IFRS

In Preparation Since 2001

actuarial association of europe

History of IFRS 17

Date	Development	Comments
September 2001	Added to the IASB's agenda	
September 2004	Insurance Working Group appointed	Fresh start on the project
3 May 2007	Discussion Paper *Preliminary Views on Insurance Contracts* published	Comment deadline 16 November 2007
30 July 2010	Exposure Draft ED/2010/8 *Insurance Contracts* published	Comment deadline 30 November 2010
Fourth quarter 2010	Roundtables	
20 June 2013	ED/2013/7 *Insurance Contracts* published	Comment deadline 25 October 2013
18 May 2017	IFRS 17 *Insurance Contracts* published	Effective for annual periods beginning on or after 1 January 2021

Initial recognition

Key components

Fulfilment cash flows

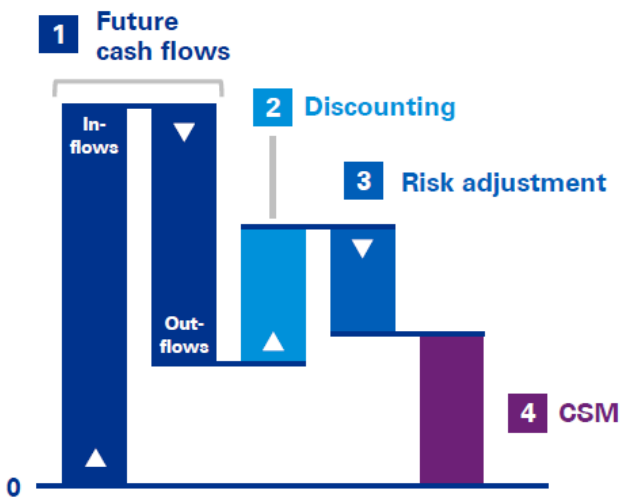
Risk-adjusted present value of future cash flows – e.g. premiums, claims

1 2 3

Contractual service margin (CSM)

Represents unearned profit – results in no gain on initial recognition

4



Net cash outflows result in no CSM – a loss is recognised immediately

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Subsequent measurement - Composition

Total liability of a group of insurance contracts

Liability for remaining coverage (LRC)

Fulfilment cash flows related to future services, plus **CSM (unearned profit)** remaining

+

Liability for incurred claims (LIC)

Fulfilment cash flows for claims incurred, but not yet paid

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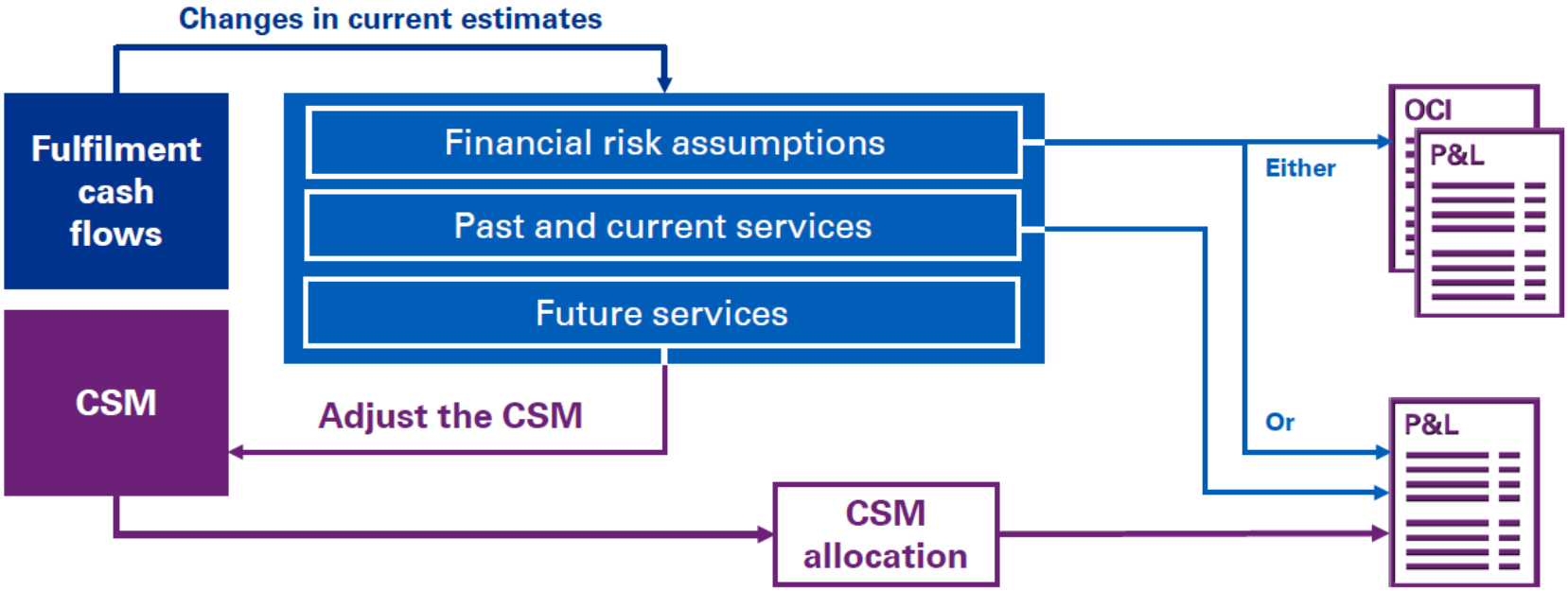
Subsequent measurement



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➢ Publication of IFRS 17 on May 18, 2017:

After several years of work by the International Accounting Standards Board (IASB), the "Insurance Contracts" standard - IFRS 17 - was published. Its purpose is to prescribe the principles of the accounting treatment, valuation and presentation of insurance contracts that fall within its scope. Its provisions supersede those applied in accordance with IFRS 4 currently in force. First time application is 01/01/2021 (with compulsory comparative 2020-exercise).

IFRS 17 – What is going on?

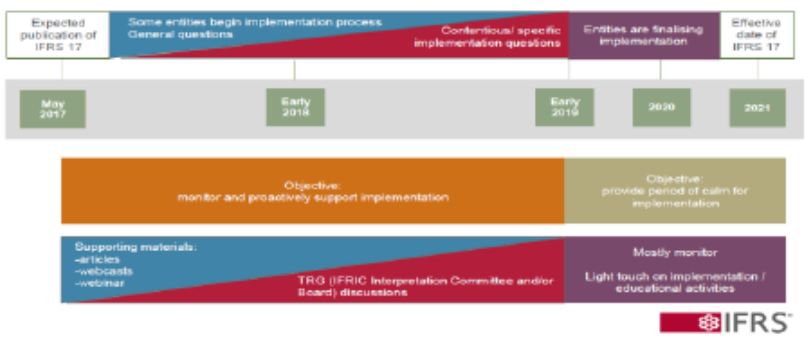
➢ Transition Resource Group (TRG):

IASB will soon nominate the members of this group, who will discuss questions from stakeholders about the new accounting requirements in IFRS 17. The purpose of the TRG is to:

- ✓ provide a public forum for stakeholders to follow the discussion of questions raised on implementation; and
- ✓ inform the Board in order to help the Board determine what, if any, action will be needed to address those questions.

Possible actions include providing supporting materials such as webinars, case studies, and/or referral to the Board or Interpretation Committee.

The TRG will have around 13 members and 3 observers. Because of the focus on accounting implementation questions, preference will be given to candidates who are preparers or auditors. Our understanding is that IASB is seeking preparers having actuarial and accounting skills; however IAA is not expected to be a member per se.



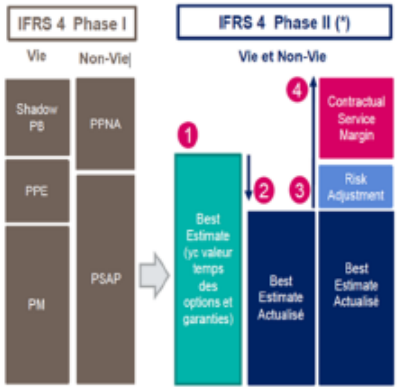
➢ Building Block Approach :

1 **Best Estimate (contracts in progress) :**
Current, unbiased, market estimates consist of and weighted by their probability of future cash flows from contracts in progress
Fulfilment value ≠ fair value

2 **Time value is integrated since the discount rate:**
- ✓ Discount rate based on observable market data
- ✓ Reflecting the characteristics of the liabilities

3 **Risk Ajustement :**
- ✓ The margin required to manage risk
- ✓ Cost of uncertainty overcoming and timing of future flows

4 **Contractual Service margin (CSM) :**
- ✓ Calibrated margin on the premium paid by the insured in such a way as not to result in the subscription of the contract
- ✓ Can't be negative (Charge if expected future loss)



TVOG : Time value of options and guarantees included in actuarial liabilities

The European endorsement mechanism

- The EU Accounting Regime requires that IFRSs be adopted individually for use in the European Union. The adoption process is sometimes referred to as 'endorsement':
  - EFRAG (the European Financial Reporting Advisory Group) holds consultations with interest groups in order to deliver its advice to the Commission whether the standard meets the criteria of endorsement;
  - Based on the advice of EFRAG, the Commission prepares a draft endorsement Regulation;
  - ARC (Accounting Regulatory Committee) votes on the Commission proposal. The qualified majority rule applies;
  - If the vote is favorable, the European Parliament and the Council of the European Union have 3 months to oppose the adoption of the draft Regulation by the Commission.

- EFRAG's analysis assesses whether the new IFRS:
  i. is not contrary to the principle of true and fair view;
  ii. meets the technical qualitative criteria (understandability, relevance, reliability and comparability);
  iii. is conducive to the European public good.
- By notably conducting an impact analysis.

EFRAG Board

The EFRAG Board is responsible for:

- all technical positions of EFRAG, after having considered the technical advice provided by EFRAG Technical Experts Group (EFRAG TEG) and supporting working groups;
- ensuring EFRAG has an open and transparent due process including a public consultation process with European constituents on draft EFRAG positions on items such as discussion papers, draft comment letters, draft consultation documents and draft endorsement advices.

The EFRAG Board has 16 members in total: eight members each from European stakeholder organizations and national standard setters.

EFRAG TEG

The EFRAG Technical Experts Group (EFRAG TEG) provides technical advice to the EFRAG Board:

- It provides its own professional judgement, arguments and technical analysis based on its technical expertise and on EFRAG's due process;
- It also provides input for the EFRAG research activities in the financial reporting arena in active projects launched by the EFRAG Board.

EFRAG IAWG

The role of the Insurance Accounting Working Group is to support EFRAG's ability to influence the development of IFRS standards and interpretations that address specific insurance issues and their application within Europe through analysis technical consultation and consultation with representatives of this sector.

Its 18 members represent mainly the industry, the audit profession, the users, the actuaries and academics.

On going educational sessions of the Board about IFRS 17:

The Efrag board currently consults some preparers (Allianz, AXA, Prudential, Generali). Analysts, investors and auditors could also be invited in the coming months.

The role of the AAE

- Apart from the IAA's work who can, for instance, answer to any IASB's consultation, the AAE can play a **specific role by interacting with EFRAG**:
  - The endorsement process is specific to the European Union;
  - Currently, the actuarial industry is represented by one member within the IAWG;
  - At least, two others actuaries seat within the IAWG. They, however, represent the preparers and the insurance industry (Prudential, CNP Assurances).

- It is proposed that AAE offers to the EFRAG Board to participate in one of its future educational sessions to:
  - Testify about the complexity of the news standard and its implementation process;
  - Demonstrate how and why it is different from Solvency 2 even though some concepts are similar and some synergies can be looked at.
- However, the purpose of this education (e.g. listing technical ways to implement options and requests of IFRS 17) shall not be prescriptive:
  - Interpretation is the responsibility of the IASB through the TRG (preparers & auditors with supervisors and market authorities as observers), if necessary IFRIC and finally IASB.