IFRS 17
Status Update

October 29, 2018

pwc

Some of the key players in the IFRS 17 process

European Insurance CFO Forum (“CFO Forum”)

The CFO Forum is an industry group of 21 of Europe’s largest insurance and reinsurance companies.

CFO Forum members represented 9 out of the 10 companies involved with the detailed EFRAG testing of IFRS 17. Based on this testing, the CFO Forum have identified 11 key issues to be addressed and have also proposed solutions for all 11 issues.

European Financial Reporting Advisory Group (“EFRAG”)

As part of the EU endorsement process, EFRAG is tasked with assessing whether IFRS 17 should be endorsed or not.

Insurers in the EU may not apply IFRS 17 to its consolidated group financial statements until IFRS 17 has been endorsed by the EU.

International Accounting Standards Board (“IASB”)

The IASB is responsible for IFRS 17. Any changes in IFRS 17 or its effective date must be approved by the IASB.

The IASB has its Transition Resource Group (“TRG”) which is an advisory body consisting of insurers and audit firms who advise the IASB Board on IFRS 17 interpretation issues.

Others including other regulators and industry groups

Other regulators which have contributed to the EU endorsement process for IFRS 17 include EIOPA (European regulator for Solvency II). Other industry groups active on IFRS 17 discussions include: Insurance Europe (federation of European national insurance associations) and The Hub Group (association of insurers and other insurance organizations).

CFO Forum

EFRAG Presentation and Proposed Solutions

EFRAG Presentation

On July 3, 2018, based on the results of its detailed testing, the CFO Forum presented its 11 key issues with IFRS 17 to the EFRAG Board.

Subsequent to the presentation to the EFRAG Board, a series of letters were exchanged between the chair of the EFRAG Board and the CFO Forum.

The EFRAG Board Chair requested that the CFO Forum prioritize the 11 key issues presented into the top 3 issues.

The CFO Forum responded that it was important that all 11 issues be addressed as these 11 issues were already prioritized from the numerous issues noted from the testing.

The CFO Forum indicated that not only should all 11 issues be addressed but that all 11 issues could easily be solved and committed to providing proposed solutions to all 11 issues by October 2018.

CFO Forum
(continued)

Key Issues Identified:

1. **Acquisition Cash Flows** – inability to allocate to subsequent (renewal) contracts)
2. **CSM Amortization** – coverage units do not include all relevant services (eg. investment services)
3. **Discount Rates** – locked-in rate related differences
4. **Multi-Component Contracts** – scope of IFRS 17 and dealing with different stages of a contract
5. **Reinsurance** – measurement differences with underlying contracts
6. **Scope of Hedging** – limited nature of current risk mitigation solutions
7. **Scope of VFA, PPA and General Model** – scope of each model should be revised to reduce cliff effects.
8. **Transition** – simplifications needed to Modified Retrospective among other transition issues.
9. **Business** Combinations – simplifications to unnecessary significant complexities
10. **Level of** Aggregation – annual cohort restriction
11. **Presentational** Issues – collection of presentation issues which add significant significant complexity and cost with limited benefits.

Proposed Solutions

In October, the CFO Forum issued to the IASB and EFRAG the proposed CFO Forum solutions to the 11 key issues identified by the CFO Forum.

The CFO Forum is current awaiting a reply from EFRAG and the IASB.

Source of the text presented here:
EFRAG Board Presentation:
http://www.cfoforum.eu/letters/CFO-Forum-presentation-EFRAG-case-study-findings-3-July-2018.pdf

Proposed Solutions:
www.cfoforum.eu/IFRS_letters.html

EFRAG

EFRAG writes to the IASB

Following the presentation by the CFO Forum on July 3, 2018 and the subsequent exchange of letters with the CFO Forum (and the CFO Forum's commitment to issue proposed solutions to all issues by the end of October), the EFRAG Board assessed the information presented and decided that they believed there were 6 issues which warranted IASB re-consideration.

As such, EFRAG wrote to the IASB on September 3, 2018 about these 6 issues.

EFRAG's 6 issues:

1. **Acquisition costs** (for costs incurred in expectation of contract renewals)
2. **CSM amortization** (impact on contracts that include investment services)
3. **Reinsurance** (onerous underlying contracts that are profitable after reinsurance, etc.)
4. **Transition** (extent of relief offered by modified retrospective approach and challenges in applying fair value approach)
5. **Annual cohorts** (cost-benefit trade-off including VFA contracts)
6. **Balance sheet presentation** (cost-benefit) trade-off of separate disclosures and non-separation of receivables and/or payables).

EFRAG has indicated that if the IASB will not re-consider these issues then it will restart the endorsement assessment process which was previously scheduled to be completed by December 2018 to a new target date in Q2 2019.

If the IASB will re-consider these issues then EFRAG indicated that they will suspend their endorsement assessment until the IASB completes its re-consideration.

The IASB has not yet responded to the EFRAG letter.

Source of the text presented here: http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FMr.%2520Hans%2520Hoogervorst%2520letter%2520signed%2520-%2520IFRS%252017%2520Insurance%2520Contracts.pdf

Insurance Europe / global insurance associations

(Letter of October 17, 2018)

Global insurers unite in their call for IFRS 17 improvements and a delay

A global group of nine insurance associations has written a joint letter to Hans Hoogervorst, IASB Chair, that highlights the industry's concerns about IFRS 17 for insurance contracts.

Extensive testing, together with insurers' detailed implementation planning, **has confirmed that a number of important issues still need to be resolved** in order to ensure the quality and operational practicability of the new standard. Letter explicitly supported the key issues identified by the CFO Forum.

There is also **industry-wide agreement that a delay of two years is needed**, both to allow for the necessary improvements to be made to the standard and for adequate time for companies to tackle the significant implementation challenges that IFRS 17 presents.

The fact that so many insurance associations from around the world have signed this letter demonstrates the importance and urgency to have a decision on a delay and for the IASB to move forward on the necessary improvements.

Source of the text presented here: Insurance Europe, https://www.insuranceeurope.eu/sites/default/files/attachments/Global%20insurance%20industry%20letter%20to%20IASB%20on%20IFRS%2017.pdf

EIOPA position
(Letter of October 18, 2018)

EIOPA analyzes the benefits of IFRS 17 Insurance Contracts

EIOPA carried out the analysis in light of the upcoming implementation of IFRS 17 to foster a better understanding of the implications and potential impacts of the standard on European insurance and reinsurance undertakings as well as to provide insights into the future interplay between insurers' financial and prudential reporting.

Overall, **EIOPA found that the expectedly increased transparency and comparability of insurers' financial statements** through IFRS 17, providing better insights into insurers' business models, **have the potential to strengthen financial stability** in the European Economic Area (EEA).

Therefore, EIOPA 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.

This supports efficient risk management and allows stakeholders to gain important insights into the entity's business model, exposures and performance.

EIOPA position
(continued)

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Notwithstanding the significant improvements to the financial reporting applying IFRS 17, **EIOPA has reservations on a few concepts** that may affect comparability and relevance of IFRS 17 financial statements and should be duly addressed:

- IFRS 17's principles on determining the applicable **discount rate and risk adjustment may have exceeded the appropriate level of allowing for entity-specific inputs** and consequently may give rise to significantly different and potentially incomparable results
- Issues such as level of contracts' aggregation or gains from reinsurance contracts held may lead to further complexity of the financial statements.

With regards to the practical implementation of IFRS 17, EIOPA's analysis concluded that **arguably crucial inputs and processes developed for Solvency II can be used, but may need adaptation to varying degrees.** Besides the potential need for adaptation, significant efficiency gains are expected. These efficiency gains are most prevalent in the key building blocks of IFRS 17: cash flows, discount rate and risk adjustment.

Source of the text presented here:
https://eiopa.europa.eu/Pages/News/EIOPA-analyses-the-benefits-of-IFRS-17-Insurance-Contracts.aspx

ESAs (ESMA / EBA / EIOPA) position
(Letter of October 18, 2018)

The three European Supervisory Authorities (ESAs) have consistently highlighted the importance of replacing the current accounting standard

Comparability and transparency of financial information are the basis of long-term financial stability for all sectors of the economy, including the insurance sector and are conducive to deeper financial integration that is at the heart of the project for the Capital Markets Union.

At this stage, the ESAs do not express any detailed technical views on IFRS 17, and reiterate the need to continue to progress and to finalize the analysis of IFRS 17 in a timely manner against the background of the effective date of IFRS 17 of January 1, 2021.

In this respect, the ESAs highlight that the timely completion of the endorsement process is particularly important taking into account that insurance companies have been granted the option to defer the application of IFRS 9 until January 1, 2021, which would coincide with the effective date of IFRS 17.

Therefore, **the ESAs caution against any further delays in the endorsement of IFRS 17**, which would challenge the coordinated application of IFRS 9 and the new insurance contracts standard.

EFRAG Responds:

On October 25th, EFRAG responded to ESAs and reiterated their already announced revised endorsement schedule and process.

Source of the text presented here: EIOPA, https://esas-joint-committee.europa.eu/Publications/Letters/ESA%202018%2023%20(Letter%20IFRS%2017%20endorsement)_18%2010%202018.pdf

http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F181026%2520Letter%2520to%2520ESAs.pdf

IASB agrees on criteria for evaluating any future potential amendments

The IASB notes that a high hurdle will be set for any future amendments to IFRS 17

IASB Responses to the CFO Forum, EFRAG and other position letters on IFRS 17

The IASB has not officially responded to the CFO Forum's proposed solutions, the EFRAG letter of September 3, 2018 or to the various letters from insurance industry groups and/or ESAs.

IASB Board meeting summary

On October 24, 2018, the Board met at its usual monthly meeting. The Board unanimously agreed the criteria for evaluating any future potential amendments to IFRS 17. The Board noted that the criteria set a high hurdle for change, and any amendments suggested would need to be narrow in scope and deliberated quickly to avoid significant delays in the effective date.

The Board did not comment on changes to the effective date of the standard, or whether IFRS 9 would continue to be deferred with IFRS 17.

In the coming months, the Board will discuss whether any amendments to IFRS 17 are justified, including a potential deferral of the effective date. If the Board decides to amend the standard, any amendments would be subject to the IASB Board's due process for amendments to IFRS standards, including developing an exposure draft and subsequent consultation period. The Board shared its concern about the temporary exemption from IFRS 9 if it were to defer the effective date for IFRS 17.

IASB agrees on criteria for evaluating any future potential amendments
(continued)

Criteria for evaluating possible amendments

The Board agreed that the following criteria should be applied for evaluating whether IFRS 17 should be subject to any amendments:

- The **amendment would not result in a significant loss of useful information** relative to that which would have been provided by IFRS 17 for users of financial statements. Any amendment would avoid:
  - reducing the relevance and faithful representation of information in the financial statements of entities that issue insurance contracts;
  - causing reduced comparability or introducing internal inconsistency in IFRS standards, including within IFRS 17; or
  - increasing complexity for users of financial statements, thus reducing understandability.
- The **amendment would not unduly disrupt implementation processes that are currently underway or result in undue delays** in the effective implementation of IFRS 17.

In addition to the criteria, Board members requested that the **IASB staff expand the analysis on each topic** raised by constituents, to **consider the cost versus benefit analysis** and to **provide insight as to whether any new arguments or information are available,** beyond what was already considered in deliberating the standard.

Podcast and Written Summaries:

The IASB prepares a podcast and a written document to summarise each Board meeting. PwC also summarises these IASB Board meetings.

Source of the IASB podcast and written summaries here: https://www.ifrs.org/news-and-events/podcasts/#podcasts-2018 and https://www.ifrs.org/news-and-events/updates/iasb-updates/october-2018/

Source of the PwC summaries: https://www.pwc.com/us/en/cfodirect/standard-setters/iasb.html

IASB agrees on criteria for evaluating any future potential amendments
(continued)

25 concerns raised

The Board acknowledged 25 topics identified as concerns and implementation challenges, and some Board members asked for clarification or further information on several of the topics.

The IASB staff in future meetings will present separate submissions for each topic, setting out firstly whether there is a need to amend IFRS 17, and secondly whether the amendment satisfies the agreed criteria.

The IASB staff emphasized that, even if the Board agrees that a potential amendment meets the criteria, it does not mean that amendments meeting these criteria will be made.

That is, meeting the criteria will not automatically result in an amendment to the standard.

Source of the text presented here: https://www.ifrs.org/news-and-events/updates/iasb-updates/october-2018/#4

	Concerns raised
1	Scope of IFRS 17: Loans and other forms of credit that transfer insurance risk
2	Level of aggregation of insurance contracts
3	Acquisition cash flows for renewals outside the contract boundary
4	Use of locked-in discount rates to adjust the contractual service margin
5	Discount rates and risk adjustment
6	Risk adjustment in a group of entities
7	Contractual service margin: coverage units in the general model
8	Contractual service margin: limited applicability of risk mitigation exception
9	Premium allocation approach: premiums received
10	Business combinations: classification of contracts
11	Business combinations: contracts acquired during the settlement period
12	Reinsurance contracts held: initial recognition where underlying insurance contracts are onerous
13	Reinsurance contracts held: ineligibility for the variable fee approach
14	Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued
15	Separate presentation of groups of assets and groups of liabilities
16	Presentation in the statement of financial position: Premiums receivable
17	OCI option for insurance finance income or expenses
18	Definition of insurance contract with direct participation features
19	Interim financial statements: Treatment of accounting estimates
20	Date of initial application of IFRS 17
21	Effective date: Comparative information
22	Temporary exemption from applying IFRS 9
23	Transition: Optionality
24	Modified retrospective transition approach: further modifications
25	Transition-Fair value approach: OCI on related financial assets

For more information, please contact:

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