



**EFRAG – European Financial Reporting
Advisory Group**
35, Square de Meeûs
B-1000 Brussels

Sophienstraße 44 DE – 60487
Frankfurt am Main, Germany
Direct number: +49 69 98959519
Fax number: +49 69 98957529
E-mail: office@effas.com
Internet: www.effas.com

Re: Comments on *EFRAG's Draft Letter on
Amendments to IFRS-17*

Contact: Ms. Raquel Zaragoza

September 6 - 2019

Dear Sir/Madam:

The EFFAS Commission on Financial Reporting (“CFR”, “Commission”, “we”) is pleased to share with you the views of European users of financial statements regarding EFRAG’s Draft Comment letter to **IASB/ED/2019/4 Amendments to IFRS 17** which was published in June 2019 and on which EFRAG is seeking comments from its constituents.

As an introductory comment we acknowledge the work done by EFRAG in this field. We also think that it is challenging to define -even on a principles-basis- what a long-term investor is, particularly in terms of financial accounting and reporting. We would consider a long-term investor an individual or entity that makes investment decisions based on the expected holding time (“long-term”) of the investment.

Based on this “long-term investors” view, the Commission considers it useful to address the following issues:

- 1.- acquisition cash-flows
- 2.- reinsurance contract
- 3.- contractual service margin (CSM) amortization
- 4.- annual cohorts
- 5.- transition options

We agree that some points of as-is IFRS 17 should be improved as noted by EFRAG and the insurance industry. We expect improvements in IFRS 17 disclosures with a classification based on insurance risks that are the basis for insurance companies’ financial evaluations. We also support harmonisation regarding classification with the Solvency II line of business framework. However, we will not support further delays in first time application given the need for applying IFRS 9 for all financial institutions. We will require additional disclosure on assets ratings and types (i.e. derivatives, credits, equity...) in order to understand asset credit risks. This additional disclosure should be applied in “notes” to create useful information before the date of IFRS 17



and IFRS 9 first time adoption and should be mandatory for all insurance institutions in order to reduce the information gap with other financial services institutions that already apply IFRS 9. In addition, we would like to have an explanation from the IASB regarding the new terminology of “duration” with an example of the methodology to calculate it.

In addressing these points, potential accounting and economic mismatches should be avoided. For methodological purposes, we have addressed the ED questions and therefore EFRAG related points that we consider most relevant for users.

Question 1 – Scope exclusions

We agree with the scope of exclusions for credit cards and loans contracts. We consider that credit cards and loan contracts are not insurance contracts.

Question 2 – Expected recovery of insurance acquisition cash flows

We support the IASB proposal regarding the treatment of acquisition cash flows. We think that the resulting financial information will better reflect the economic substance of these transactions and it will also provide an accounting optional choice.

As EFRAG indicates, we also support that the allocation of the acquisition cash flows to the contracts to be a mandatory requirement. This approach should improve the comparability between different companies and renewable insurance contracts when considering the allocation of insurance acquisition cash flows sale costs.

Question 3 – Contractual service margin attributable

We support the proposed disclosure requirement. We believe that this requirement should contribute to provide useful information to users.

Question 4 – Reinsurance contracts held

We think that an accounting mismatch could arise between the insurance and reinsurance contract. An insurance contract that generates negative income at the time of the annual renovation while the economic effects of the second contract are positive will always be recorded over the duration of the multi-year contract at *contractual service margin*. The IASB should not introduce a new terminology by using “proportionate” versus “proportional”. This could lead to unnecessary questions about possible scope exclusions.

We agree with both the IASB proposal and EFRAG’s comments regarding accounting mismatching for non-proportional contracts. This in practice might be reduced through risk adjustments rather than CSM.



Question 5 – Presentation in the statement of financial position

We support the IASB proposal and EFRAG's comments. We think that separating insurance contracts at a balance sheet level -those that are in an asset position from those that are in a liability position- and at a portfolio level rather than at group level should facilitate a better comparison with Solvency II classification based on lines of business and guarantee group criteria.

Question 6 – Applicability of the risk mitigation option

We agree with EFRAG's comments and the IASB proposal as we expect that the accounting mismatch risk will be significantly reduced. This should better reflect the economic realities to users.

Question 7 – Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS-4

We agree to postpone the effective date of IFRS 17 to January 2022. However, we have a major concern about further delays in the endorsement of IFRS 17 and delaying its effective implementation date. We believe that it should be a clear and coordinated application of IFRS 9 and the new insurance contracts standard. Investments in credit assets are an increasing risk in the insurance sector particularly in countries where government bonds have registered low interest rates for years and rates remain low as insurers have increased their investments in this asset class. We ask to create additional disclosures on assets ratings (i.e. derivatives, credits, equity...) to reduce the information gaps with other financial services institutions until the date of IFRS 17 and IFRS 9 first time adoption.

Question 8 – Transition modifications and reliefs

We agree with the Exposure Draft as it proposes to apply a simplification in the transition phase for the modified retrospective approach and for the fair value approach.

Question 9.- Minor amendments

We agree with the IASB proposal to the list of minor amendments.

Question 10 Terminology

Improvements and clarification on IASB standards terminology are always welcomed. In fact, we would like to see additional terminology improvements introduced in items such as in contract "duration".



Appendix 2 – Other comments arising from topics in EFRAG’s September 2018 letter to the IASB that have not been addressed by the ED

Topic 1 - Annual cohorts

The Commission understands EFRAG’s concern on the annual cohorts’ application on VFA. This might create accounting mismatches due to the contractual rules that in some major European countries are based on mutualisation between contracts in different annual cohorts. We consider the EFRAG position sensible to improve users’ information and the potential impact on new accounting rules based on annual cohorts on the European market of life products classified as VFA.

From an users’ standpoint annual cohorts are useful to analyse and evaluate non-life insurance products that are classified as a General Model or Premium Allocation Approach (PAA). However, we prefer a classification based on a group of contracts without the split by annual cohorts of the life insurance contracts under VFA. Due to this we support EFRAG’s request to find a solution to define the accounting framework of VFA contracts in line with the business model.

We agree with EFRAG that an exception should be introduced to enable meeting the information targets of IFRS 17. We also agree with the proposal that might be applied using the BC 138: *“... The Board acknowledged that, for contracts that fully share risks, the groups together will give the same results as a single combined risk-sharing portfolio, and therefore considered whether IFRS 17 should give an exception to the requirement to restrict groups to include only contracts issued within one year ...”*.

We agree with EFRAG that the exception should be reflective of the reporting objectives of the level of aggregation requirements in IFRS 17.

Topic 2 - Transition: Modified retrospective approach and fair value approach

We agree with EFRAG’s concern, *“about implementation challenges faced by preparers and the possibility of unduly strict interpretations that restricts the use of retrospective approaches. Therefore, EFRAG encourages the IASB to confirm in the main text of the final standard that the use of estimates is allowed, including those needed to approximate the missing information. EFRAG also suggests that the IASB clarify that the ‘reasonable and supportable information’ criterion is not intended to change the judgement ordinarily required in IAS 8 to make estimates”*.

We understand that in the past data might have been difficult to manage. We support EFRAG’s recommendation to add further clarification in the final standard, particularly on the use of estimates and assumptions in the case of unavailable data. This proposal will be better for both users and insurance companies as the same approach should be used. We prefer an improvement in data comparability based on a homogeneous accounting approach than) to have



as the as-is IFRS 17 proposal with some companies applying the “Modified retrospective approach” and others the “fair value approach”

Topic 3 - Balance sheet presentation: Non-separation of receivables

We agree with the EFRAG concern on premium receivables that are more credit than part of revenue and we prefer to have a split information on these items from other parts of the CSM to be able to understand the real cash flow from the credit in “premium receivables”.

Topic 4 - Reinsurance contracts: contract boundary

We do not support the IASB’s tentative decision not to amend IFRS 17 for the contract boundary of the reinsurance contracts because it might create an accounting mismatch

The best representation of the contract is to separately take over the financial assets that emerge from the insurance liabilities. For submission purposes, such items could be compensated, provided that this is contractually foreseen. There is some jurisdiction in which in the case of the non-payment of the premium by the policyholder, there is no obligation of coverage by the company (case of an executory contract). For these contracts it should be better to find a solution more in line with their business model.

The IASB recognizes the existence of the problem and decided to amend IFRS 17. The ED stipulates that the profit from reinsurance contracts would be immediately attributed to an income when the underlying insurance contracts are onerous and when reinsurance is proportional. However, the IASB does not recognize the problem for reinsurance contracts that are not proportional. EFRAG notes that any accounting mismatch for non-proportional contracts can, in practice, be reduced through risk adjustments rather than CSM.

If you would like to further discuss the views expressed in this letter, please do not hesitate to contact us.

Javier de Frutos, Chairman
On behalf of EFFAS Commission on Financial Reporting

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 22-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) Luca D’Onofrio (AIAF, Italy) and Dr. Carsten Zielke (DVFA, Germany)