

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of the EFRAG Board. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## **IFRS 17 Insurance Contracts**

### **Draft letter from the President of the EFRAG Board to the Chair of the IASB**

#### **Objective**

- 1 To consider the draft letter to the IASB from the President of the EFRAG Board to the Chair of the IASB to highlight aspects of IFRS 17 identified in the EFRAG Board meeting on 21 August 2018 as matters of concern based on EFRAG's work to date in preparing a draft endorsement advice.

#### **Background**

- 2 The IASB is showing willingness to consider issues associated with the implementation of IFRS 17 and has already tentatively agreed changes to the Standard. At its meeting in June 2018, the IASB tentatively decided to make amendments to IFRS 17 through its Annual Improvements Process (AIP). The proposed AIP amendments identified in the IASB Update for that meeting are:
  - (a) to amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued.
  - (b) to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group.
  - (c) to remove requirements that could result in double-counting of the risk-adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses.
  - (d) to correct the terminology in the sensitivity analysis disclosures.
  - (e) to exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17.
  - (f) to amend IFRS 3 *Business Combinations* so that the amendment made by IFRS 17 on the classification of insurance contracts applies prospectively.
  - (g) to amend IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments* and IAS 32 *Financial Instruments: Presentation* to achieve the intended scopes of these financial instruments Standards and the scope of IFRS 17, particularly with respect to insurance contracts held.
  - (h) to add an explanation that, in Example 9 of the Illustrative Examples on IFRS 17, the time value of the guarantee changes over time.
- 3 At the same meeting:

"The IASB tentatively decided to propose to clarify the definition of the coverage period for insurance contracts with direct participation features. The proposed amendment would clarify that the coverage period for such contracts includes periods in which the entity provides investment-related services".

- 4 Further, at the IFRS Conference in Frankfurt on 28 June 2018, the IASB Chair commented:

“The experience with the previous Revenue Recognition TRG has made clear that sometimes it can be necessary for the IASB to consider amendments to address questions and indeed we have considered some for IFRS 17 last week. Of course, we hope to keep the number of amendments as limited as possible so that we do not disrupt implementation, but we stand ready to act if necessary.”

#### **Issues considered by the EFRAG Board**

- 5 Given the expressed willingness of the IASB to consider issues associated with applying IFRS 17, at its meeting on 21 August 2018 the EFRAG Board decided to write to the Chair of the IASB to raise the following aspects of IFRS 17 as matters of concern to EFRAG on the basis of EFRAG’s work to date in in preparing a draft endorsement advice:
- (a) Acquisition costs (for costs incurred in expectation of contract renewals);
  - (b) CSM amortisation (impact on contracts that include investment services);
  - (c) Reinsurance (onerous underlying contracts that are profitable after reinsurance, contract boundary for reinsurance contracts where underlying contracts are not yet issued);
  - (d) Transition (extent of relief offered by modified retrospective approach and challenges in applying fair value approach);
  - (e) Annual cohorts (cost-benefit trade-off, including for VFA contracts); and
  - (f) Balance sheet presentation (cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position and non-separation of receivables).
- 6 During the discussion, the EFRAG Board noted that:
- (a) These matters have been identified being of concern in relation to clarity, cost and/or technical merit on the basis of EFRAG’s case study and other work to date. They were not necessarily obstacles EFRAG to be able to issue a positive draft endorsement advice; and
  - (b) Any solutions proposed by the CFO Forum (or any other industry participant) are primarily for consideration by the IASB. EFRAG’s role is to monitor and provide input on the IASB’s deliberations on possible changes, to comment on due process documents issued by the IASB and provide advice on endorsement in Europe if requested to do so by the European Commission.
- 7 The EFRAG Board decided to review a draft letter to the IASB during its meeting on 3 September 2018. A draft letter is attached to this paper.
- 8 The EFRAG Secretariat is preparing a background paper for presentation to the IASB. This paper will summarise the evidence from the extensive and simplified case studies and the user outreach on each of the matters. The paper will not contain a view as to how, if at all, the issues should be addressed by the IASB.

#### **Question for the EFRAG Board**

- 9 Does the EFRAG Board have comments on the draft letter?

## Appendix: Draft letter to the IASB

Mr Hans Hoogervorst  
IFRS Foundation  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

XX September 2018

Dear Hans,

### **IFRS 17 Insurance Contracts: Issues raised by constituents**

EFRAG appreciates the IASB's efforts to discuss issues associated with the implementation of IFRS 17 and the willingness you have expressed to react if evidence emerges of unexpected costs or other problems with the Standard.

As you are aware, in the process of preparing a draft endorsement advice on IFRS 17, EFRAG has conducted significant outreach with constituents, including an extensive case study (in which 11 large European insurance companies participated) and a simplified case study (in which 49 European insurance companies of varying sizes participated). EFRAG has also conducted significant outreach with users. Constituents have raised a number of concerns during the course of our work. EFRAG has not yet determined the impact of these issues on the draft endorsement advice that is under preparation.

The EFRAG Board has reviewed the concerns raised and has considered the evidence obtained during our outreach activities. The EFRAG Board has identified the following topics that, in our view, merit further consideration by the IASB:

- (a) Acquisition costs (for costs incurred in expectation of contract renewals);
- (b) CSM amortisation (impact on contracts that include investment services);
- (c) Reinsurance (onerous underlying contracts that are profitable after reinsurance, contract boundary for reinsurance contracts where underlying contracts are not yet issued);
- (d) Transition (extent of relief offered by modified retrospective approach and challenges in applying fair value approach);
- (e) Annual cohorts (cost-benefit trade-off, including for VFA contracts); and
- (f) Balance sheet presentation (cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position and non-separation of receivables and/or payables).

We would be very pleased to share with you the evidence obtained during our outreach activities related to these topics. If you are available for a discussion, please do not hesitate to contact Neha Mehra ([neha.mehra@efrag.org](mailto:neha.mehra@efrag.org)) to arrange a mutually convenient time.

Yours sincerely,

Jean-Paul Gauzès  
**President of the EFRAG Board**