

AAE IFRS17¹ WORKING GROUP

TERMS OF REFERENCE

The IFRS 17 reporting standard is expected to come in force by 1 January 2023, and the endorsement process in the EU is expected to take place later this year. The methodologies applied in relation to IFRS 17 are in many aspects similar to the principles applied in relation to Solvency II, and it requires simulations, projection of cash flows, discounting, professional judgement, and other actuarial skills.

The IFRS 17 Working Group is established to support AAE's strategic objectives in relation to the implementation of IFRS 17.

AAE Strategic objectives

SO1: Represent member associations and provide objective, independent, professional advice to European institutions and stakeholders on all matters of actuarial relevance, in pursuit of the public interest.

SO2: Enhance the development and standing of the actuarial profession in Europe by, inter alia:

- prescribing educational standards;
- promoting professionalism;
- supporting mutual recognition of actuaries among member associations; and
- facilitating a consistent approach to actuarial work undertaken in the context of European regulation.

SO3: Provide opportunities for networking and encourage sharing of best practice among actuaries across Europe, both in traditional areas of work and in wider fields as actuaries extend their areas of involvement.

IFRS 17 WG support to SO1:

The IFRS 17 WG will prepare responses to public consultations from EFRAG and other EU institutions, and support AAE representatives in EFRAG committees as well as the Board of AAE to provide objective, independent, professional advice to European institutions and stakeholders on the endorsement process of IFRS 17, in pursuit of the public interest.

¹IFRS 17 is an International Financial Reporting Standard that was issued by the International Accounting Standards Board in May 2017. It will replace IFRS 4 on accounting for insurance contracts and has an effective date of 1 January 2021.

Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The discount rate will reflect current interest rates. If the present value of future cash flows would produce a gain at the time a contract is issued the model would also require a "contractual service margin" to offset the day 1 gain. The contractual service margin would amortize over the life of the contract. There would also be a new income statement presentation for insurance contracts, including a revised definition of revenue, and additional disclosure requirements.

IFRS 17 will also have accommodations for certain specific types of contracts. Short-duration insurance contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. And for some contracts in which the cash flows are linked to underlying items, the liability value will reflect that linkage.

IFRS 17 WG support to SO2:

The IFRS 17 WG will provide suggestions to bring actuarial expertise into force in relation to the implementation of IFRS 17 and support the development of the profession in relation to IFRS 17.

The IFRS 17 WG will discuss the possible need of aligning European actuarial practices with respect to IFRS 17 related work and coordinate with IAA and promote actuarial standards and educational notes in relation to IFRS 17.

Organisation

The IFRS 17 WG reports to the Insurance Committee of the AAE and its term will end after the EFRAG has given their final advice to the EC, which is expected end of 2020. The term could be extended when the alignment of actuarial practices require such.

Membership is open to representatives of member associations of the AAE and is not restricted to one representative per member association. Interested individuals may also participate in the work of the working group, even if not formally representing a member association.

Kristoffer Bork has been appointed as the Chairperson of the WG. The appointment of Chairperson can be changed by the Insurance Committee.

The Terms of reference were approved by the AAE Board of Directors on xx. YYY 2020.