ACTUARIAL ASSOCIATION OF EUROPE

IFRS 17 update
Wien, 10 October 2019

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Latest news

1. IASB public consultation on amendments to IFRS 17
2. EFRAG consultation
3. AAE response to EFRAG consultation
4. EFRAG response to IASB consultation
5. IAA response to IASB Consultation

Exposure draft and consultation

- Published in June – deadline for responding 25 september
- Content
  - Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30);
  - Expected recovery of insurance acquisition cash flows (paragraphs 28A–28D, 105A—105C, B35A−B35C and BC31–BC49);
  - Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44-45, 109 and 117(c)(v), Appendix A, paragraphs B119−B119B and BC50–BC66);
  - Reinsurance contracts held—recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B, B119C−B119F and BC67–BC90);
  - Presentation in the statement of financial position (paragraphs 78−79, 99, 132 and BC91–BC100);
  - Applicability of the risk mitigation option (paragraphs B116 and BC101−BC109);
  - Effective date of IFRS 17 and the IFRS 9 *Financial Instruments* temporary exemption in IFRS 4 (paragraph C1, [Draft] Amendments to IFRS 4 and paragraphs BC110–BC118);
  - Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119–BC146); and
  - Minor amendments (see paragraphs BC147−BC163).

EFRAG consultation

- EFRAG raises a number of questions of:

1. Scope exclusions (paragraph 10, Appendix 1).
2. Expected recovery of insurance acquisition cash flows (paragraph 18, Appendix 1)
3. Contractual service margin attributable to investment-return service and investment-related service and disclosures about the profit recognition patterns (paragraphs 35 and 36, Appendix 1).
4. Reinsurance contracts held – recovery of losses on underlying insurance contracts (paragraphs 45 to 47, Appendix 1).
5. Presentation in the statement of financial position (paragraph 54, Appendix 1).
6. Applicability of the risk mitigation option (paragraphs 64 - 65, Appendix 1).
7. Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs 73 to 75, Appendix 1).
8. Transition modifications and reliefs (paragraphs 94 to 95, Appendix 1).
9. Minor amendments (paragraphs 99 to 105, Appendix 1)
10. Terminology (paragraph 110, Appendix 1).
11. Annual cohorts (paragraphs 140 to 143, Appendix 2).
12. Transition: Modified retrospective approach and fair value approach (paragraph 155, Appendix 2).
13. Balance sheet presentation: Non-separation of receivables and payables (paragraph 161, Appendix 2).
14. Reinsurance contracts: contract boundary (paragraphs 172 to 174, Appendix 2).

AAE position

- The AAE decided not to respond directly to the IASB consultation. It was left for the IAA to do so
- Instead, the AAE responded to the Consultation of EFRAG in order to respond to European stakeholders and within the strategic focus of the AAE

AAE response to EFRAG

- Most important observations (see appendix)

2 Expected recovery of insurance acquisition cash flows (paragraph 18, Appendix 1)
  - The AAE support EFRAG in the argument that acquisition cash flow can be allocated to expected renewals
  - The AAE does not agree that “Renewals” does not have to be a defined term

3 Contractual service margin attributable to investment-return service and investment-related service and disclosures about the profit recognition patterns (paragraphs 35 and 36, Appendix 1).
  - The AAE is concerned that the definition of “investment related services may be too narrow

4 Reinsurance contracts held – recovery of losses on underlying insurance contracts (paragraphs 45 to 47, Appendix 1).
  - The AAE agree with the amendment

11 Annual cohorts (paragraphs 140 to 143, Appendix 2).
  - The AAE agree with EFRAG in raising the question on whether the annual cohort requirement is justified for all types of contracts

13 Balance sheet presentation: Non-separation of receivables and payables (paragraph 161, Appendix 2).
  - The AAE does not support separate presentation of premium receivable

14 Reinsurance contracts: contract boundary (paragraphs 172 to 174, Appendix 2).
  - The AAE does not support the IASB tentative decision to amend the IFRS 17 for contract boundary of reinsurance contracts

EFRAG response to IASB Consultation

- In general EFRAG agrees with the amendments and the questions raised by IASB, but EFRAG raises other important concerns
- Effective date: EFRAG proposes another years postponement and puts pressure in IASB to publish the final standard as early as possible
- EFRAG repeats its arguments on whether the annual cohort requirement is justified for all types of contracts
- EFRAG repeats its arguments regarding the modified retrospective approach. The interpretation may be too strict.

The IAA response to IASB Consultation

- In general the IAA agrees with the amendments and the questions raised by IASB, but EFRAG raises other important concerns
- Locked-in interst rates: The IAA raises the question on whether the measurement choice based on the representation choice (General model VS. VFA) still applies
- IAA repeats its arguments on whether the annual cohort requirement is justified for all types of contracts

Report from this morning

Questions?