns of the preparers, may justify the reduced comparability (Appendix II paragraphs 129 to 155, 228 to 237, 300 to 303, 372 to 374, 398 to 400).

Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Implications of transitional requirements	Yes	No	Both Yes and No	No answer	Total
ITC	17 (1 user, 1 European user organisation)	3	2	2	24
Letter	1	-	-	14 (1 international user organisation)	15
Total	18 (1 user, 1 European user organisation)	3	2	16 (1 international user organisation)	39

280 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

281 A respondent - user organisation - had reservations about the possibility for different approaches in relation to the transitional requirements. The respondent noted that different transitional requirements could create complexity in assessing financial performance for a prolonged period of time. Nevertheless, the respondent noted that the level of due diligence of the standard-setting process was sufficient and the urgency of implementing a revised standard for insurance contracts outweighs the complexity that is created by the different transitional approaches. The same respondent also noted that it should be acknowledged that such a major accounting change may subsequently need adjustment based on experience after an appropriate period.

282 Four respondents disagreed with EFRAG's assessment but agree that endorsement should not be blocked and that no changes are required before the 2023 effective date. The respondents indicated that the MRA [PIR topic] is too restrictive and insurers will be unable to use it in practice. One of these respondents also commented that the three transition approaches do not result in a lack of relevant information provided, but rather a recognition of the limitations there may exist for full retrospective accounting.

283 The respondent that answered "no" referred to the noncomparable results on interest rate and equity depending on the transition approach used.

284 A European regulator that did not answer the question noted "that while the full retrospective approach provides the most complete information, the choice of transition methods may result in some diversity of practice across entities and in a lack of comparability of transition amounts. … this reflects the necessary balance between relevance, comparability and practicability considerations. However, the disclosure requirements upon transition and subsequently may help promote comparability."

285 A user that answered 'yes' indicated that it partially agreed with the assessment. It pointed out that the existence of three transition approaches could reduce cost and efforts but may affect comparability within companies over time, thus conflicting with one of the main purposes of IFRS 17. These effects could be intensified by the application of annual cohorts.

286 One respondent answered 'no' due to the complexity of the MRA on transition.

287 One respondent stated that it has conceptual reservations about the use of the FVA as it results practically resulting in level-3 measurements and regrets lack of flexibility in the FRA and MRA which could encourage application of the FVA.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

288 Current wording in Appendix 2: Relevance – Transition – Three transitional approaches:

EFRAG considers that each of the above transition approaches can provide relevant information, depending on the information available, because entities are implementing IFRS 17 from different starting points. Also, users will be informed of the effect of the transition method chosen and the movement of the figures going forward, as the CSM and insurance revenue for portfolios under each of the three transition methods adopted are disclosed separately and will continue to be presented separately, as long as the related insurance contracts are in force. Whenever practicable, entities would use the retrospective approach that provides the most complete information (the full retrospective approach), or an approximation thereof (the modified retrospective approach). The EFRAG extensive case study showed that all three approaches are likely to be used in practice.

Under the fair value approach, the insurance liabilities are measured at the date of transition at their fair value (in accordance with IFRS 13). The fair value is therefore driven by the relationship between two willing market participants and is determined by reference to the rate of return required by such market participants. As a result, when calculating the fair value, the measurement would include a compensation that market participants would require for taking on the obligation.

EFRAG has been made aware of concerns by some that if the fair value is used, the future profitability will not be consistent with the "real" performance, as an entity retaining the transition approach would account for the liabilities as they were issued at the transition date, rather than being the result of often long-term contracts already in place in previous periods. EFRAG observes that the availability of the fair value approach offers an alternative practical simplification to the development of the modified retrospective approach.

In addition, there are concerns that fair value may be difficult to measure reliably and generally pertains to level 3 valuations, that probably require a high level of judgment and assessments. EFRAG observes that there are appropriate requirements, including disclosure of measurement uncertainties, in IFRS 13 that will support the provision of relevant information.

289 Current wording in Appendix 3: Key features of IFRS 17 – Operational complexity – Transition

Transition is discussed in paragraphs xx [Results from EFRAG comprehensive case study] *Insurers have noted that the application of the full retrospective method is very difficult to apply because in many cases data are lacking to fulfil the requirements. The same is valid for the modified retrospective method, which is a method that is seen as insufficiently flexible to deal with the lack in data. Also, the use of the fair value approach is seen as complex to apply as there are no sufficient comparable market data available to determine the fair value at transition.*

290 Therefore, the EFRAG Secretariat considers that these concerns are already addressed and require no further changes specifically in the context of the overall support for the current drafting.

Question 15 - Impact on reinsurance

EFRAG concludes that the separate treatment under IFRS 17 of reinsurance contracts held and underlying direct contracts reflects the rights and obligations of different and separate contractual positions. Furthermore, EFRAG acknowledges that reinsurance contracts issued or held may meet the variable fee criteria even though IFRS 17 states that they cannot be insurance contracts with direct participation features. However, EFRAG assesses that the risk mitigation option would largely address the accounting mismatches, thereby balancing relevant information. In addition, for reinsurance contracts held that are used to recover losses from the underlying contracts, EFRAG considers that the Amendments provide relevant information as they aim at reducing accounting mismatches which is present under the original version of the Standard (Appendix II paragraphs 63 to 74, 210 to 216, 274 to 275, 349 to 352, 395 to 397).

Do you agree with this assessment? If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Impact on reinsurance	Yes	No	Both Yes and No	No answer	Total
ITC	15 (1 user)	5	1	3 (1 European user organisation)	24
Letter	-	1	-	14 (1 international user organisation)	15
Total	15	6	1	17	39

291 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

292 One of the respondents answered **both Yes and No** to the question. The respondent responded Yes to express that this item should not prevent the endorsement of IFRS 17. However, the respondent does not agree that the separate treatment under IFRS 17 of reinsurance contracts held and underlying direct contracts reflects the rights and obligations of different and separate contractual positions. The respondent added that this should not prevent the endorsement of IFRS 17 by the European Union in time for the 2023 effective date.

293 One respondent provided the following remarks:

294 From a general perspective, taking the general measurement and recognition requirements in IFRS 17 and applying them separately, with adjustments, to the underlying insurance contracts and the corresponding reinsurance contracts held

may arguably be an 'easy' approach to deal with reinsurance contracts. However, that does not reflect the economics of reinsurance.

Contract boundaries requirements to reinsurance contracts held

295 The respondent disagrees with EFRAG's conclusion in paragraph 103 of Appendix II to the DEA whereby determining separately the contract boundary of insurance contracts issued and related reinsurance contracts held provides relevant information. This fails to (i) achieve consistency in the way of measuring the reinsurance and the underlying contracts and thus, results in mismatches, and (ii) reflect the way the ceding entity manages and mitigates its risks.

296 The respondent thinks that the inconsistency in the way entities will measure reinsurance contracts held and the related underlying insurance contracts will result in accounting mismatches because entities will:

(a) apply different discount rates when measuring the contracts—accordingly, there will be accounting mismatches in entities' insurance finance result;

(b) measure differently the contracts' CSM and determine differing coverage periods and coverage units—accordingly, there will be accounting mismatches in entities' insurance result (notably because of the difference in timing on the assessment of future cash flows between the reinsurance contracts (at inception) and the underlying direct insurance contracts (when those contracts are eventually recognised), or changes in the key assumptions used for the estimation of cash flows);

(c) apply differing risk adjustments and retain different release patterns for that risk—here again, there will be accounting mismatches in entities' insurance finance result.

297 The respondent understands that the requirement to assess separately the contract boundary for reinsurance contracts held would enable to reflect, in the CSM of the group of reinsurance contracts held, the expected gain or cost arising from the reinsurance of future underlying contracts not yet issued. This amount will however require entities to make assumptions about (i) the future subscriptions and (ii) policyholders' behaviour. In the respondent's view, this will result in the extensive use of judgement and in estimates with significant measurement uncertainty. Furthermore, the respondent notes this measurement uncertainty will only be reflected in the notes to the financial statements whereas the abovementioned accounting mismatches will distort the relevance of information derived from the statement of profit or loss.

298 Measuring future reinsured underlying contracts that are otherwise not yet recognised will be particularly costly for entities. Hence, the respondent questions whether the benefits of the requirements for contracts boundaries for reinsurance contracts held will outweigh their costs, for both users (mismatches distorting an entity's financial performance) and preparers (through operational complexities). In the respondent's view, EFRAG should highlight this matter in its analysis in Appendix III to the DEA.

Prohibition of applying the VFA model to reinsurance contracts held or issued

299 In paragraphs 69–72 of Appendix II to the DEA, EFRAG acknowledged there may be reinsurance contracts issued or held that meet the criteria in paragraph B101. However, EFRAG concluded that extending the risk mitigation option to reinsurance contracts would largely address the accounting mismatches issue. The respondent welcomes this acknowledgement but thinks EFRAG should be more nuanced on the following points:

(a) Reinsurance contracts held - The respondent thinks that permitting reinsurance contracts held to be accounted for under the VFA model when the underlying insurance contracts are measured under that same model would have been the appropriate solution. This is because it would have been the easiest approach to implement and it would faithfully reflect the economics of reinsurance operations since changes in the financial risk will be reflected in CSM and spread over the coverage period instead of recognising immediately in profit or loss or OCI.

(b) Reinsurance contracts issued - The respondent thinks that reinsurance contracts issued that meet the VFA eligibility criteria (that is, for example, the case when the terms of the treaty specify that the return of underlying items is shared between the direct insurer and the reinsurer) should be required to use the VFA model.

Reinsurance contracts in a net cost position

300 However the respondent thinks that the computation set out in paragraph B119D of IFRS 17 may not adequately reflect the economic loss-absorption capacity of reinsurance contracts held and thus, may lead to the recognition of a reinsurance gain even though a reinsurance contract held might represent a net cost for the cedant. The respondent notes that circumstances in which the reinsurance premium exceeds the expected reinsured claims are expected to arise frequently in practice. Accordingly, the respondent thinks this requirement will frequently convey information that may not meet the qualitative criteria of relevance, reliability and prudence.

301 Seven respondents did not agree (one answering both yes and no). The **main arguments against** the conclusion on to the impact on reinsurance is relating to the possibility of mismatches relating to Prohibition of applying the VFA model to reinsurance contracts held or issued and Contract boundaries requirements to reinsurance contracts held. in several areas:

(a) Scope of the VFA.

(b) Contract boundaries.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

302 The EFRAG Secretariat notes that many of the respondents agreed with EFRAG's initial assessment. The EFRAG Secretariat also notes that many other respondents did not answer to this question.

303 Some of the respondents disagreed with EFAG's initial assessment and identified issues relating to possible mismatches. One of the respondents considered these as not being material, therefore indicating that it should not prevent the endorsement.

304 The EFRAG Secretariat has addressed the concerns around contract boundaries in Appendix III and nuanced the message on application of the VFA to reinsurance contracts held or issued in Appendix II.

Question 16 - Implementation timeline

DEA initial assessment

305 Feedback from the Limited Update to the Case Studies shows that the delay to the effective date of IFRS 17 to 1 January 2023 results in higher one-off implementation costs for preparers. However, the delay is also helping preparers to adjust their project approaches to the operational difficulties of the Covid-19 crisis. EFRAG understands from preparers that they may choose to avoid these costs by revisiting

solution designs or may make more use of internal (cheaper) resources. Furthermore, according to the Limited Update to the Case Studies and other feedback from insurance associations, most of the participants did not intend to early apply IFRS 17, whereas a small minority wanted to have this possibility. EFRAG is not aware of any European insurer having taken a firm commitment to early apply the Standard. Finally, EFRAG notes that IFRS 17 requires a presentation of restated comparative information when applying the Standard for the first time. However, IFRS 9 does not have similar requirements for financial assets and liabilities (Appendix III paragraphs and 609 to 613).

Question 16(a)

Do you agree with the assessment relating to delay of IFRS 17 implementation till 2023? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Implementation timeline – effective date	Yes	No answer	Total
ITC	22 (1 user and 1 European user organisation)	2	24
Letter	-	15 (1 international user organisation)	15
Total	22	17	39

306 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

307 The following **additional comments** were made by the respondents relating to the implementation timeline:

(a) IFRS 4 creates regulatory and financial stability risks as there is less comparability across the insurance sector and it allows management too much flexibility in the assumptions they make. Therefore, IFRS 17 needs to be applied as soon as practicable recognising the extent of work required.

(b) Swift endorsement is crucial for preparers in order to provide clarity to market participants and to enable timely application, not later than 1 January 2023.

(c) Any further delays to the effective date of IFRS 17 that might arise from any changes to IFRS 17 is not supported. Any such delays may cause significant disruption to implementation, which could result in additional costs to preparers.

(d) The implementation date is realistic and could allow to prepare the first adoption in a timely way. Any delay from the implementation date (1 January 2023) is likely to add further costs for the insurance companies. Furthermore, the still uncertain current situation due to the pandemic and the application of the annual cohorts need time.

(e) The delay of the effective date to 2023 is supported as it gives preparers sufficient time to improve the quality of their systems and processes.

(f) A swift adoption of IFRS 17 is important in order to ensure the application by insurance undertakings of IFRS 9 Financial Instruments which has been delayed for long to the detriment of investor protection.

Question 16(b)

Do you agree with the assessment relating to early application? (i) If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice. (ii) Do you have any other observations that you think is relevant for EFRAG's endorsement assessment on this topic? Please explain.

Summary of respondents' comments

Implementation timeline – early application	Yes	No	No answer	Total
ITC	21 (1 user and 1 European user organisation)	1	2	24
Letter	-	-	15 (1 international user organisation)	15
Total	21	1	17	39

308 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

309 The following **additional comments** were made by the respondents that agreed with the assessment relating to early application:

(a) A national standard setter emphasised that the insurance entities in their jurisdiction have almost completed their implementation projects to meet the 2023 deadline. Any delay in finalising the endorsement will prevent the companies to release the resources and have deployed at other tasks. The resources will need to be retained in order to react quickly should the European institutions decide not to align the contents of the standard (including annual cohorts), the effective date and the transition requirements for European purposes.

(b) An audit organisation considered it important that all parties involved in the endorsement process do whatever is necessary to ensure a timely endorsement so that insurers planning **early adoption** are able to do so in 2022. The endorsement process should not hinder a timely application, given that there have been more than 20 years of discussion on this topic.

(c) A preparer organisation **supported the early adoption option** and was of the opinion that the early adoption option should be in place in the EU for annual periods starting at 1 January 2022. The respondent additionally noted that timely endorsement is essential specifically because of the requirement to provide restated comparative information when applying IFRS 17 for the first time. It would be problematic when the parallel run of systems in the preceding year would need to be initiated by entities without the legal certainty about the outcome of the endorsement process. And this desirable stage can only be achieved once the EU endorsement process is successfully completed. A final positive endorsement advice submitted to the EC without any further undue delay would be an appreciated contribution of EFRAG to help to achieve this important objective.

310 One of the respondents that disagreed noted that some insurance companies in the respondent's jurisdiction would like to **benefit from the early adoption** by implementing the standard as per 1 January 2022. They emphasised that it is crucial that the endorsement process of the standard as amended by the IASB in the European Union is done in due time without any additional delay or modifications.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

311 The EFRAG Secretariat notes that the majority of the respondents agreed with EFRAG's initial assessment. The EFRAG Secretariat also notes that many other respondents did not answer to this question.

312 Some respondents specifically supported the early adoption option and indicated that some entities want to early adopt. This point is already covered in the endorsement advice.

313 The EFRAG Secretariat therefore does not propose any changes to the Draft Endorsement Advice in relation to Question 16.

Question 17 – Other factors to consider

Do you agree that there are no other factors to consider in assessing whether the endorsement of the Standard is conducive to the European public good? If you do not agree, please identify the factors, provide your views on these factors and indicate how this could affect EFRAG's endorsement advice.

Summary of respondents' comments

Other factors to consider	Yes	No	No answer	Total
ITC	20 (1 user)	2 (1 European user organisation)	2	24
Letter	-	-	15 (1 international user organisation)	15
Total	20 (1 user)	2	17	39

314 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

315 Three of the respondents provided **additional factors to be considered**:

(a) For the 2022 comparative period, financial instruments will be disclosed under a mix of IFRS 9 and IAS 39 requirements, which will not be consistent with 2023 data, and will not be relevant for users. One solution would be that, as part of the European endorsement process, a full IFRS 9 comparative information would be allowed for insurers applying IFRS 17 and IFRS 9 simultaneously for the first time. This could be possible with the carve-out of the last sentence of paragraph 7.2.1 of IFRS 9.

(b) Amounts to be recognised in OCI at transition under the fair value approach.

(c) The impact on CET1 as explained in paragraph 399.

(d) Applying IFRS 17 to traditional life insurance business (measured under VFA) leads to a systematic backloading of the CSM as explained in paragraph 392.

316 Two of the respondents – preparer organisations and a user organisation - **disagreed and noted**:

(a) That the issue relating to the volatility in OCI should be addressed.

(b) That IFRS 17 could underestimate the impact of the application of the annual cohorts on some kind of life contracts (e.g., intergenerationally mutualised contracts), interfering with the correct representation of the underlined profitability and preventing analysing and interpreting the financial statements fairly. In addition, the adoption of margins instead of premiums and the non-required classification of non-life and life contracts that is not in line with the Solvency II rules could give a misleading representation of the groups' risk.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

317 The EFRAG Secretariat notes that the majority of the respondents agreed with EFRAG's initial assessment. The EFRAG Secretariat also notes that many other respondents did not answer to this question.

318 Few of the respondents disagreed with EFAG's initial assessment and identified some issues. All these issues are either already covered or will be discussed by EFRAG TEG for inclusion or not in the endorsement advice.

319 The EFRAG Secretariat therefore does not propose any changes to the Draft Endorsement Advice in relation to Question 17.

Part IV: The questions in Part IV aim at collecting respondents' inputs (Questions to respondents in Annex 1) and views relating to the requirement in IFRS 17 to apply annual cohorts to intergenerationally mutualised and cash-flow matched contracts

Question 18(a)

As stated in paragraphs 5 to 9 of Annex 1, what is the portion of intergenerationally-mutualised contracts and cash-flow matched contracts of all life insurance liabilities and all insurance liabilities? Please report the results for these two types of contracts separately where relevant.

Summary of respondents' comments

320 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

Austria

321 An Austrian respondent indicated that this is about 2/3 of life insurance liabilities.

France

322 A French respondent stated that based on 2019 consolidated accounts of the different participants, the total insurance liabilities amounted to EUR 1,265 billion.264,905 million. Of that:

(a) Life and health contracts with direct participation features (includes with-profit contracts) (not unit-linked) amounted to EUR 617 billion,027 million (48.8% of total liabilities), corresponding to savings contracts (including the euro component of "multi-supports") with an insurance guaranty, pensions and annuities, and funeral insurance.

(b) Investment contracts with discretionary participation features amounted to 362 billion361,857 million euros (28.6% of total liabilities), corresponding to savings contracts or components in euro without a material insurance guaranty.

All these contracts are intergenerationally-mutualised contracts and no cash-flow matched contracts have been issued.

323 Another respondent indicated that according to their statistics of the French Insurance market, the total amount of insurance liabilities as of 31/12/2019 amounted to € 2,138 bn of which 92% in life insurance (€ 1,969 bn). (All entities reporting either under French standards or IFRS standards).

Of the life and health contract liabilities, most of 76% are contracts with direct participation features (including with-profit contracts) * whereas insurance contracts where financial risk is borne by policyholders (unit-linked) represent 21 %. Other life and health contracts (without direct participation features) represent 3% of life insurance liabilities.

* If IFRS Classification was applied to the whole French market

French IFRS preparers

324 The major part of the French market stems from entities issuing IFRS financial statements. Amounts extracted from French groups publishing IFRS financial statements corroborate these proportions. The total amount of their insurance liabilities in- and outside of France (under IFRS 4) amounted to € 1,858** bn as of 31/12/2019, of which 8% relate to non-life insurance (€ 152 bn**) and 92% to life insurance (€ 1,706 bn**).

Of the life and health contract liabilities, 81 %** are with direct participation features (including with-profit contracts) whereas insurance contracts where financial risk is borne by policyholders (unit-linked) represent 19%**. Other life and health contracts (without direct participation features) represent less than 1%** of life insurance liabilities.

Overall assessment

325 Based on their characteristics, most of the life and health contract liabilities with direct participation features are intergenerationally-mutualised contracts (except for the unit linked part of combined euro and unit-linked contracts).

* Best estimate of data, some French subsidiaries of foreign groups do not publish individual accounts under IFRS.

Germany

326 A German respondent stated that this applies to nearly 100% of all life (and health) insurance liabilities, and 1/2 to 2/3 of all insurance liabilities.

327 Another German respondent indicated that based on inputs received from its members, 98% of all life insurance contracts in Germany are subject to paragraphs B67 to B71 of IFRS 17. Similarly, 99% of the health insurance business is mutualised and 12% of general insurance.

Italy

328 One respondent stated that the intergenerationally-mutualised contracts in Italy amount to 72% of the total life technical provisions as of 30 September 2020.

329 Another respondent indicated that intergenerationally-mutualised contracts amount to 86% of its life insurance liabilities and 56% of all insurance liabilities. These would all qualify for the VFA.

330 A respondent indicated that segregated funds represent 90% of its portfolio which qualifies for the VFA.

331 Another respondent from the same territory stated that these constitute approximately 60% of its insurance business.

332 One respondent indicated that for the whole of the Italian life market the IGM contracts amount to 72% of the life technical provisions and these contracts qualify for VFA.

Spain

333 One respondent indicated that undertakings using the matching adjustment (under Solvency II) represents 59% of the national market for total technical provisions and 65% of the life technical provisions in 2019.

334 Another respondent suggested that cash-flow matched contracts represent around 51% of the life in-force portfolio as of 31 December 2019 in Spain.

335 Another respondent stated that in the Spanish insurance market, technical provisions subject to the matching adjustment compared to total technical life provisions is 70% and when compared to the total technical provisions, 61%.

UK

336 One respondent indicated that 18% of total insurance contract liabilities relate to with-profits contracts that could be subject to intergenerational mutualisation. Furthermore, cash-flow matching is a common risk mitigation technique that is routinely applied to all types of contracts and it is therefore not possible to separately identify the portion of business that is subject to such cash-flow matching.

Question 18(b)

Please indicate the proportion of contracts with intergenerational mutualisation (within the context of paragraphs B67-B71 of IFRS 17) for which the requirement around annual cohorts is considered a significant issue. Please specify the share that would qualify for VFA.

Summary of respondents' comments

337 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

338 One respondent stated that the intergenerationally-mutualised contracts in Italy amount to 72% of the total life technical provisions as of 30 September 2020. The respondents from Italy did not specify which proportion of these contracts would qualify for the VFA.

339 Another respondent commented that while almost 100% of all life (and health) insurance liabilities, and 1/2 to 2/3 of all insurance liabilities fall under IFRS 17 paragraphs 67 to 71. However, in Germany, insurers do not regard this as a significant issue and have found and implemented solutions to the annual cohort requirement. All of these contracts qualify for the VFA. This was confirmed by another respondent. This respondent stated that the current DEA may create the impression that German insurers are opposed to annual cohort requirement when this is not the case and asked for the details about German contracts to be removed from the DEA.

340 One respondent that the annual cohorts' requirement is an issue for all life and health contracts and investment contracts with discretionary participation features which are not unit-linked in French.

341 Another respondent indicated that nearly all French life insurance contracts meet the VFA criteria and more than 80% are intergenerationally-mutualised contracts for which the requirement for annual cohort is considered a significant issue.

342 One respondent does not consider this a significant issue for their business.

Question 18(c)

Please describe the approach you envisage to implement the annual cohorts requirement to contracts with intergenerationally-mutualised contracts (within the context of paragraphs B67-B71 of IFRS 17).

Summary of respondents' comments

343 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

344 An Austrian respondent indicated that they propose an option to remove annual cohorts for intergenerationally-mutualised contracts, but that cash-flow matched contracts are not material in its territory.

345 An actuarial organisation indicated that any such approach would be arbitrary, artificial and misleading to the users of financial statements.

346 One respondent commented that the annual cohort can be seen as one additional granularity requirement that has to be added to and included in the measurement approach. This separation can be explicitly performed at initial recognition, but an allocation is required on subsequent measurement.

(a) At initial recognition, CSM is explicitly calculated for the annual new business cohort. At initial recognition, mutualisation occurs between the existing portfolio and the new business written. The expected future cash flows before and after mutualisation will be determined for the new business (annual) cohort and is common practice already today for determining the new business value in embedded value reporting.

(b) For subsequent measurement, however, the interaction between groups of contracts for mutualised business – and, thus, also for different cohorts – are reflected in the determination of the CSM. The effects of mutualisation and the split by cohort cannot be determined directly but need to be derived by using reasonable and consistent allocation algorithms comparable to determination of fulfilment cash flows under the VFA. These are usually determined at the level of mutualisation and is then allocated to a more granular level.

(c) The following approach can be used to achieve the required annual cohort split and to separate mutualisation effects:

(i) Stochastic cash flows for subsequent measurement are determined at a higher granularity level than groups of contracts.

(ii) The adjustments to the CSM are determined at the level at which mutualisation occurs.

(iii) An amount of CSM is then allocated to each group of contracts.

(iv) The CSM release is determined at a group of contracts level allowing for annual cohorts.

Thus, the task is to develop an appropriate allocation procedure.

347 One respondent plan to apply annual cohort requirements.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

348 Annex A to Annex 1 has been updated for the additional information received.

Question 18(d)

Please indicate the proportion of cash-flow matching contracts for which the requirement around annual cohorts is considered a significant issue. Please specify how the features of the contracts compare with the description provided in Annex A of Annex 1.

Summary of respondents' comments

349 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

350 One respondent confirmed that these contracts are not in its territory – Germany.

351 One respondent from Spain indicated that annual cohorts are an issue for 89% for contracts where the matching adjustment is applied.

352 Another respondent does not consider this a significant issue for their business.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

353 Annex A to Annex 1 has been updated for the additional information received from Spain.

Question 18(e)

Please describe the approach you envisage to implement the annual cohorts requirement to cash-flow matched contracts.

Summary of respondents' comments

354 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

355 One respondent from Spain indicated that entities would disaggregate contracts based on year of issuance, but this does not reflect how assets and liabilities are managed. Therefore, it does not reflect the economic characteristics of asset liability management and the allocation of the CSM would be artificial.

356 Another respondent does not consider this a significant issue for their business.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

357 As these arguments are already in the DEA, the EFRAG Secretariat proposes no further amendments.

Part V: Questions to Respondents raised in Appendix III

Question 19(a)

In your view, how will the Covid-19 pandemic affect the impacts of IFRS 17 on the insurance market (see a description of some expected impacts in paragraphs 518 to 527 in Appendix III) and indirectly, on the European economy as a whole?

Summary of respondents' comments

358 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

359 One respondent stated that the pandemic would not be negatively impacting the IFRS 17 methodology as any additional claims should be accounted for under the existing IFRS 17 model.

360 Another respondent declared that the pandemic will make the benefits of IFRS 17 more visible, especially in the context of onerous contracts. Furthermore, updated assumptions and current estimates will be particularly useful to users in these difficult market conditions. Therefore, the respondent considers that IFRS 17 is even more important during the pandemic as it will provide comparable, transparent, meaningful and instructive financial reporting. The respondent considers IFRS 17 to be responsive to changes in market conditions while absorbing exaggerated volatility where necessary such as CSM, OCI presentation option, risk mitigation option as well as the alignment of the measurement principles for reinsurance contracts to those of the underlying contracts.

361 One respondent indicated that now significant effects are expected.

362 Another respondent stated that the costs are increased during the pandemic due to the increased volatility in the financial market which will overly increase procyclicality mentioned in its response. Furthermore, insurers need to increase their efforts to comply with new legal or accounting requirements in a context of economic recession.

363 Three respondents indicated that the pandemic should not impact the timely endorsement decision for the 2023 effective date.

364 Two respondents indicated that there is a possible risk of procyclical effects of IFRS 17 in adverse market conditions. The market conditions observed at the beginning of the Covid 19 crisis (mid-March 2020) would have led to a significant deterioration of results under IFRS 17. Such an impact would have deteriorated the accounts to such an extent that insurers would have been limited in their financial support to public mitigation measures taken in favour of the French economy.

365 One respondent indicated the potential impacts of the pandemic could include:

(a) The impact of financial market variables (e.g. the level and volatility of equity markets, bond yields, credit spreads, credit defaults) on asset and liability values;

(b) Changes in policyholder behaviour and new business volumes (e.g. resulting from personal economic circumstances, financial markets, reduction in face-to-face contact with the distributors of insurance products);

(c) Changes in mortality and morbidity experience; and

(d) The impact that large proportions of the staff of insurance companies and third-party service providers working remotely might have on insurers' operations.

The current, consistent and transparent nature of IFRS 17 brings significant benefits to financial reporting in such volatile conditions, that volatility also exacerbates the accounting mismatches as described. There will very likely be a need for insurers to use alternative measures to explain business performance to users.

366 One respondent pointed out that greater volatility may be perceived negatively by users as being more negative and may increase cost of capital, more restricted access to finance and a decrease in market capitalisation. These procyclical effects may be amplified by the current pandemic crisis.

Question 19(b)

Is the Covid-19 pandemic affecting your implementation process for IFRS 17 and IFRS 9? Please explain in detail the impacts such as project ambitions, budget for implementation and ongoing costs, resources, speed of implementation. Please also explain whether this relates to the IT systems implementation, or rather the actuarial or accounting aspects of implementation.

Summary of respondents' comments

367 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

368 One respondent indicated that despite the practical burdens related to the pandemic, it has not impaired existing implementation schedules or budgets and it therefore argues strongly to maintain the 2023 application date.

369 Another respondent in the German market indicated that it is not aware of any major obstacles relating to the pandemic and mentioned that the delay of effective date has led to an increase in the one-off project costs.

370 Two respondents indicated that while it has experienced some delays due to the pandemic, but that these will not result in an overall delay.

371 Another preparer indicated that the pandemic has slowed down its implementation process by three to six months which required additional individual effort due to minor inefficiency due to social distancing measures.

372 Three respondents indicated that the pandemic should not impact the timely endorsement decision for the 2023 effective date.

373 Two respondents indicated that while the pandemic has added complexity to the implementation projects, no further delay to IFRS 17 is required.

374 One respondent indicated that the pandemic is impacting implementation projects as there is a general tendency to reduce costs not related to the core business and a slowdown in activities caused by remote working.

375 Another respondent indicated that in some territories, working remotely has been sub-optimal due to restrictions in broadband capacity. Also, the pandemic has delayed the delivery of IT solutions from some external software providers.

Question 19(c)

Are there other aspects around the implications of Covid-19, not yet addressed in the DEA that you want to expand on?

Summary of respondents' comments

376 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

377 Two respondents indicated that the pandemic should not impact the timely endorsement decision for the 2023 effective date.

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378 The EFRAG Secretariat will update the section for the latest version of EIOPA's risk dashboard.

379 As the benefits around transparency has been set out in the DEA, the EFRAG Secretariat suggests including the following:

(a) The possible impact of adverse conditions in March 2020 on the ability of insurers to partake in public mitigation measures in France;

(b) The possible impact of negative user perception due to greater volatility on insurers;

(c) The impact of pandemic on timeliness of third-party solutions;

(d) Reporting of current lags to implementation planning, although these are expected to be resolved; and

(e) Requests that the effective date of IFRS 17 is not delayed.

Part VI: EFRAG's overall advice to the European Commission

Question 20

Do you have any other comment on, or suggestion for, the advice that EFRAG is proposing to give to the European Commission?

Summary of respondents' comments

380 EFRAG has received responses from associations relating to all stakeholders and therefore such responses would include views from many respondents.

381 Eleven respondents – of which two users - did not support further delays in the effective date of IFRS 17 and/or any changes to the standard. One of them noted that any alteration of the standard should not prevent insurers to apply the standard in full.

382 Eleven respondents noted that the requirement to aggregate contracts at the annual cohort level raises the highest overall concern. It is of utmost importance to develop a European solution to solve this issue within the current endorsement process. The European solution should not prevent companies who want to apply the annual cohort requirement in line with IFRS 17 as issued by the IASB. Any solution should, nevertheless, not impact the effective date of 1 January 2023.

383 One respondent recommends recommend that the EFRAG Board provide a positive endorsement advice to the European Commission regarding IFRS 17, including its amendments, in its entirety, considering that on balance, the annual cohorts requirement provides a pragmatic approach which allows to realise the three objectives of the level of aggregation prescribed by IFRS 17. They noted a minority of their members believes that the DEA as currently proposed by the EFRAG Board rather gives a fair reflection of the current status of the debates about annual cohorts across Europe and proposes that it is adopted as drafted. Overall, they call for great caution if the EU were to change specific aspects of IFRS standards published by the IASB ('carve-in') before transposing them into EU law. Similarly, they do not believe that 'carve-outs' are an appropriate solution considering the global reporting context.

384 One respondent did not concur with the overall approach to the messaging taken in the endorsement advice, which, in fact, does not contain any advice as it lacks a conclusion as to whether to endorse or not endorse IFRS 17. As per EFRAG's statutes, an endorsement advice is binary and can only be positive or negative, but not "mainly positive" or "positive except…". They advocate an unreserved positive statement and urge EFRAG to express an " overall positive advice" for endorsing IFRS 17.

385 One respondent noted that while they would have preferred a more principle-based approach to profit allocation in IFRS 17, the annual cohort requirement should not distort the overall assessment of the standard or impede the endorsement of IFRS

17 in EU law. They also kept their reservations about determining the applicable discount rate and risk adjustment, which may have exceeded the appropriate level of allowing for entity-specific inputs.

386 One respondent supported endorsement of IFRS 17 but with adaptations with regard to annual cohorts and in the post implementation review also reinsurance contracts and presentation issues.

387 One respondent noted the solution developed to resolve the annual cohorts issue should be optional and should not delay IFRS°17's effective date of 1 January 2023. Other than the annual cohorts-issue several of the other remaining issues (including CSM amortisation, reinsurance, multi-component contracts, scope of hedging and business combinations) have not been resolved by the IASB but should not block the endorsement of IFRS 17. They recommend re-evaluating these issues in the context of a post implementation review of IFRS 17.

388 Two respondents noted the following:

(i) Comparative information

389 When first implementing at the same time IFRS 9 and IFRS 17, insurance entities will have to fully restate the comparative period (i.e., 2022) applying IFRS 9 except for financial instruments derecognised during the comparative period before the implementation date. This will require applying simultaneously IFRS 9 and IAS 39 and thus reduce comparability and generate a huge operational effort for no benefit.

390 They disagreed with the IASB's analysis when referring to the banks IFRS 9 transition as banks did not face simultaneously the IFRS 17 transitional constraints. They consider this issue can still be mitigated by introducing an optional full retrospective application for IFRS 9 for IFRS 17 first applicants. This option could be added through an annual improvement without unduly overburden the standard-setting process.

(ii) Long-term investment

391 They supported the reintroduction of the recycling for equity instruments measured at fair value through other comprehensive income (FVOCI) together with an appropriate impairment model and the eligibility of equity-like instruments to the same accounting approach.

392 One respondent advocated the following topics:

(a) The respondent encourages EFRAG to take the proposals released in their discussion paper on a more formal role for actuaries in relation to IFRS 17 into consideration in its advice to the European Commission.

(b) The respondent warns for a backloading of the CSM for VFA contracts as:

  (i) A pure volume-based release pattern in general will not only backload the CSM release relative to service provided;

  (ii) but also lead to a significantly overstated CSM after the first years of the implementation of IFRS 17 (in the years 2025 ff.) if companies continue to pay dividends according to the actuarial profit generation patterns – partly set out in the regulatory framework of the policyholder participation in gross profits.

(c) The respondent warns of a potential OCI mismatch for VFA business with modified retrospective approach for transition.

  In contrast to IFRS 17, in IFRS 9 a comparative prior period is not required. So, for direct participating business the opening balance sheet for IFRS 17 at 1 January 2022 is derived from financial assets as underlying items accounted

for under IAS 39. For the period 2023, this might lead to an accounting mismatch in OCI amounts between IFRS 17 liabilities and IFRS 9 financial assets. To remediate this potential mismatch an adjustment of the OCI amount of IFRS 17 liabilities on 1st January 2023 using the OCI amounts of underlying items under IFRS 9 would be helpful.

393 One respondent supported endorsement of IFRS 17 provided that there is (i) an appropriate prudential solution that addresses the volatility arising in OCI for financial conglomerates and (ii) an accounting solution for the annual cohorts issue. Both issues must be resolved as part of the endorsement process, addressing the first issue as a change in the Capital Requirements Regulation (CRR), and both should not impact the 1 January 2023 effective date of IFRS 17.

394 Regarding the volatility in OCI, given it is an issue arising from the application of IFRS 17 that affects prudential requirements for financial conglomerates, the respondent requests that EFRAG recommend that the European Commission consider specific changes in the CRR made in conjunction with the IFRS 17 endorsement process.

395 One respondent noted several issues (including mismatches that arise at transition under Fair Value approach, CSM amortisation, scope of hedging and interaction with IFRS 9), have also not been resolved but these should not stand in the way of endorsement.

396 Two respondents noted there are still unresolved remaining issues in IFRS 17 that should not impact the endorsement process, but that should be carefully re-evaluated and addressed as part of IFRS 17 Post-Implementation Review or other standards maintenance projects:

(a) Non eligibility of reinsurance contracts to the variable fee approach,

(b) Presentation of insurance receivable and payables, and collateral reinsurance deposits,

(c) Accounting treatment of the Time Value of Financial Options and Guarantee (TVOG).

(d) Contracts acquired in their settlement period in a business combination or portfolio transfer.

397 The TVOG issue was explained as follows: For insurance contracts measured under the VFA, the change in the measurement of options and guarantees (the “Time Value of Financial Options and Guarantee (TVOG)”), which is accounted for against the Contractual Service Margin (CSM), tends to overestimate the short-term effect of the profitability based on the current actuarial methodologies. In stressed market conditions, the increase in the TVOG will immediately reduce the CSM of direct participating contracts, overriding their long-term profitability. In that regard, such a downside volatility is procyclical. The respondents believe the accounting treatment of the TVOG required by the standard should be further investigated in connection with in-depth actuarial studies focusing on technical reserves modelling, in order to determine a measurement better reflecting the performance assessment of the insurance savings business.

398 The respondent requests that EFRAG recommends to the European Commission to consider specific changes in the CRR made in conjunction with the IFRS 17 endorsement process. In this regard, a change in the CRR so that the CSM is considered as eligible own funds, at least in part, should be further analysed.

399 For banks that are shareholders of insurance companies, the expected impacts of IFRS 17 are globally negative on the opening equity of the insurance subsidiaries and impact the Common Equity Tier 1 (CET1) ratio of the banking groups. Indeed,

while the insurers' share of unrealised capital gains on assets covering participating contracts are currently recognized in the income statement (P&L) or in other comprehensive income (OCI), the latter will be recognized under IFRS17, in the CSM (contractual service margin: future profits recognized in technical liabilities) and therefore as a liability and no longer as equity as it is today. This is especially true in the current context of low interest rates which may increase the Time Value of Options and Guarantees within the Best Estimate Liabilities and conversely reduce the CSM (or event create a Loss Component).

400 Consequently, given that the Common Equity Tier 1 ratio (CET1) integrated at the bank level is determined based on the insurance company's net equity under IFRS, the bank solvency ratio will be reduced by these amounts.

401 One respondent noted there remain issues that merit further consideration by the IASB during post-implementation reviews:

(a) Presentational issue: Cash basis for the measurement of the liabilities - Under IFRS 17, the insurance contract liabilities or assets are measured on a cash basis and therefore include all receivables and payables to counterparties and expenses modelled in the future cash flows, until they are actually paid. Most insurance entities account for premium receivables and claim payables separately on an accrual basis. Therefore, those entities have to implement new systems or to modify their existing systems for IFRS 17 (while local accounts will remain on an accrual basis) to include premiums and claims on a cash basis in the measurement of their groups of contracts.

(b) Business Combinations: Insurance contract in settlement phase acquired in a business combination/transfer – IFRS 17 requires an entity to classify a liability for settlement of claims as a liability for remaining coverage if the entity acquired the insurance contract during the claim settlement period and, at the acquisition date, the amount of claims is still uncertain. The requirement applies to contracts acquired both in a business combination within the scope of IFRS 3 and in a transfer of insurance contracts that do not form a business (for example, in a portfolio transfer). This implies that the liabilities for incurred claims (LIC) previously generated in the acquiree’s statement of financial position become liabilities for remaining coverage (LRC) in the acquirer’s accounts, with the consideration received on the business combination / transfer used as a proxy for the premiums received.

From the operational point of view, transforming liabilities for claims settlement acquired into liabilities for remaining coverage may require significant additional cost and efforts as it implies developing calculation and accounting models proper to the General Measurement Model for the portfolios that otherwise should have been treated using a simplified method.

(c) Presentational issue – The standard requires, for presentation of revenue only, segregation of non-distinct investment components, even for contract that do not have a specified account balance or component.

(d) Scope of VFA model vs General Model and PAA – Results are very different depending on the measurement model applied, whilst there is a continuum in the nature of insurance products.

(e) Scope of hedging adjustment – Whilst IFRS 17 includes a specific hedging adjustment, its use is limited to specific circumstances.

(f) Discount rates – There are a number of issues arising in the use of discount rates:

(i) the use of a locked in discount rate for the CSM in general model;

(ii) in the situation where the BEL component of the insurance liability is an asset and the CSM component is a liability, inconsistencies arise due to the different discount rates for BEL and CSM.

(iii) there is uncertainty regarding whether changes in asset mix will result in changes to the discount rate using a top-down approach.

402 Some Belgian insurance companies would like to benefit from the early adoption option by implementing the standard as per 1 January 2022. Therefore, it is crucial that the endorsement process of the standard as amended by the IASB.

403 One respondent noted that other issues (including in particular amounts to be recognised in OCI at transition under the Fair Value Approach in IFRS 17 for contracts measured under the general model, separating components from an insurance contract, and the interaction between IFRS 17 and IFRS 9 when entities invest in equities), should not impact the endorsement process of IFRS 17 but rather be addressed by the IASB throughout a post implementation review, or sooner as part of other current on-going projects such as the Dynamic Risk Management new model for macro hedging.

404 The respondent also noted that the major unresolved technical issues (i.e. annual cohorts for intergenerational mutualised insurance contracts and earnings/equity volatility, please refer to annexes) will lead to massive disposals of equity portfolios and divert life insurers from any current and future initiatives to strengthen the financial structure of European companies over the long term. Additionally, those insurers that invest in sovereign and corporate debt may be forced to change the type of insurance products currently being offered to limit themselves to those businesses that fit better under the accounting requirements of IFRS 17 and IFRS°9 in order to limit the volatility recognised in other comprehensive income (OCI) or profit and loss.

405 Eleven respondents did not respond to this question.

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406 The EFRAG Secretariat notes that the comments with regard to annual cohorts are addressed elsewhere in the endorsement advice.

407 The EFRAG Secretariat acknowledges the requests for issues to be submitted in the Post Implementation Review but notes these requests fall outside the scope of the FEA on IFRS 17. The EFRAG Secretariat would like to ask EFRAG TEG members whether the FEA should include a list of issues for the Post Implementation Review.

408 The EFRAG Secretariat acknowledges the comments on recycling for equity instruments on IFRS 9 but notes these are addressed outside the endorsement advice of IFRS 17. The EFRAG Secretariat would like to ask EFRAG TEG members whether a reference to the recycling issue of equity instruments under IFRS 9 should be addressed in the cover letter of the endorsement of IFRS 17.

409 The EFRAG Secretariat acknowledges the request to recommend the European Commission to consider specific changes in the CRR made in conjunction with the IFRS 17 endorsement process and proposes to ask EFRAG TEG whether such a request should be included in the FEA.

410 The EFRAG Secretariat acknowledges the description of the TVOG issue and supports the request for in-depth actuarial studies focusing on technical reserves modelling. However, the EFRAG Secretariat remains supportive of the analysis provided in Appendix II that:

411 Many insurance contracts contain significant embedded options and guarantees. IFRS 17 requires the measurement of these options and guarantees to include the effect of financial risk either in the estimates of future cash flows or in the discount rate. The measurement approach in IFRS 17, therefore incorporates both the intrinsic value and the time value of embedded options and guarantees. EFRAG is of the view that incorporating options and guarantees in the measurement of the cash flows will provide relevant information.

412 While the EFRAG Secretariat sympathises with the problem of comparatives for IFRS 9, it disagrees with the suggestion to amend IFRS 9 to allow optional retrospective application to previously derecognised financial items at the date of initial application. This request relates to an accounting standard (IFRS 9) that is different than the one for which endorsement is being discussed (IFRS 17). Furthermore, it may lead to hindsight for items currently carried at amortised cost and reclassified to a category valued at fair value. It could also result in comparability and understandability issues between insurers willing to apply such an option and entities (including insurers) that already apply IFRS°9 (e.g. by applying the overlay approach).

413 The EFRAG Secretariat proposes to expand the comments on business combinations and portfolio transfers in Appendix II as follows:

(a) The lack of a conceptual basis for the requirements applying to contracts in their settlement period; and

(b) The requirements are unlikely to pass the cost-benefit assessment.

The other concerns were already discussed in the DEA.

Appendix 2 – List of topics for a Post Implementation Review (PIR) of IFRS 17

414 Respondents listed the following topics for a PIR of IFRS 17:

(a) CSM amortisation;

(b) Scope of hedging and interaction with IFRS 9;

(c) Scope of the VFA (amendment to paragraph B107);

(d) Reinsurance in general and contract boundaries to reinsurance contracts held;

(e) Complexity of the MRA on transition;

(f) Locked-in discount rates under the general model;

(g) Disclosure of portfolios in an asset or liability position;

(h) Equivalent confidence level disclosure for the risk adjustment;

(i) Measurement of TVOG;

(j) Presentation of insurance receivable and payables, and collateral reinsurance deposits;

(k) Contracts acquired in their settlement period in a business combination or portfolio transfer;

(l) Retrospective application of the risk mitigation option;

(m) Amounts to be recognised in OCI at transition under the fair value approach;

(n) Separating components from an insurance contract; exclusion of investment components from revenue and claims;

(o) Multi-component contracts – contracts that change nature over time;

(p) Interaction between IFRS 17 and IFRS 9 when investing in equities;

(q) Prohibition of applying IFRS 9 to items derecognised at the date of initial application;

(r) Wider application issues relating to discount rates;

(s) Presentation of changes in the fair value of puttable financial instruments.

Appendix 3 – List of respondents

Comment letters have been received from the following:

Ref.	***Name of respondent***	***Country***	***Type / Category***
CL201	Jed Wrigley	Europe	User
CL202	National Association of German Cooperative Banks	Germany	Preparer organisation
CL203	Corporate Reporting Users' Forum	Global/Europe	International user organisation
CL204	Prudential	UK	Preparer
CL205	Insurance Europe - CFO Forum	Europe	Preparer organisation
CL206	Associazione Nazionale fra le Imprese Assicuratrici	Italy	Preparer organisation
CL207	Accounting Standards Committee of Germany	Germany	NSS
CL208	Fédération Française de l'Assurance	France	Preparer organisation
CL209	Reale Group	Italy	Preparer
CL210	PWC	Global/Europe	Accounting organisation
CL211	Accountancy Europe	Europe	Accounting organisation
CL212	Association of Chartered Certified Accountants	Global/Europe	Accounting organisation
CL213	KPMG	Global/Europe	Accounting organisation
CL214	Institut der Wirtschaftsprüfer	Germany	Accounting organisation
CL215	Actuarial Association of Europe	Europe	Actuarial organisation
CL216	Aktuarvereinigung Österreichs	Austria	Actuarial organisation
CL217	European Securities and Markets Authority	Europe	European Regulator
CL218	Joint Insurance Associations Statement	Europe	Preparer organisation
CL219	Groupement Français des Bancassureurs	France	Preparer organisation
CL220	European Savings and Retail Banking Group	Europe	Preparer organisation
CL221	Polish Ministry of Finance	Poland	Government
CL222	EY	Global/Europe	Accounting organisation
CL223	Association of Spanish Insurers and Reinsurers	Spain	Preparer organisation
CL224	Gesamtverband der Deutschen Versicherungswirtschaft e. V.	Germany	Preparer organisation
CL225	European Insurance and Occupational Pensions Authority	Europe	European Regulator
CL226	Grant Thornton International Ltd	Global/Europe	Accounting organisation
CL227	Mazars	France	Accounting organisation
CL228	French Banking Federation	France	Preparer organisation
CL229	Poste Vita	Italy	Preparer
CL230	BDO	Global/Europe	Accounting organisation
CL231	Unipol	Italy	Preparer
CL232	Instituto de Contabilidad y Auditoria de Cuentas	Spain	NSS
CL233	Institut des Actuaires	France	Actuarial organisation

CL234	Assuralia	Belgium	Preparer organisation
CL235	EFFAS	Europe	European user organisation
CL236	Organismo Italiano di Contabilita	Italy	NSS
CL237	Autorité des Normes Comptables	France	NSS
CL238	Pan-European Conglomerate Club (PCC)	FranceEurope	Preparer organisation
CL239	Dutch Accounting Standards Board (DASB)	Netherlands	NSS

Appendix 4 – Further details of responses in questions 2 and 3

Comments received on delay and solutions

415 As detailed in question 2(b), some respondents provided the following comments although no such question had been asked in the DEA. These responses have been analysed by type of respondent as well as the country of origin.

	No delay[1]	No EU solution[2]	Solution for ACs[3]	Soln. for both[4]	Soln. for IGM only	Optional soln.[5]
Austria	**-**	**-**	**1**	**-**	**1**	**1**
Actuarial organisation	-	-	1	-	1	1
Belgium	**1**	**1**	**-**	**-**	**-**	**-**
Preparer[6]	1	1	-	-	-	-
Europe	**4**	**5**	**5**	**4**	**1**	**5**
Accounting organisation	-	1	-	-	-	-
Actuarial organisation	-	-	1	-	1	1
European user org.	-	1	-	-	-	-
Preparer	3	-	4	4	-	4
European regulator	-	2	-	-	-	-
User	1	1	-	-	-	-
France	**4**	**-**	**6**	**1**	**5**	**1**
Accounting organisation	-	-	1	-	1	-
Actuarial organisation	-	-	1	-	1	-
National Standard Setter	1	-	1	1	-	-
Preparer	3	-	3	-	3	1
Germany	**3**	**4**	**-**	**-**	**-**	**1**
Accounting organisation	1	1	-	-	-	-
National Standard Setter	1	1	-	-	-	-
Preparer	1	2	-	-	-	1
Global/Europe[7]	**6**	**7**	**1**	**-**	**-**	**-**
Accounting organisation	5	6	-	-	-	-
International user org.[8]	1	1	1	-	-	-
Italy	**1**	**-**	**5**	**2**	**3**	**1**
National Standard Setter	1	-	1	-	1	-
Preparer	-	-	4	2	2	1
Netherlands	**1**	**1**	**-**	**-**	**-**	**-**
National Standard Setter	1	1	-	-	-	-
Poland	-	-	**1**	**1**	-	**1**
Government	-	-	1	1	-	1
Spain	**1**	**-**	**2**	**2**	**-**	**1**
National Standard Setter	-	-	1	1	-	-
Preparer	1	-	1	1	-	1
Total	***21***	***18***	***21***	***10***	***10***	***11***

Legend:

[1]This refers to comments from respondents asking that the effective date of IFRS 17 should be no later than 1 January 2023 as currently required by the IASB.

[2]Some respondents considered that there should be no European version of IFRS 17.

[3]These respondents considered there should be a solution for the annual cohort requirement.

[4]These respondents considered there should be a solution for both intergenerationally-mutualised and cashflow-matched contracts.

[5]These respondents indicated that any solution for annual cohorts should be optional.

[6]Includes preparer organisations.

[7]Includes global organisations with a strong presence in Europe such as auditing firms.

[8]This respondent did not specify to which contracts a possible solution should apply.

Breakdown of responses to question 2(a)

416 Question 2(a) was whether the technical endorsement criteria have been met for all other requirements (excluding annual cohorts). The breakdown is done by country, type of respondent and the form[48] of the response.

	Form of response	Yes	No	Yes and No	No answer	Other	Total
Austria		**1**	**-**	**-**	**-**	**-**	**1**
Actuarial organisation	ITC	1	-	-	-	-	1
Belgium		**1**	**-**	**-**	**-**	**-**	**1**
Preparer	ITC	1	-	-	-	-	1
Europe		**5**	**1**	**1**	**2**	**1**	**10**
Accounting organisation	ITC	1	-	-	-	-	1
Actuarial organisation	ITC	1	-	-	-	-	1
Preparer		-	1	1	2	-	4
	ITC	-	*1*	*1*	-	-	*2*
	Letter	-	-	-	*2*	-	*2*
European regulator	Letter	2	-	-	-	-	2
Users	ITC	1	-	-	-	1	2
France		**4**	**-**	**-**	**2**	**-**	**6**
Accounting organisation	Letter	-	-	-	1	-	1
Actuarial organisation	ITC	1	-	-	-	-	1
National standard setter	Letter	1	-	-	-	-	1
Preparer		2	-	-	1	-	3
	ITC	*2*	-	-	-	-	*2*
	Letter	-	-	-	*1*	-	*1*
Germany		**3**	**-**	**-**	**1**	**-**	**4**
Accounting organisation	ITC	1	-	-	-	-	1
National standard setter	ITC	1	-	-	-	-	1
Preparer		1	-	-	1	-	2
	ITC	*1*	-	-	-	-	*1*
	Letter	-	-	-	*1*	-	*1*
Global/Europe[1]		**5**	**-**	**-**	**1**	**1**	**7**
Accounting organisation		5	-	-	1	-	6
	ITC	*2*	-	-		-	*2*
	Letter	*3*	-	-	*1*	-	*4*
User organisation	Letter	-	-	-	-	1	1
Italy		**5**	**-**	**-**	-	**-**	**5**
National standard setter	ITC	1	-	-	-	-	1
Preparer	ITC	4	-	-	-	-	4
Netherlands		-	-	-	**1**	**-**	**1**
National standard setter	Letter	-	-	-	1	-	1
Poland		**-**	**-**	**-**	**1**	**-**	**1**
Government	Letter	-	-	-	1	-	1
Spain		-	**2**	-	-	**-**	**2**
National standard setter	ITC	**-**	1	**-**	**-**	-	1
Preparer	ITC	-	1	-	-	-	1
United Kingdom		**-**	**-**	**1**	**-**	**-**	**1**
Preparer	ITC	-	-	1	-	-	1
Total		***24***	***3***	***2***	***8***	***2***	***39***

Legend:

[48] The form of the response details whether the respondent completed the invitation to comment or by letter where there may be more room for interpretation.

[1]Includes global organisations with a strong presence in Europe such as auditing firms.

Breakdown of responses to question 2(b)

417 Question 2(b) was whether the technical endorsement criteria have been met for annual cohorts relating to intergenerationally-mutualised contracts:

	Form of response	Yes	No	No answer	Other	Total
Austria		**-**	**1**	**-**	**-**	**1**
Actuarial organisation	ITC	-	1	-	-	1
Belgium		**1**	**-**	**-**	**-**	**1**
Preparer	ITC	1	-	-	-	1
Europe		**4**	**5**	**-**	**1**	**10**
Accounting organisation	ITC	1	-	-	-	1
Actuarial organisation	ITC	-	1	-	-	1
Preparer		-	4	-	-	4
	ITC	-	*2*	-	-	*2*
	Letter	-	*2*	-	-	*2*
European regulator	Letter	2	-	-	-	2
Users	ITC	1	-	-	1	2
France		**-**	**6**	**-**	**-**	**6**
Accounting organisation	Letter	-	1	-	-	1
Actuarial organisation	ITC	-	1	-	-	1
National standard setter	Letter	-	1	-	-	1
Preparer		-	3	-	-	3
	ITC	-	*2*	-	-	*2*
	Letter	-	*1*	-	-	*1*
Germany		**3**	**-**	**1**	**-**	**4**
Accounting organisation	ITC	1	-	-	-	1
National standard setter	ITC	1	-	-	-	1
Preparer		1	-	1	-	2
	ITC	*1*	-	-	-	*1*
	Letter	-	-	*1*	-	*1*
Global/Europe		**5**	**-**	**1**	**1**	**7**
Accounting organisation		5	-	1	-	6
	ITC	*2*	-	-	-	*2*
	Letter	*3*	-	*1*	-	*4*
User organisation	Letter	-	-	-	1	1
Italy		**-**	**5**	-	**-**	**5**
National standard setter	ITC	-	1	-	-	1
Preparer	ITC	-	4	-	-	4
Netherlands		**-**	-	**1**	**-**	**1**
National standard setter	Letter	-	-	1	-	1
Poland		**-**	**1**	**-**	**-**	**1**
Government	Letter	-	1	-	-	1
Spain		**-**	**2**	**-**	**-**	**2**
National standard setter	ITC	-	1	-	-	1
Preparer	ITC	-	1	-	-	1
United Kingdom		**-**	**-**	**1**	**-**	**1**
Preparer	ITC	-	-	1	-	1
Total		***13***	***20***	***4***	***2***	***39***

Breakdown of responses to question 2(c)

418 Question 2(c) was whether the technical endorsement criteria have been met for annual cohorts relating to cashflow-matched contracts:

	Form of response	Yes	No	No answer	Other	Total
Austria		**1**	**-**	**-**	**-**	**1**
Actuarial organisation	ITC	1	-	-	-	1
Belgium		**-**	**-**	**1**	**-**	**1**
Preparer	ITC	-	-	1	-	1
Europe		**4**	**4**	**1**	**1**	**10**
Accounting organisation	ITC	1	-	-	-	1
Actuarial organisation	ITC	-	-	1	-	1
Preparer		-	4	-	-	4
	ITC	-	*2*	-	-	*2*
	Letter	-	*2*	-	-	*2*
European regulator	Letter	2	-	-	-	2
Users	ITC	1	-	-	1	2
France		**-**	**1**	**5**	**-**	**6**
Accounting organisation	Letter	-	-	1	-	1
Actuarial organisation	ITC	-	-	1	-	1
National standard setter	Letter	-	1	-	-	1
Preparer		-	-	3	-	3
	ITC	-	-	*2*	-	*2*
	Letter	-	-	*1*	-	*1*
Germany		**2**	**-**	**2**	**-**	**4**
Accounting organisation	ITC	1	-	-	-	1
National standard setter	ITC	1	-	-	-	1
Preparer		-	-	2	-	2
	ITC	-	-	*1*	-	*1*
	Letter	-	-	*1*	-	*1*
Global/Europe		**5**	**-**	**1**	**1**	**7**
Accounting organisation		5	-	1	-	6
	ITC	*2*	-	-	-	*2*
	Letter	*3*	-	*1*	-	*4*
User organisation	Letter	-	-	-	1	1
Italy		**-**	**2**	**3**	**-**	**5**
National standard setter	ITC	-	-	1	-	1
Preparer	ITC	-	2	2	-	4
Netherlands		**-**	-	**1**	**-**	**1**
National standard setter	Letter	-	-	1	-	1
Poland		**-**	**1**	**-**	**-**	**1**
Government	Letter	-	1	-	-	1
Spain		**-**	**2**	**-**	**-**	**2**
National standard setter	ITC	-	1	-	-	1
Preparer	ITC	-	1	-	-	1
United Kingdom		**-**	**-**	**1**	**-**	**1**
Preparer	ITC	-	-	1	-	1
Total		***12***	***10***	***15***	***2***	***39***

Breakdown of responses to question 3(a)

419 Question 3(a) was whether the European public good criteria have been met for all other requirements (excluding annual cohorts). The breakdown is done by country, type of respondent and the form of the response.

	Form of response	Yes	No	No answer	Other	Total
Austria		**1**	**-**	**-**	**-**	**1**
Actuarial organisation	ITC	1	-	-	-	1
Belgium		**1**	**-**	**-**	**-**	**1**
Preparer	ITC	1	-	-	-	1
Europe		**6**	**1**	**2**	**1**	**10**
Accounting organisation	ITC	1	-	-	-	1
Actuarial organisation	ITC	1	-	-	-	1
Preparer		1	1	2	-	4
	ITC	*1*	*1*	*-*	*-*	*2*
	Letter	*-*	*-*	*2*	*-*	*2*
European regulator	Letter	2	-	-	-	2
Users	ITC	1	-	-	1	2
France		**4**	**-**	**2**	**-**	**6**
Accounting organisation	Letter	-	-	1	-	1
Actuarial organisation	ITC	1	-	-	-	1
National standard setter	Letter	1	-	-	-	1
Preparer		2	-	1	-	3
	ITC	*2*	*-*	*-*	*-*	*2*
	Letter	*-*	*-*	*1*	*-*	*1*
Germany		**3**	**-**	**1**	**-**	**4**
Accounting organisation	ITC	1	-	-	-	1
National standard setter	ITC	1	-	-	-	1
Preparer		1	-	1	-	2
	ITC	*1*	*-*	*-*	*-*	*1*
	Letter	*-*	*-*	*1*	*-*	*1*
Global/Europe		**5**	**-**	**1**	**1**	**7**
Accounting organisation		5	-	1	-	6
	ITC	*2*	*-*	*-*	*-*	*2*
	Letter	*3*	*-*	*1*	*-*	*4*
User organisation	Letter	-	-	-	1	1
Italy		**5**	-	-	**-**	**5**
National standard setter	ITC	1	-	-	-	1
Preparer	ITC	4	-	-	-	4
Netherlands		-	-	**1**	**-**	**1**
National standard setter	Letter	-	-	1	-	1
Poland		**-**	**-**	**1**	**-**	**1**
Government	Letter	-	-	1	-	1
Spain		**-**	**2**	**-**	**-**	**2**
National standard setter	ITC	-	1	-	-	1
Preparer	ITC	-	1	-	-	1
United Kingdom		**1**	**-**	**-**	**-**	**1**
Preparer	ITC	1	-	-	-	1
Total		***26***	***3***	***8***	***2***	***39***

Breakdown of responses to question 3(b)

420 Question 3(b) was whether the European public good endorsement criteria have been met for annual cohorts relating to intergenerationally-mutualised contracts:

	Form of response	Yes	No	No answer	Other	Total
Austria		**-**	**1**	**-**	**-**	**1**
Actuarial organisation	ITC	-	1	-	-	1
Belgium		**1**	**-**	**-**	**-**	**1**
Preparer	ITC	1	-	-	-	1
Europe		**4**	**5**	**-**	**1**	**10**
Accounting organisation	ITC	1	-	-	-	1
Actuarial organisation	ITC	-	1	-	-	1
Preparer		-	4	-	-	4
	ITC	-	*2*	-	-	*2*
	Letter	-	*2*	-	-	*2*
European regulator	Letter	2	-	-	-	2
Users	ITC	1	-	-	1	2
France		**-**	**6**	**-**	**-**	**6**
Accounting organisation	Letter	-	1	-	-	1
Actuarial organisation	ITC	-	1	-	-	1
National standard setter	Letter	-	1	-	-	1
Preparer		-	3	-	-	3
	ITC	-	*2*	-	-	*2*
	Letter	-	*1*	-	-	*1*
Germany		**3**	**-**	**1**	**-**	**4**
Accounting organisation	ITC	1	-	-	-	1
National standard setter	ITC	1	-	-	-	1
Preparer		1	-	1	-	2
	ITC	*1*	-	-	-	*1*
	Letter	-	-	*1*	-	*1*
Global/Europe		**5**	**-**	**1**	**1**	**7**
Accounting organisation		5	-	1	-	6
	ITC	*2*	-		-	*2*
	Letter	*3*	-	*1*	-	*4*
User organisation	Letter	-	-	-	1	1
Italy		**-**	**5**	-	**-**	**5**
National standard setter	ITC	-	1	-	-	1
Preparer	ITC	-	4	-	-	4
Netherlands		**-**	-	**1**	**-**	**1**
National standard setter	Letter	-	-	1	-	1
Poland		**-**	**1**	**-**	**-**	**1**
Government	Letter	-	1	-	-	1
Spain		**-**	**2**	**-**	**-**	**2**
National standard setter	ITC	-	1	-	-	1
Preparer	ITC	-	1	-	-	1
United Kingdom		**-**	**-**	**1**	**-**	**1**
Preparer	ITC	-	-	1	-	1
Total		***13***	***20***	***4***	***2***	***39***

Breakdown of responses to question 3(c)

421 Question 3(c) was whether the European public good endorsement criteria have been met for annual cohorts relating to cashflow-matched contracts:

	Form of response	Yes	No	No answer	Other	Total
Austria		**1**	**-**	**-**	**-**	**1**
Actuarial organisation	ITC	1	-	-	-	1
Belgium		**-**	**-**	**1**	**-**	**1**
Preparer	ITC	-	-	1	-	1
Europe		**4**	**4**	**1**	**1**	**9**
Accounting organisation	ITC	1	-	-	-	1
Actuarial organisation	ITC	-	-	1	-	1
Preparer		-	4	-	-	4
	ITC	-	*2*	-	-	*2*
	Letter	-	*2*	-	-	*2*
European regulator	Letter	2	-	-	-	2
Users	ITC	1	-	-	1	2
France		**-**	**1**	**5**	**-**	**6**
Accounting organisation	Letter	-	-	1	-	1
Actuarial organisation	ITC	-	-	1	-	1
National standard setter	Letter	-	1	-	-	1
Preparer		-	-	3	-	3
	ITC	-	-	*2*	-	*2*
	Letter	-	-	*1*	-	*1*
Germany		**2**	**-**	**2**	**-**	**4**
Accounting organisation	ITC	1	-	-	-	1
National standard setter	ITC	1	-	-	-	1
Preparer		-	-	2	-	2
	ITC	-	-	*1*	-	*1*
	Letter	-	-	*1*	-	*1*
Global/Europe		**5**	**-**	**1**	**1**	**7**
Accounting organisation		5	-	1	-	6
	ITC	*2*	-	-	-	*2*
	Letter	*3*	-	*1*	-	*4*
User organisation	Letter	-	-	-	1	1
Italy		**-**	**2**	**3**	**-**	**5**
National standard setter	ITC	-	-	1	-	1
Preparer	ITC	-	2	2	-	4
Netherlands		**-**	-	**1**	**-**	**1**
National standard setter	Letter	-	-	1	-	1
Poland		**-**	**1**	**-**	**-**	**1**
Government	Letter	-	1	-	-	1
Spain		**-**	**2**	**-**	**-**	**2**
National standard setter	ITC	-	1	-	-	1
Preparer	ITC	-	1	-	-	1
United Kingdom		**-**	**-**	**1**	**-**	**1**
Preparer	ITC	-	-	1	-	1
Total		***12***	***10***	***15***	***2***	***39***