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COMMENTS ON EIOPA'S ANALYSIS OF IFRS 17 INSURANCE CONTRACTS

Prepared by the Actuarial Association of Europe

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AAE COMMENTS ON EIOPA'S ANALYSIS OF IFRS 17 INSURANCE CONTRACTS

On 18 October 2018, EIOPA published an analysis of IFRS 17 Insurance Contracts. The analysis comprises the following subjects:

- the expected impact on financial stability and the European public good
- the potential effects on the attractiveness, competitiveness and availability of insurance products
- the potential use of Solvency II inputs, approaches and processes.

All three aspects provide valuable and interesting insights to the effects of introducing a new international reporting standard for insurance contracts. From the perspective of European actuaries, the last section is of particular interest. European insurance entities, stakeholders and actuaries are also analysing the potential for synergy, clarity, and effectiveness from reusing existing inputs, approaches and processes from the Solvency II framework for IFRS 17 reporting.

The objective of the last part of the analysis was for EIOPA to conclude on potential gains in efficiency for European insurers from applying inputs and approaches defined within the Solvency II regulation to the implementation of IFRS 17. The AAE supports this objective and the need for additional analysis on this aspect. It considers that the EIOPA analysis is of good quality and there are a lot of similarities between both Solvency II and IFRS 17 valuation frameworks. Nevertheless, it is to some extent too high level and is potentially not fully considering important differences in its analysis.

The comments provided by the AAE in this paper do not seek to deliver more conclusive evaluations. The purpose is rather to highlight the necessary considerations for an insurance entity in deciding on the extent to which its Solvency II inputs, approaches, and processes are suitable for use in IFRS 17 reporting.

EIOPA provides conclusions on the following items:

- Initial recognition of obligations
- Definition of cash flows
- Grouping and aggregation of contracts and contract boundaries
- Determination of the appropriate discount rate
- Risk adjustment
- Reinsurance

It is important to note that the approach taken by an insurer to IFRS 17 transition could in itself lead to differences from its reporting under Solvency II.

For each item from the list above, the AAE has performed a detailed analysis of the requirements and definitions of both Solvency II and IFRS 17 in order to validate the high-level conclusions provided by EIOPA. High level review findings were as follows:

- *Definition of cash flows.* AAE considers that there are likely to be differences in treatment of costs between Solvency II and IFRS17. Ambiguity in definitions of expenses is likely to lead to different approaches in establishing expenses which are directly attributable to insurance portfolio. Differences may also emerge in relation to reinsurance, acquisition costs and costs related to contracts which are not classified as insurance contracts.

- *Grouping and aggregation of contracts and contract boundaries.* AAE considers that differences in requirements relating to aggregation, initial recognition of liabilities and contract boundaries may lead to different outcomes.
- *Determination of the appropriate discount rate.* Specific or general differences could emerge between the frameworks arising from the potential under IFRS17 for product specific adjustments and the possible need for multiple discount rates. IFRS17 is also not definitive in relation to UFR definition and guidelines on how to apply discount rates beyond the last liquid point.
- *Risk adjustment.* There are a number of elements under IFRS17 which could lead to differences in the IFRS17 risk adjustment from the Solvency II risk margin. These include the requirement to present the confidence level applying to the IFRS17 risk adjustment, the gross of reinsurance and ceded framework under IFRS 17 and the exclusion of operational and reinsurance counterparty risk in IFRS17.
- *Reinsurance.* The AAE considers that, with the change to the treatment of reinsurance included in the recent IASB release, there is likely to be a high and appropriate level of consistency in both IFRS17 and SII between direct insurance contracts and reinsurance contracts held which are on a proportionate basis at least for direct insurers.

The overall conclusions from each item are further presented in the following section (we have treated initial recognition as part of the contract boundaries). The detailed comments and documentation are contained in the appendices.

Definition of cash flows

EIOPA conclusion:

- *Cash flows and expenses included in the valuation of Solvency II technical provisions are expected to be consistent with IFRS 17 in most cases.*

In relation to expenses, the AAE observes that some conditions need to be met in order to reuse assumptions from Solvency II. Solvency II specifies that all costs must be allocated to the cash flows, i.e. under a full expense allocation approach, but under the assumption that the undertaking continues to write new business.

IFRS 17 specifically mentions that costs (meaning expenses and commissions) that cannot be directly attributed to the portfolio of insurance contracts shall not be included in cash flows.

Ambiguous definition of the expenses which may or may not be directly attributable to insurance contracts means that costs are likely to be included or excluded subjectively based on management view and entity specific expense allocation policy. This is likely to cause differences in implementation practice for IFRS17 between different entities, and also between Solvency II and IFRS 17 liability cash flows.

Acquisition costs are allocated in line with provision of services under IFRS17, but, under Solvency II, are immediately expensed, with full immediate impact on own funds.

Different treatment of reinsurance contracts between IFRS 17 and Solvency II may also generate differences in the cash flows.

Another potential difference relates to contracts which are not classified as insurance contracts or investment contracts with profit sharing, but are reported under IFRS 9 or IFRS 15.

In relation to cash flow and expenses, the AAE is not able to find support for EIOPA's very general conclusion that cash flows are expected to be consistent in most cases.

Grouping and aggregation of contracts and contract boundaries

EIOPA conclusions

- *In principle, the Solvency II approach to determine the relevant level of aggregation for expected cash flows and other inputs is anticipated to be consistent with IFRS 17. However, further disaggregation by "annual cohorts" to group according to profitability is needed for IFRS 17.*
- *The Solvency II requirement to identify homogeneous risk groups can be considered as a basis for IFRS 17's requirements on grouping contracts.*
- *The point in time at which insurance obligations are recognised under both frameworks is conceptually similar. However, IFRS 17 introduces a simplification, which may lead to differences in some cases. The practical impact of such differences is not expected to be significant.*
- *Expected profits at inception are recognised in the reconciliation reserve (equity) of that period under Solvency II and are allocated over the lifetime of the contract according to the service provided under IFRS 17. This is reflective of the different objectives of regulatory and accounting frameworks. The accounting framework needs to present the entity's performance, including the allocation of gains and losses in the specific reporting periods.*
- *The contract boundaries have been found to be similar in principle, differences for certain contract types cannot be ruled out.*

The AAE observes that separation of components may cause differences in cash flows, at least when looking at IFRS 17 separately from other standards. An example of this specific issue may relate to kick-back cash flows which may be paid by a fund manager to an insurance entity. It seems unclear if this cash flow is within the contract boundary of an insurance contract as it would be with Solvency II or whether it relates to a separate (investment) service contract reported under IFRS 15.

The disaggregation requirement of IFRS 17 may cause many practical challenges, but when disaggregated elements are added together the disaggregation may not necessarily cause significant changes relative to the Solvency II framework. In some cases, however, we find that significant differences in the cash flow structure may occur, e.g. if a single contract contains several non-distinct insurance components belonging to different risk groups. Under Solvency II, these will often be treated separately, whereas under IFRS 17 these may be considered "non-distinct" and bundled together. This may even happen for life insurance covers and non-life insurance covers bundled in the same contract. In some instances, this will not affect the aggregated cash flows, but in other instances this may cause discrepancies, e.g. because the host cover defines contract boundaries for all the insurance covers under IFRS 17 whereas contract boundaries under Solvency II are defined risk group by risk group.

The AAE points out that EIOPA only vaguely points at challenges relating to bundling of non-distinct insurance components.

In relation to initial recognition, EIOPA identifies differences for non-onerous contracts, but concludes that the differences are not material. This may be an optimistic conclusion in some cases in the sense that it may underestimate differences.

Derecognition rules are largely similar under IFRS 17 and Solvency II, except that IFRS 17 defines an alternative route to derecognition relating to the scope of IFRS 17 and the corresponding separation and aggregation rules. EIOPA seems not to consider the potential differences relating to this alternative route to derecognition.

In relation to contract boundaries, EIOPA concludes that the principles are similar although differences cannot be ruled out. For certain types of contracts, the AAE finds that the distinction between "the legal right to reprice" under Solvency II and the “legal right and the practical ability to reprice" under IFRS 17 can potentially cause significant differences in contract boundaries. Stated more generally, the concept of substantive rights and obligations under IFRS17 versus unilateral rights under Solvency II might cause differences.

Determination of the appropriate discount rate

EIOPA conclusion

- *IFRS 17 allows for both a top-down and a bottom-up approach, adjusting for illiquidity whilst taking into account all market inputs. SII sets out a bottom-up approach without an explicit measure of illiquidity. It converges to an ultimate forward rate (UFR) after last liquid point.*
- *SII's techniques and approaches for the volatility adjustment (VA) and matching adjustment (MA) may be used, taking into consideration IFRS 17 specific assumptions. The SII extrapolation method may need to be adjusted for IFRS 17, if relevant market input were found to make a significant difference.*

The AAE agrees that the Solvency II techniques in terms of the risk free term structure and especially the VA framework may be appropriate as a framework for IFRS 17 discount rates. However, product specific adjustments may be needed and, under IFRS 17, insurance entities may have to apply more than one discount rate.

In relation to the UFR definition in Solvency II, IFRS 17 provides no guidelines on how to apply discount rates beyond the last liquid point. The AAE observes that the introduction of an adjustment mechanism to the UFR framework probably supports the possibility of using the Solvency II framework for IFRS 17 accounting. Further, we observe that even if the Solvency II UFR only gradually adjusts to 3.65% over several years, the 3.65% level may currently best reflect market consistency.

Moreover, the AAE observes that IFRS 17 introduces both the current discount rates and the discount rates at initial recognition which will significantly increase the need for handling a large number of different discount rates in the accounting process.

Finally, the AAE observes that if European insurers are to use Solvency II inspired discount rates, EIOPA will have to publish the official rates at a higher frequency or at least much faster than today in order for insurance entities to use the rates in a fast close process.

Risk adjustment

EIOPA conclusion

- *The approach to determining the risk margin under Solvency II is conceptually different from the risk adjustment under IFRS 17 (transfer vs. entity specific)*

- *Nevertheless, for the practical implementation of IFRS 17, Solvency II's risk margin's underlying principles, inputs and processes may be considered for IFRS 17, subject to potential adaption*

The AAE observes that the risk adjustment needs to be allocated at a group level to perform the onerous test which is a significant challenge, and, even if the Solvency II measure is adopted for IFRS 17, the figure needs to be presented as a confidence level. Further, an entity needs to consider carefully the implications of moving from a "net of reinsurance" framework under Solvency II to a gross of reinsurance and ceded framework under IFRS 17. Finally, the risk adjustment under IFRS 17 does not allow for operational risk nor reinsurance counterparty risk. These risk categories are included in the risk margin defined under Solvency II.

Based on the above factors, the AAE is concerned that significant differences may arise between risk margin (Solvency II) and risk adjustment (IFRS 17).

Reinsurance

EIOPA conclusions

- *Both frameworks set out that reinsurance contracts issued are generally accounted for in the same manner as insurance contracts issued. According to Solvency II, the measurement of reinsurance contracts held is consistent with the underlying contracts issued, while under IFRS 17 the measurement model is applied separately, using consistent assumptions and inputs, to the reinsurance contract held and to the underlying insurance contracts. The separate application of the measurement model may permit differences to arise between the recognised amounts and performance of the reinsurance recoverable and the ceded insurance liability.*
- *IFRS 17 does not seem to acknowledge the different economic circumstances and consequently does not allow the insurer to present a matching treatment of gains from reinsurance contracts, where this may be appropriate.*
- *Payments (expenses and cash in-flows) related to reinsurance undertakings are part of the gross calculation of the best estimate and technical provision's cash flow projections according to SII. Reinsurance contracts and corresponding cash flows are recognised as separate contracts under IFRS 17.*
- *SII takes a 'net approach' for determining the risk margin of insurance contracts and allocates reinsurance cash-inflows to corresponding insurance contracts, whereas IFRS 17 presents ceded reinsurance as a separate reinsurance asset.*
- *The concept of reinsurance contracts' contract boundaries are different and the application of the different concepts may lead to differences in the valuation of reinsurance held between the two frameworks.*
- *Under IFRS 17 the variable fee approach model is not available for reinsurance contracts issued (or held).*

In January 2019, the IASB decided to propose targeted improvements in three areas of IFRS17 which it expects will ease implementation and make it easier for companies to explain results. For reinsurance, the proposed amendment requires an entity to recognise a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that a reinsurance contract covers the losses of the contracts on a proportionate basis.

This change removes one of the key differences between Solvency II and IFRS17 relating to reinsurance, and addresses an important issue with the Standard which was raised with EFRAG by the AAE in May 2018. The AAE welcomes the proposed change, which aligns the economic effect of reinsurance with the contract which it is intended to support.

The AAE considers that, with this change, there is likely to be a high and appropriate level of consistency between direct insurance contracts and reinsurance contracts held which are on a proportionate basis, as between IFRS17 and Solvency II at least for direct insurers. There may be some differences in valuation arising under IFRS17 as a result of the separate valuation of reinsurance contracts and underlying contracts, for instance in relation to risk margin and/or contract boundaries. The prohibition from using the variable fee approach model under IFRS 17 for reinsurance contracts issued or held may also lead to differences. In general, and notwithstanding the above, the AAE considers that the valuations should generally be consistent as is the case with Solvency II, unless they reflect genuinely different economic impact.

The AAE will monitor and provide commentary on differences in emerging approach between the two frameworks as the implementation of IFRS17 continues.

APPENDICES

Definition of cash flows

Index	AAE position	Reference to SII and IFRS 17:	Rules
1	**Expenses** **Is it possible to apply one single set of expense principles that fulfil the requirement of both sets of regulation?** IFRS 17 specifically mentions costs that shall be included together with commissions as well as costs that shall be excluded from the cash flows. In Solvency II, all acquisition expenses and acquisition commission are included into valuation of the liabilities. The EIOPA concluded that for both frameworks the expenses are to be allocated and attributed in a realistic and objective manner, with the difference that for IFRS17 the overheads shall be allocated on level of the Portfolio of Insurance contracts rather than to the individual technical provisions. The AAE observes that in some situations, there may be significant differences in the definition of costs directly attributable to an insurance portfolio under IFRS 17 and the full cost approach of Solvency II.	IFRS B65 (e), (f),(g), (h),(l)&(m) B66 (d), (e), (h)	Included: — An allocation of insurance acquisition cash flows **attributable** to the portfolio to which the contract belongs — Claim handling costs (ie) the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjuster' fees and internal costs of investigating claims and processing claim payments) — Costs the entity will incur in providing contractual benefits paid in kind — Policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premium within the boundary of the insurance contract — an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) **directly attributable** to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics. — any other costs specifically chargeable to the policyholder under the terms of the contract. Excluded: — cash flows relating to costs **that cannot be directly attributed to the portfolio** of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred. — Cashflows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss when incurred. — Cashflows arising from components separated from the insurance contracts and accounted for using other applicable standards (see 10-13)

Index	AAE position	Reference to SII and IFRS 17:	Rules
		SII delegated act article 31	1. A cash flow projection used to calculate best estimates shall take into account all of the following expenses, which relate to recognised insurance and reinsurance obligations of insurance and reinsurance undertakings and which are referred to in point (1) of Article 78 of Directive 2009/138/EC: (a) administrative expenses; (b) investment management expenses; (c) claims management expenses; (d) acquisition expenses. The expenses referred to in points (a) to (d) shall take into account overhead expenses incurred in servicing insurance and reinsurance obligations. 2. Overhead expenses shall be allocated in a realistic and objective manner and on a consistent basis over time to the parts of the best estimate to which they relate. 3. Expenses in respect of reinsurance contracts and special purpose vehicles shall be taken into account in the gross calculation of the best estimate. 4. Expenses shall be projected on the assumption that the undertaking will write new business in the future.
	Cash flow projections for the calculation of the best estimate. The granularity of the cash flows definition varies as between IFRS 17 and SII framework. Ambiguous definition of costs that can or cannot be directly attributable to insurance portfolio means that costs are likely to be included or excluded subjectively based on management view and entity specific expense allocation policy. This is likely to cause the different implementation in practice for IFRS 17 entities, and differences between Solvency II and IFRS 17 cash flows.	SII delegated act article 28	The cash flow projection used in the calculation of the best estimate shall include all of the following cash flows, to the extent that these cash flows relate to existing insurance and reinsurance contracts: (a) benefit payments to policy holders and beneficiaries; (b) payments that the insurance or reinsurance undertaking will incur in providing contractual benefits that are paid in kind; (c) payments of expenses as referred to in point (1) of Article 78 of Directive 2009/138/EC; (d) premium payments and any additional cash flows that result from those premiums; (e) payments between the insurance or reinsurance undertaking and intermediaries related to insurance or reinsurance obligations; (f) payments between the insurance or reinsurance undertaking and investment firms in relation to contracts with index-linked and unit-linked benefits; (g) payments for salvage and subrogation to the extent that they do not qualify as separate assets or liabilities in accordance with international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002; (

Index	AAE position	Reference to SII and IFRS 17:	Rules
	The AAE observes that differences exist relating to reinsurance, which is valued separately from direct insurance and therefore not included in cash flows of best estimate of liabilities under IFRS 17., This could lead to differences in treatment for tax purposes. Another difference relates to situations where the contract is not classified as an insurance contract under IFRS17, and the cash flows are not recognised under IFRS 17, but under IFRS 15 or IFRS 9.		h) taxation payments which are, or are expected to be, charged to policy holders or are required to settle the insurance or reinsurance obligations.
		IFRS 17 Article33	Estimates of future cash flows An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall: (a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes. (b) reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53). (c) be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60). (d) be explicit—the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).
		IFRS 17 Article B65	Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. **The cash flows within the boundary include**: (a) premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.

Index	AAE position	Reference to SII and IFRS 17:	Rules
			(b) payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (ie reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34). (c) payments to (or on behalf of) a policyholder that vary depending on returns on underlying items. (d) payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)). (e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs. (f) claim handling costs (ie the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments). (g) costs the entity will incur in providing contractual benefits paid in kind. (h) policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract. (i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis. (j) payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts. (k) potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.

Index	AAE position	Reference to SII and IFRS 17:	Rules
			(l) an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics. (m) any other costs specifically chargeable to the policyholder under the terms of the contract.
		IFRS 17 Article B66	The following cash flows **shall not be included** when estimating the cash flows that will arise as the entity fulfils an existing insurance contract: (a) investment returns. Investments are recognised, measured and presented separately. (b) cash flows (payments or receipts) that arise under reinsurance contracts held. Reinsurance contracts held are recognised, measured and presented separately. (c) cash flows that may arise from future insurance contracts, ie cash flows outside the boundary of existing contracts (see paragraphs 34–35). (d) cash flows relating to costs that cannot be directly attributed to the portfolio of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred. (e) cash flows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss when incurred. (f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity. Such payments and receipts are recognised, measured and presented separately applying IAS 12 Income Taxes. (g) cash flows between different components of the reporting entity, such as policyholder funds and shareholder funds, if those cash flows do not change the amount that will be paid to the policyholders. (h) cash flows arising from components separated from the insurance contract and accounted for using other applicable Standards (see paragraphs 10–13).

Index	AAE position	Reference to SII and IFRS 17:	Rules
	Contractual options and guarantees	SII delegated act article 32	When calculating the best estimate, insurance and reinsurance undertakings shall take into account all of the following: (a) all financial guarantees and contractual options included in their insurance and reinsurance policies; (b) all factors which may affect the likelihood that policy holders will exercise contractual options or realise the value of financial guarantees.
	Future discretionary benefits	SII delegated act article 24	Where future discretionary benefits depend on the assets held by the insurance or reinsurance undertaking, undertakings shall base the calculation of the best estimate on the assets currently held by the undertakings and shall assume future changes of their asset allocation in accordance with Article 23. The assumptions on the future returns of the assets shall be consistent with the relevant risk-free interest rate term structure, including where applicable a matching adjustment, a volatility adjustment, or a transitional measure on the risk-free rate, and the valuation of the assets in accordance with Article 75 of Directive 2009/138/EC.
		SII delegated act article 25	When calculating technical provisions, insurance and reinsurance undertakings shall determine separately the value of future discretionary benefits.

Grouping and aggregation of contracts and contract boundaries

Index	AAE position	Reference to SII and IFRS 17:	Rules
	Separation Separation of components may cause differences in the cash flows (at least when looking at IFRS 17 separate from other IFRS standards). Solvency II relates to insurance undertakings while IFRS 17 relates only to insurance contracts.	IFRS 10	**An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an investment component or a service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.**
		IFRS 11	**An entity shall: (a) apply IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative. (b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component.**
		IFRS 12	**After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer distinct goods or non-insurance services to a policyholder, applying paragraph 7 of IFRS 15. The entity shall account for such promises applying IFRS 15. In applying paragraph 7 of IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of IFRS 17 and, on initial recognition, shall: (a) apply IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or non-insurance services; and (b) attribute the cash outflows between the insurance component and any promised goods or non-insurance services accounted for applying IFRS 15 so that: i. cash outflows that relate directly to each component are attributed to that component; and ii. any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows the entity would expect to arise if that component were a separate contract.**
		IFRS 13	**After applying paragraphs 11–12, an entity shall apply IFRS 17 to all remaining components of the host insurance contract. Hereafter, all references in IFRS 17 to embedded derivatives refer to**

Index	AAE position	Reference to SII and IFRS 17:	Rules
			derivatives that have not been separated from the host insurance contract and all references to investment components refer to investment components that have not been separated from the host insurance contract (except those references in paragraphs B31–B32).
	Grouping and aggregation Generally, contracts subject to similar risks and managed together (IFRS 17 definition) may be defined consistent to homogeneous risk groups (Solvency II definition), especially if the different risk covers can be unbundled. Moreover, IFRS 17 contains a requirement for additional disaggregation into "onerous contracts", "no significant possibility of becoming onerous contracts" and "other contracts". These are further disaggregated into annual cohorts. In general, this disaggregation may not necessarily affect the sum of cash flows stemming from the different groups. In some cases, however, we observe that significant differences in the cash-flow structure may occur e.g. if a single contract contains several non-distinct components belonging to different risk groups. Under Solvency II, these will often be treated separately, whereas under IFRS 17 these may be considered "non-distinct" and should be bundled together (this may even apply for life insurance covers and non-life insurance covers bundled in the same contract). In some instances, this will not affect the aggregated cash flows, but in other instances this may cause discrepancies, e.g. because the host cover defines. contract boundaries	IFRS 14	An entity shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines (for example single premium fixed annuities compared with regular term life assurance) would not be expected to have similar risks and hence would be expected to be in different portfolios.
		SII delegated act article 34.3	Calculation methods 3. Where a calculation method is based on grouped policy data, insurance and reinsurance undertakings shall ensure that the grouping of policies creates homogeneous risk groups that appropriately reflect the risks of the individual policies included in those groups.

Index	AAE position	Reference to SII and IFRS 17:	Rules
	under IFRS 17 whereas contract boundaries under Solvency II are defined risk group by risk group. We observe that EIOPA only vaguely points at challenges relating to bundling of non-distinct insurance components		
	In Solvency II, contracts are looked upon on an individual basis, but grouping is possible under certain circumstances. IFRS 17 defines portfolios disaggregated into "onerous contracts", "no significant possibility of becoming onerous contracts" and "other contracts". These are further disaggregated into annual cohorts.	SII delegated act art 35	**Homogeneous risk groups of life insurance obligations** The cash flow projections used in the calculation of best estimates for life insurance obligations shall be made separately for each policy. Where the separate calculation for each policy would be an undue burden on the insurance or reinsurance undertaking, it may carry out the projection by grouping policies, provided that the grouping complies with all of the following requirements: (a) there are no significant differences in the nature and complexity of the risks underlying the policies that belong to the same group; (b) the grouping of policies does not misrepresent the risk underlying the policies and does not misstate their expenses; (c) the grouping of policies is likely to give approximately the same results for the best estimate calculation as a calculation on a per policy basis, in particular in relation to financial guarantees and contractual options included in the policies.
	Premium provision and claims provision are calculated separately both in IFRS 17 and Solvency II.	SII delegated act art 36	**Non-life insurance obligations** 1. The best estimate for non-life insurance obligations shall be calculated separately for the premium provision and for the provision for claims outstanding. 2. The premium provision shall relate to future claim events covered by insurance and reinsurance obligations falling within the contract boundary referred to in Article 18. Cash flow projections for the calculation of the premium provision shall include benefits, expenses and premiums relating to these events. 3. The provision for claims outstanding shall relate to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not. 4. Cash flow projections for the calculation of the provision for claims outstanding shall include benefits, expenses and premiums relating to the events referred to in paragraph 3.
		IFRS 40	The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of: (a) the liability for remaining coverage comprising:

Index	AAE position	Reference to SII and IFRS 17:	Rules
			a. the fulfilment cash flows related to future service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92; b. the contractual service margin of the group at that date, measured applying paragraphs 43–46; and (b) the liability for incurred claims, comprising the fulfilment cash flows related to past service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92.
	Initial recognition of the contract Initial recognition is different identically for onerous contracts. For non-onerous contracts, the materiality of the difference depends on the business model. Here differences may occur. We observe that EIOPA concludes that these differences are not material in most cases. This may be an optimistic conclusion.	IFRS 25	An entity shall recognise a group of insurance contracts it issues from the earliest of the following: (a) the beginning of the coverage period of the group of contracts; (b) the date when the first payment from a policyholder in the group becomes due; and (c) for a group of onerous contracts, when the group becomes onerous.
		SII delegated act art 17	For the calculation of the best estimate and the risk margin of technical provisions, insurance and reinsurance undertakings shall recognise an insurance or reinsurance obligation at the date the undertaking becomes a party to the contract that gives rise to the obligation or the date the insurance or reinsurance cover begins, whichever date occurs earlier. Insurance and reinsurance undertakings shall only recognise the obligations within the boundary of the contract. 17.1.2015 L 12/29 Official Journal of the European Union EN Insurance and reinsurance undertakings shall derecognise an insurance or reinsurance obligation only when it is extinguished, discharged, cancelled or expires.
	Derecognition The main rule is that contracts are derecognised only when extinguished, expired, cancelled or discharged. These rules are identical for IFRS 17 and Solvency II. For IFRS 17, an alternative route to derecognition needs to be considered relating to the scope of IFRS 17, and the corresponding separation and aggregation rules.	IFRS 72	If the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying IFRS 17 or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that: (a) if the modified terms had been included at contract inception: (i) the modified contract would have been excluded from the scope of IFRS 17, applying paragraphs 3–8;

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	EIOPA seems to ignore potential differences between Solvency II and IFRS 17 relating to this alternative route to derecognition.		(ii) an entity would have separated different components from the host insurance contract applying paragraphs 10–13, resulting in a different insurance contract to which IFRS 17 would have applied; (iii) the modified contract would have had a substantially different contract boundary applying paragraph 34; or (iv) the modified contract would have been included in a different group of contracts applying paragraphs 14–24. (b) the original contract met the definition of an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or (c) the entity applied the premium allocation approach in paragraphs 53–59 or paragraphs 69–70 to the original contract, but the modifications mean that the contract no longer meets the eligibility criteria for that approach in paragraph 53 or paragraph 69.
		IFRS 74	An entity shall derecognise an insurance contract when, and only when: (a) it is extinguished, i.e. when the obligation specified in the insurance contract expires or is discharged or cancelled; or (b) any of the conditions in paragraph 72 are met.
	Contract boundaries The general rules for contract boundaries will in most cases be consistent for IFRS 17 and Solvency II, but potential material differences may apply for some insurance entities: — If the insurance entity has the legal right to reprice, but for one reason or another not the practical ability to reprice, the cash flow will still be within the contract boundary according to IFRS 17. Solvency II specifies that it is the legal right to reprice that is decisive.	IFRS 34	Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services (see paragraphs B61–B71). A substantive obligation to provide services ends when: (a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or (b) both of the following criteria are satisfied: (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and

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	— If a contract contains one or more non-distinct insurance covers bundled together with the host cover, contract boundaries for all insurance covers follow the rules of the host cover. EIOPA mentions that the different criteria on the right to reprice may cause significant differences in the cash flows in IFRS 17 and Solvency II, respectively. Further, EIOPA pinpoints potential differences in the definition of contract boundaries between insurance contracts with discretionary participation features and investment contracts with discretionary participation features. However, EIOPA seems to ignore the effect of differences in contract boundaries for non-distinct insurance covers.		(ii) the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.
		SII delegated act article 18	Boundary of an insurance or reinsurance contract 1. The boundaries of an insurance or reinsurance contract shall be defined in accordance with paragraphs 2 to 7. 2. All obligations relating to the contract, including obligations relating to unilateral rights of the insurance or reinsurance undertaking to renew or extend the scope of the contract and obligations that relate to paid premiums, shall belong to the contract unless otherwise stated in paragraphs 3 to 6. 3. Obligations which relate to insurance or reinsurance cover provided by the undertaking after any of the following dates do not belong to the contract, unless the undertaking can compel the policyholder to pay the premium for those obligations: a. the future date where the insurance or reinsurance undertaking has a unilateral right to terminate the contract; b. the future date where the insurance or reinsurance undertaking has a unilateral right to reject premiums payable under the contract; c. the future date where the insurance or reinsurance undertaking has a unilateral right to amend the premiums or the benefits payable under the contract in such a way that the premiums fully reflect the risks. Point (c) shall be deemed to apply where an insurance or reinsurance undertaking has a unilateral right to amend at a future date the premiums or benefits of a portfolio of insurance or reinsurance obligations in such a way that the premiums of the portfolio fully reflect the risks covered by the portfolio. However, in the case of life insurance obligations where an individual risk assessment of the obligations relating to the insured person of the contract is carried out at the inception of the contract and that assessment cannot be repeated before amending the premiums or benefits, insurance and reinsurance undertakings shall assess at the level of the contract whether the premiums fully reflect the risk for the purposes of point (c). Insurance and reinsurance undertakings shall not take into account restrictions of the

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			unilateral right as referred to in points (a), (b) and (c) of this paragraph and limitations of the extent to which premiums or benefits can be amended that have no discernible effect on the economics of the contract. 4. Where the insurance or reinsurance undertaking has a unilateral right as referred to in paragraph 3 that only relates to a part of the contract, the same principles as defined in paragraph 3 shall apply to that part of the contract. 5. Obligations that do not relate to premiums which have already been paid do not belong to an insurance or reinsurance contract, unless the undertaking can compel the policyholder to pay the future premium, and where all of the following requirements are met: a. the contract does not provide compensation for a specified uncertain event that adversely affects the insured person; b. the contract does not include a financial guarantee of benefits. For the purpose of points (a) and (b), insurance and reinsurance undertakings shall not take into account coverage of events and guarantees that have no discernible effect on the economics of the contract. 6. Where an insurance or reinsurance contract can be unbundled into two parts and where one of those parts meets the requirements set out in points (a) and (b) of paragraph 5, any obligations that do not relate to the premiums of that part and which have already been paid do not belong to the contract, unless the undertaking can compel the policyholder to pay the future premium of that part. 7. Insurance and reinsurance undertakings shall, for the purposes of paragraph 3, only consider that premiums fully reflect the risks covered by a portfolio of insurance or reinsurance obligations, where there is no circumstance under which the amount of the benefits and expenses payable under the portfolio exceeds the amount of the premiums payable under the portfolio.

Determination of the appropriate discount rate

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	Product specific vs. universal IFRS 17 refers to product specific discount factors, and allows for different discount rates for different products within an entity, whereas Solvency II refers to discount factors at an entity level, and using a transfer pricing principle, even discount factors determined on an industry level.	IFRS 36	An entity shall adjust the estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows, to the extent that the financial risks are not included in the estimates of cash flows. The discount rates applied to the estimates of the future cash flows described in paragraph 33 shall: (a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts; (b) be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and **exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.**
		IFRS B74	Estimates of discount rates shall be consistent with other estimates used to measure insurance contracts to avoid double counting or omissions; for example: (a) cash flows that do not vary based on the returns on any underlying items shall be discounted at rates that do not reflect any such variability; (b) cash flows that vary based on the returns on any financial underlying items shall be: (i) discounted using rates that reflect that variability; or (ii) adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made. (c) nominal cash flows (i.e. those that include the effect of inflation) shall be discounted at rates that include the effect of inflation; and real cash flows (i.e. those that exclude the effect of inflation) shall be discounted at rates that exclude the effect of inflation.
		IFRS B78	Discount rates shall include only relevant factors, i.e. factors that arise from the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Such discount rates may not be directly observable in the market. Hence, when observable market rates for an instrument with the same characteristics are not available, or observable market rates for similar instruments are available but do not separately identify the factors that distinguish the instrument from the insurance contracts, an entity shall estimate the

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			appropriate rates. IFRS 17 does not require a particular estimation technique for determining discount rates. In applying an estimation technique, an entity shall: (a) maximise the use of observable inputs (see paragraph B44) and reflect all reasonable and supportable information on non-market variables available without undue cost or effort, both external and internal (see paragraph B49). In particular, the discount rates used shall not contradict any available and relevant market data, and any non-market variables used shall not contradict observable market variables. (b) reflect current market conditions from the perspective of a market participant. **exercise judgement to assess the degree of similarity between the features of the insurance contracts being measured and the features of the instrument for which observable market prices are available and adjust those prices to reflect the differences between them.**
		SII delegated act article 43	The rates of the basic risk-free interest rate term structure shall meet all of the following criteria: (a) insurance and reinsurance undertakings are able to earn the rates in a risk-free manner in practice; (b) the rates are reliably determined based on financial instruments traded in a deep, liquid and transparent financial market. The rates of the relevant risk-free interest rate term structure shall be calculated separately for each currency and maturity, based on all information and data relevant for that currency and that maturity. They shall be determined in a transparent, prudent, reliable and objective manner that is consistent over time.
	IFRS 17 uses a locked-in discount rate determined at initial recognition in relation to the accretion of the CSM, whereas SII always refers to current discount rates.	IFRS B72	An entity shall use the following discount rates in applying IFRS 17: (a) to measure the fulfilment cash flows—current discount rates applying paragraph 36; (b) to determine the interest to accrete on the contractual service margin applying paragraph 44(b) for insurance contracts without direct participation features—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;

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			(c) to measure the changes to the contractual service margin applying paragraph B96(a)–B96(c) for insurance contracts without direct participation features—discount rates applying paragraph 36 determined on initial recognition; (d) for groups of contracts applying the premium allocation approach that have a significant financing component, to adjust the carrying amount of the liability for remaining coverage applying paragraph 56—discount rates applying paragraph 36 determined on initial recognition; (e) if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (see paragraph 88), to determine the amount of the insurance finance income or expenses included in profit or loss: (i) for groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders, applying paragraph B131—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items; (ii) for groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to policyholders, applying paragraph B132(a)(i)—discount rates that allocate the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; and **for groups of contracts applying the premium allocation approach applying paragraphs 59(b) and B133—discount rates determined at the date of the incurred claim, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items.**
	Both IFRS 17 and Solvency II refer to discount rates without credit risk. IFRS 17 refers to two approaches to determine the appropriate discount factor; a top-down approach and a bottom-up approach.	IFRS B75	**Paragraph B74(b) requires cash flows that vary based on the returns on underlying items to be discounted using rates that reflect that variability, or to be adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made. The variability is a relevant factor regardless of whether it arises because of contractual terms or because the entity exercises discretion, and regardless of whether the entity holds the underlying items.**

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	Solvency II looks at the risk free rate and allows for either VA or MA adjustment to reflect either liquidity spread or the possibility to match assets and liabilities. By structure, the Solvency II risk free rate and the VA adjustment are somewhat similar. Solvency II applies one common VA for all products, with the VA in SII being an attempt to estimate 65% of the average liquidity premium for insurers across Europe. IFRS 17 defines the appropriate rate at a product level depending on specific product features. We observe that an insurance entity may use the VA framework to determine the liquidity adjustment for different insurance products using a fraction of the VA (higher or lower than 1) depending on the liquidity properties of the products.	IFRS B76	Cash flows that vary with returns on underlying items with variable returns, but that are subject to a guarantee of a minimum return, do not vary solely based on the returns on the underlying items, even when the guaranteed amount is lower than the expected return on the underlying items. Hence, an entity shall adjust the rate that reflects the variability of the returns on the underlying items for the effect of the guarantee, even when the guaranteed amount is lower than the expected return on the underlying items.
		IFRS B77	IFRS 17 does not require an entity to divide estimated cash flows into those that vary based on the returns on underlying items and those that do not. If an entity does not divide the estimated cash flows in this way, the entity shall apply discount rates appropriate for the estimated cash flows as a whole; for example, using stochastic modelling techniques or risk-neutral measurement techniques.
		IFRS B79	For cash flows of insurance contracts that do not vary based on the returns on underlying items, the discount rate reflects the yield curve in the appropriate currency for instruments that expose the holder to no or negligible credit risk, adjusted to reflect the liquidity characteristics of the group of insurance contracts. That adjustment shall reflect the difference between the liquidity characteristics of the group of insurance contracts and the liquidity characteristics of the assets used to determine the yield curve. Yield curves reflect assets traded in active markets that the holder can typically sell readily at any time without incurring significant costs. In contrast, under some insurance contracts the entity cannot be forced to make payments earlier than the occurrence of insured events, or dates specified in the contracts.
		SII delegated act article 45	The adjustment for credit risk referred to in Article 44(1) shall be determined in a transparent, prudent, reliable and objective manner that is consistent over time. The adjustment shall be determined on the basis of the difference between rates capturing the credit risk reflected in the floating rate of interest rate swaps and overnight indexed swap rates of the same maturity, where both rates are available from deep, liquid and transparent financial markets. The calculation of the adjustment shall be based on 50 percent of the average of that difference over a time period of one year. The adjustment shall not be lower than 10 basis points and not higher than 35 basis points.

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	Solvency II is explicit in relation to how to deal with extrapolation beyond the last liquid point in the market. IFRS 17 does not prescribe specific methods to deal with this challenge. Discussions on whether the Solvency II UFR is market consistent in an IFRS 17 framework have nto been conclusive. We observe that the recent introduction of an adjustment mechanism to the SII UFR will facilitate stronger arguments for market consistency of the UFR over time, at least when the graduated adjustments are phased in.		
		SII delegated act article 46	1. The principles applied when extrapolating the relevant risk free interest rate term structure shall be the same for all currencies. This shall also apply as regards the determination of the longest maturities for which interest rates can be observed in a deep, liquid and transparent market and the mechanism to ensure a smooth convergence to the ultimate forward rate. 2. Where insurance and reinsurance undertakings apply Article 77d of Directive 2009/138/EC, the extrapolation shall be applied to the risk-free interest rates including the volatility adjustment referred to in that Article. 3. Where insurance and reinsurance undertakings apply Article 77b of Directive 2009/138/EC, the extrapolation shall be based on the risk-free interest rates without a matching adjustment. The matching adjustment referred to in that Article shall be applied to the extrapolated risk-free interest rates.
			1. For each currency, the ultimate forward rate referred to in paragraph 1 of Article 46 shall be stable over time and shall only change as a result of changes in long-term expectations. The methodology to derive the ultimate forward rate shall be clearly specified in order to ensure the performance of scenario calculations by insurance and reinsurance undertakings. It shall be determined in a transparent, prudent, reliable and objective manner that is consistent over time. 2. For each currency the ultimate forward rate shall take account of expectations of the long-term real interest rate and of expected inflation, provided those expectations can be determined for that currency in a reliable manner. The ultimate forward rate shall not include a term premium to reflect the additional risk of holding long-term investments.
		IFRS B80	Hence, for cash flows of insurance contracts that do not vary based on the returns on underlying items, an entity may determine discount rates by adjusting a liquid risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts (a bottom-up approach).
		IFRS B81	**Alternatively, an entity may determine the appropriate discount rates for insurance contracts**

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			based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets (a top-down approach). An entity shall adjust that yield curve to eliminate any actors that are not relevant to the insurance contracts, but is not required to adjust the yield curve for differences in liquidity characteristics of the insurance contracts and the reference portfolio.
		IFRS B84	**In principle, for cash flows of insurance contracts that do not vary based on the returns of the assets in the reference portfolio, there should be a single illiquid risk-free yield curve that eliminates all uncertainty about the amount and timing of cash flows. However, in practice the top-down approach and the bottom-up approach may result in different yield curves, even in the same currency. This is because of the inherent limitations in estimating the adjustments made under each approach, and the possible lack of an adjustment for different liquidity characteristics in the top-down approach. An entity is not required to reconcile the discount rate determined under its chosen approach with the discount rate that would have been determined under the other approach.**

Risk Adjustment

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	In IFRS 17 the methodology for calculation of the risk adjustment is not prescribed, compared with Solvency II where a cost of capital approach is used with 6% rate, taking in consideration a confidence level of 99.5% over 1 year, for defined risks. As is also mentioned by EIOPA, IFRS 17 is based on entity-specific and Solvency II on "transfer value" prescribed. However, in the IFRS 17 disclosures, the entity has to specify the confidence level associated with the risk adjustment, even if the method used is not based on this, as well as the balances for premium liabilities and for claims liabilities, separately. Under Solvency II, risk margin is net of reinsurance and, under IFRS 17, risk adjustment is gross and ceded. Taking into consideration the assessment under IFRS 17 of the reinsurance treaties, not mirroring the direct contract, as being done separately, this could lead to significant changes in inputs, principles and processes. Risk margin is computed as a whole and after that distributed by line of business, when risk adjustment is done at group of contracts level, after that being diversified or not, depending on the entity's approach. In risk adjustment only the nonfinancial risks are considered (no market risk, operational risk or reinsurance default taken in consideration).	IFRS 37	**An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.**
		IFRS 51 (2)	**The subsequent changes in the fulfilment cash flows of the liability for remaining coverage to be allocated applying paragraph 50(a) are:** **2. changes in the risk adjustment for non-financial risk recognised in profit or loss because of the release from risk;**
		IFRS 64	**Instead of applying paragraph 37, an entity shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts. – for reinsurance**
		IFRS 76 (1)	**An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in IFRS 17:** **1. the fulfilment cash flows allocated to the group are adjusted to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognised from the group, applying paragraphs 40(a)(i) and 40(b);**
		IFRS 81	**An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. If an entity does not make such a disaggregation, it shall include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.**
		IFRS 100	**An entity shall disclose reconciliations from the opening to the closing balances separately for each of:** **1. the net liabilities (or assets) for the remaining coverage component, excluding any loss component.** **2. any loss component (see paragraphs 47–52 and 57–58).** **3. the liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose separate reconciliations for:**

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			1. the estimates of the present value of the future cash flows; and 2. the risk adjustment for non-financial risk.
		IFRS 101	For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of: 1. the estimates of the present value of the future cash flows; 2. the risk adjustment for non-financial risk; and 3. the contractual service margin.
		IFRS 104 (2)	An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to insurance services, if applicable: 2. changes that relate to current service, ie: 2. the change in the risk adjustment for non-financial risk that does not relate to future service or past service;
		IFRS 106 (1)	For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognized in the period comprising: 1. the amounts relating to the changes in the liability for remaining coverage as specified in paragraph B124, separately disclosing: 2. the change in the risk adjustment for non-financial risk, as specified in paragraph B124(b);
		IFRS 107	For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognized in the period, showing their effect at initial recognition on: 1. the estimates of the present value of future cash outflows, showing separately the amount of the insurance acquisition cash flows; 2. the estimates of the present value of future cash inflows;

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			3. the risk adjustment for non-financial risk; and **4. the contractual service margin.**
		IFRS 117 (3)	**An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:** **3. to the extent not covered in (a), the approach used:** **2. to determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result;**
		IFRS 119	**An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.**
		Appendix A Defined terms	**The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.**
		IFRS B86	**The risk adjustment for non-financial risk relates to risk arising from insurance contracts other than financial risk. Financial risk is included in the estimates of the future cash flows or the discount rate used to adjust the cash flows. The risks covered by the risk adjustment for non-financial risk are insurance risk and other non-financial risks such as lapse risk and expense risk (see paragraph B14).**
		IFRS B87	**The risk adjustment for non-financial risk for insurance contracts measures the compensation that the entity would require to make the entity indifferent between:** **1. fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and** **2. fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts.**
		IFRS B88	**Because the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the**

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			cash flows, the risk adjustment for non-financial risk also reflects: **1. the degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk; and** **2. both favourable and unfavourable outcomes, in a way that reflects the entity's degree of risk aversion.**
		IFRS B89	**The purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cash flows that arise from insurance contracts, other than uncertainty arising from financial risk. Consequently, the risk adjustment for non-financial risk shall reflect all non-financial risks associated with the insurance contracts. It shall not reflect the risks that do not arise from the insurance contracts, such as generaloperational risk.**
		IFRS B90	**The risk adjustment for non-financial risk shall be included in the measurement in an explicit way. The risk adjustment for non-financial risk is conceptually separate from the estimates of future cash flows and the discount rates that adjust those cash flows. The entity shall not double-count the risk adjustment for nonfinancial risk by, for example, also including the risk adjustment for non-financial risk implicitly when determining the estimates of future cash flows or the discount rates. The discount rates that are disclosed to comply with paragraph 120 shall not include any implicit adjustments for non-financial risk.**
		IFRS B91	**IFRS 17 does not specify the estimation technique(s) used to determine the risk adjustment for nonfinancial risk. However, to reflect the compensation the entity would require for bearing the non-financial risk, the risk adjustment for non-financial risk shall have the following characteristics:**

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			1. risks with low frequency and high severity will result in higher risk adjustments for non-financial risk than risks with high frequency and low severity; **2. for similar risks, contracts with a longer duration will result in higher risk adjustments for non-financial risk than contracts with a shorter duration;** **3. risks with a wider probability distribution will result in higher risk adjustments for non-financial risk than risks with a narrower distribution;** **4. the less that is known about the current estimate and its trend, the higher will be the risk adjustment for non-financial risk; and** **5. to the extent that emerging experience reduces uncertainty about the amount and timing of cash flows, risk adjustments for non-financial risk will decrease and vice versa.**
		IFRS B92	**An entity shall apply judgement when determining an appropriate estimation technique for the risk adjustment for non-financial risk. When applying that judgement, an entity shall also consider whether the technique provides concise and informative disclosure so that users of financial statements can benchmark the entity's performance against the performance of other entities. Paragraph 119 requires an entity that uses** **a technique other than the confidence level technique for determining the risk adjustment for non-financial risk to disclose the technique used and the confidence level corresponding to the results of that technique.**
		SII directive article 77 (3), (4), (5)	**The risk margin shall be such as to ensure that the value of the technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations.** **Insurance and reinsurance undertakings shall value the best estimate and the risk margin separately.** **However, where future cash flows associated with insurance or reinsurance obligations can be replicated reliably using financial instruments for which a reliable market value is observable, the value of technical provisions associated with those future cash flows shall be determined on the basis of the market value of those financial instruments. In this case, separate calculations of the best estimate and the risk margin shall not be required.**

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			Where insurance and reinsurance undertakings value the best estimate and the risk margin separately, the risk margin shall be calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof. **The rate used in the determination of the cost of providing that amount of eligible own funds (Cost-of-Capital rate) shall be the same for all insurance and reinsurance undertakings and shall be reviewed periodically.** **The Cost-of-Capital rate used shall be equal to the additional rate, above the relevant risk-free interest rate, that an insurance or reinsurance undertaking would incur holding an amount of eligible own funds, as set out in Section 3, equal to the Solvency Capital Requirement necessary to support insurance and reinsurance obligations over the lifetime of those obligations.**
		SII directive article 86	**The Commission shall adopt implementing measures laying down the following:** **(c) the circumstances in which technical provisions shall be calculated as a whole, or as a sum of a best estimate and a risk margin, and the methods to be used in the case where technical provisions are calculated as a whole;** **(d) the methods and assumptions to be used in the calculation of the risk margin including the determination of the amount of eligible own funds necessary to support the insurance and reinsurance obligations and the calibration of the Cost-of-Capital rate;**
		SII delegated act article 18	**The calculation of the risk margin should be based on the assumption that the whole portfolio of insurance and reinsurance obligations is transferred to another insurance or reinsurance undertaking. In particular, the calculation should take the diversification of the whole portfolio into account.**
		SII delegated act article 19	**The calculation of the risk margin should be based on a projection of the Solvency Capital Requirement that takes the risk mitigation of reinsurance contracts and special purpose vehicles into account. Separate calculations of the risk margin gross and net of reinsurance contracts and special purpose vehicles should not be stipulated.**
		SII delegated	**The calculation of the risk margin of technical provisions at the level of the group in accordance with method 1 (accounting consolidation-based method) should be based on the assumption that**

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		act article 130	**the transfer of the group's insurance and reinsurance obligations is carried out separately for each insurance and reinsurance undertaking of the group and that the risk margin does not allow for the diversification between the risks of those undertakings. In relation to undertakings referred to in Article 73(2) and (5) of Directive 2009/138/EC, the calculation should be based on the assumption that the transfer of the portfolio insurance obligations for life and non-life activities is carried out separately.**
		SII delegated act article 37	**1.The risk margin for the whole portfolio of insurance and reinsurance obligations shall be calculated using the following formula: RM=CoC * sum(SCR(t)/(1+r*(t+1))t+1), t >=0 where: (a) CoC denotes the Cost-of-Capital rate; (b) the sum covers all integers including zero; (c) SCR(t) denotes the Solvency Capital Requirement referred to in Article 38(2) after t years; (d) r(t + 1) denotes the basic risk-free interest rate for the maturity of t + 1 years. The basic risk-free interest rate r(t + 1) shall be chosen in accordance with the currency used for the financial statements of the insurance and reinsurance undertaking. 2. Where insurance and reinsurance undertakings calculate their Solvency Capital Requirement using an approved internal model and determine that the model is appropriate to calculate the Solvency Capital Requirement referred to in Article 38(2) for each point in time over the lifetime of the insurance and reinsurance obligations, the insurance and reinsurance undertakings shall use the internal model to calculate the amounts SCR(t) referred to in paragraph 1. 3. Insurance and reinsurance undertakings shall allocate the risk margin for the whole portfolio of insurance and reinsurance obligations to the lines of business referred to in Article 80 of Directive 2009/138/EC. The allocation shall adequately reflect the contributions of the lines of business to the Solvency Capital Requirement referred to in Article 38(2) over the lifetime of the whole portfolio of insurance and reinsurance obligations.**
		SII delegated	**1.The calculation of the risk margin shall be based on all of the following assumptions: (a) the whole portfolio of insurance and reinsurance obligations of the insurance or reinsurance**

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		act article 38	**undertaking that calculates the risk margin (the original undertaking) is taken over by another insurance or reinsurance undertaking (the reference undertaking);** **(b) notwithstanding point (a), where the original undertaking simultaneously pursues both life and non-life insurance activities according to Article 73(5) of Directive 2009/138/EC, the portfolio of insurance obligations relating to life insurance activities and life reinsurance obligations and the portfolio of insurance obligations relating to non-life insurance activities and non-life reinsurance obligations are taken over separately by two different reference undertakings;** **(c) the transfer of insurance and reinsurance obligations includes any reinsurance contracts and arrangements with special purpose vehicles relating to these obligations;** **(d) the reference undertaking does not have any insurance or reinsurance obligations or own funds before the transfer takes place;** **(e) after the transfer, the reference undertaking does not assume any new insurance or reinsurance obligations;** **(f) after the transfer, the reference undertaking raises eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof;** **(g) after the transfer, the reference undertaking has assets which amount to the sum of its Solvency Capital Requirement and of the technical provisions net of the amounts recoverable from reinsurance contracts and special purpose vehicles;** **(h) the assets are selected in such a way that they minimise the Solvency Capital Requirement for market risk that the reference undertaking is exposed to;** **(i) the Solvency Capital Requirement of the reference undertaking captures all of the following risks:** **(i) underwriting risk with respect to the transferred business,** **(ii) where it is material, the market risk referred to in point (h), other than interest rate risk,** **(iii) credit risk with respect to reinsurance contracts, arrangements with special purpose vehicles, intermediaries, policyholders and any other material exposures which are closely**

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			related to the insurance and reinsurance obligations, (iv) operational risk; (j) the loss-absorbing capacity of technical provisions, referred to in Article 108 of Directive 2009/138/EC, in the reference undertaking corresponds for each risk to the loss-absorbing capacity of technical provisions in the original undertaking; (k) there is no loss-absorbing capacity of deferred taxes as referred to in Article 108 of Directive 2009/138/EC for the reference undertaking; (l) the reference undertaking will, subject to points (e) and (f), adopt future management actions that are consistent with the assumed future management actions, as referred to in Article 23, of the original undertaking. 2.Over the lifetime of the insurance and reinsurance obligations, the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations referred to in the first subparagraph of Article 77(5) of Directive 2009/138/EC shall be assumed to be equal to the Solvency Capital Requirement of the reference undertaking under the assumptions set out in paragraph 1. 3. For the purposes of point (i) of paragraph 1, a risk shall be considered to be material where its impact on the calculation of the risk margin could influence the decision-making or the judgment of the users of that information, including supervisory authorities.
		SII delegated act article 39	The Cost-of-Capital rate referred to in Article 77(5) of Directive 2009/138/EC shall be assumed to be equal to 6%.
		SII delegated act article 58	Without prejudice to Article 56, insurance and reinsurance undertakings may use simplified methods when they calculate the risk margin, including one or more of the following: (a) methods which use approximations of the amounts denoted by the terms SCR(t) referred to in Article 37(1); (b) methods which approximate the discounted sum of the amounts denoted by the terms SCR(t) as referred to in Article 37(1) without calculating each of those amounts separately.

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		SII delegated act article 59	**Without prejudice to Article 56, insurance and reinsurance undertakings may derive the risk margin for calculations that need to be performed quarterly from the result of an earlier calculation of the risk margin without an explicit calculation of the formula referred to in Article 37(1).**
		SII Guideline TR 61	1.109.Insurance and reinsurance undertakings should assess whether a full projection of all future Solvency Capital Requirements is necessary in order to reflect the nature, scale and complexity of the risks underlying the reference undertaking's insurance and reinsurance obligations in a proportionate manner. In such case, undertakings should carry out these calculations. Otherwise, alternative methods may be used to calculate the risk margin, ensuring that the method chosen is adequate to capture the risk profile of the undertaking. 1.110.Where simplified methodologies are used to calculate the best estimate, the undertakings should assess the consequent impact that the use of such methodologies may have on the methods available to calculate the risk margin, including the use of any simplified methods for projecting the future SCRs. 1.111.Guideline 62 – Hierarchy of methods for the calculation of the risk margin 1.112.When deciding which level of the hierarchy set out below is most appropriate, insurance and reinsurance undertakings should ensure that the complexity of the calculations does not go beyond what is necessary in order to reflect the nature, scale and complexity of the risks underlying the reference undertaking's insurance and reinsurance obligations in a proportionate manner. 1.113.Undertakings should apply the hierarchy of methods consistently with the framework set out when defining the proportionality principle and the necessity of assessing risks properly. 1.114.Insurance and reinsurance undertakings should use the following hierarchy as a decision making basis regarding the methods to be used for projecting future Solvency Capital Requirements: Method 1) To approximate the individual risks or sub-risks within some or all modules and sub-modules to be used for the calculation of future Solvency Capital Requirements as referred to in Article 58(a) of Commission Delegated Regulation 2015/35. Method 2) To approximate the whole Solvency Capital Requirement for each future year as referred in Article 58 (a)of Commission Delegated Regulation 2015/35, inter alia by using the ratio of the best estimate at that future year to the best estimate at the valuation date.

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			This method is not appropriate when negative best estimate values exist at valuation date or subsequent dates. This method takes into account the maturity and the run-off pattern of the obligations net of reinsurance. Consequently, some considerations should be given regarding the manner in which the best estimate of technical provisions net of reinsurance has been calculated. Further consideration should be given as well as to whether the assumptions regarding the risk profile of the undertaking can be considered unchanged over time. This includes: (a) For all underwriting risks, to consider if the composition of the sub-risks in underwriting risk is the same; (b) For counterparty default risk, to consider if the average credit standing of reinsurers and special purpose vehicles is the same; (c) For market risk, to consider if the material market risk in relation to the net best estimate is the same; (d) For operational risk, to consider if the proportion of reinsurers' and special purpose vehicles share of the obligations is the same; (e) For adjustment, to consider if the loss absorbing capacity of the technical provisions in relation to the net best estimate is the same. If some or all of these assumptions do not hold, the undertaking should carry out at least a qualitative assessment of how material the deviation from the assumptions is. If the impact of the deviation is not material compared to the risk margin as a whole, then this method can be used. Otherwise the undertaking should either adjust the formula appropriately or be encouraged to use a more sophisticated method. Method 3) To approximate the discounted sum of all future Solvency Capital Requirements in a single step without approximating the Solvency Capital Requirements for each future year separately as referred in Article 58 (b) of Commission Delegated Regulation 2015/35, inter alia by using the modified duration of the insurance liabilities as a proportionality factor. When deciding on the application of a method based on the modified duration of the insurance liabilities, attention should be paid to the value of modified duration to avoid meaningless results for the Risk Margin. This method takes into account the maturity and the run-off pattern of the obligations net of reinsurance. Consequently, some considerations should be given regarding the manner in which the best estimate of technical provisions net of reinsurance has been calculated. Further

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			consideration should be given as to whether the assumptions regarding the risk profile of the undertaking can be considered unchanged over time. This includes: (a) For basic SCR, to consider if the composition and the proportions of the risks and sub-risks do not change over the years; (b) For counterparty default risk, to consider if the average credit standing of reinsurers and SPVs remains the same over the years; (c) For operational risk and counterparty default risk, to consider if the modified duration is the same for obligations net and gross of reinsurance; (d) To consider if the material market risk in relation to the net best estimate remains the same over the years; (e) For adjustment, to consider if the loss absorbing capacity of the technical provisions in relation to the net best estimate remains the same over the years. An undertaking that intends to use this method should consider to what extend these assumptions are fulfilled. If some or all of these assumptions do not hold, the undertaking should carry out at least a qualitative assessment of how material the deviation from the assumptions is. If the impact of the deviation is not material compared to the risk margin as a whole, then the simplification can be used. Otherwise the undertaking should either adjust the formula appropriately or be encouraged to use a more sophisticated method. Method 4) To approximate the risk margin by calculating it as a percentage of the best estimate. According to this method, the risk margin should be calculated as a percentage of the best estimate technical provisions net of reinsurance at valuation date. When deciding on the percentage to be used for a given line of business, the undertaking should take into account that this percentage is likely to increase if the modified duration of the insurance liabilities – or some other measure of the run-off pattern of these liabilities - increases. Undertakings should give due consideration to the very simplistic nature of this approach; it should be used only where it has been demonstrated that none of the more sophisticated risk margin approaches in the above hierarchy can be applied. When undertakings rely on this method for the calculation of the risk margin, they will need to justify and document the rationale for the percentages used by line of business. This justification and rationale should consider any specific characteristics of the portfolios being assessed. Undertakings should not use this method when negative best estimate values exist.

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			1.115.Without prejudice to the proportionality assessment and the provisions in Article 58 of Commission Delegated Regulation 2015/35, insurance and reinsurance undertakings may use the simplifications defined in Technical Annex IV when applying the hierarchy of methods.
		SII Guideline TR 63	Allocation of the overall risk margin 1.116.Where it is overly complex to calculate the contribution of the individual lines of business to the overall Solvency Capital Requirement during the lifetime of the whole portfolio in an accurate manner, insurance and reinsurance undertakings should be allowed to apply simplified methods to allocate the overall risk margin to the individual lines of business which are proportionate to the nature, scale and complexity of the risks involved. The methods applied should be consistent over time.

Reinsurance

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	Solvency II expects technical provisions for reinsurance contracts held by the insurer to be calculated using essentially the same approach as is used for the insurer's underlying contracts. Solvency II further specifies that the amounts recoverable from reinsurance contracts should be calculated consistently with the boundaries of the underlying contract. Under Solvency II, the amount recoverable from reinsurance contracts held is calculated consistently with the boundaries of the insurance or reinsurance contracts to which those amounts relate. If the reinsurance contract expires or can be terminated before the end of the underlying contract boundary, insurance and reinsurance undertakings can, subject to conditions, nevertheless recognise future cash flows arising from future reinsurance contracts in relation to obligations already recognised in the balance sheet. Under Solvency II, as the amounts recoverable from the reinsurance contract held are calculated consistently with the contract boundaries of the underlying insurance contract, insurers may, subject to conditions, recognise cash flows arising from	SII delegated act article 77	The best estimate shall be calculated gross, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. Those amounts shall be calculated separately, in accordance with Article 81.
		SII delegated act article 81	Recoverables from reinsurance contracts and special purpose vehicles The calculation by insurance and reinsurance undertakings of amounts recoverable from reinsurance contracts and special purpose vehicles shall comply with Articles 76 to 80. When calculating amounts recoverable from reinsurance contracts and special purpose vehicles, insurance and reinsurance undertakings shall take account of the time difference between recoveries and direct payments. The result from that calculation shall be adjusted to take account of expected losses due to default of the counterparty. That adjustment shall be based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given- default).
		SII delegated act article 101	When calculating the Solvency Capital Requirement, insurance and reinsurance undertakings shall take account of the effect of risk- mitigation techniques, provided that credit risk and other risks arising from the use of such techniques are properly reflected in the Solvency Capital Requirement.

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	future, as yet unpurchased, reinsurance contracts that cover obligations recognised on the balance sheet. In the case where the reinsurance contract has a shorter boundary compared to the underlying insurance contracts under IFRS 17, the outcome may be different under SII as cash flows relating to reinsurance not yet purchased can be within the contract boundary of the underlying contracts under Solvency II. The Solvency II risk margin of the underlying contracts is reduced for the effects of reinsurance. There is also a conceptual difference in that the IFRS 17 risk adjustment reflects the recognition of risk transferred to the reinsurer, whereas under SII, the risk margin is reflective of the value required for another undertaking to take over and meet the insurance and reinsurance obligations. Both frameworks have conceptually similar adjustments for credit/counterparty risk and losses associated with default. The variable fee approach model cannot be used under IFRS 17 for reinsurance contracts issued or held. Despite the requirement under both frameworks that reinsurance contracts be generally accounted for in the same manner as insurance contracts issued, there is a likelihood of some differences in treatment under IFRS17, arising from: • separate treatment/measurement of insurance and reinsurance contracts	SII delegated act article 105.6	6. The counterparty default risk module shall reflect possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of insurance and reinsurance undertakings over the following 12 months. The counterparty default risk module shall cover risk-mitigating contracts, such as reinsurance arrangements, securitisations and derivatives, and receivables from intermediaries, as well as any other credit exposures which are not covered in the spread risk sub-module. It shall take appropriate account of collateral or other security held by or for the account of the insurance or reinsurance undertaking and the risks associated therewith. For each counterparty, the counterparty default risk module shall take account of the overall counterparty risk exposure of the insurance or reinsurance undertaking concerned to that counterparty, irrespective of the legal form of its contractual obligations to that undertaking.
		SII delegated act article 41	Subsection 6 Recoverables from reinsurance contracts and special purpose vehicles General provisions 1. The amounts recoverable from reinsurance contracts and special purpose vehicles shall be calculated consistently with the boundaries of the insurance or reinsurance contracts to which those amounts relate. 2. The amounts recoverable from special purpose vehicles, the amounts recoverable from finite reinsurance contracts as referred to in Article 210 of Directive 2009/138/EC and the amounts recoverable from other reinsurance contracts shall each be calculated separately. The amounts recoverable from a special purpose vehicle shall not exceed the aggregate maximum risk exposure of that special purpose vehicle to the insurance or reinsurance undertaking. 3. For the purpose of calculating the amounts recoverable from reinsurance contracts and special purpose vehicles, cash flows shall only include payments in relation to compensation of insurance events and unsettled insurance claims. Payments in relation to other events or

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	• differences in concepts applying to the setting of contract boundaries • impact on risk margin of presentation of reinsurance as a separate asset in IFRS17 • In January 2019, the IASB decided to propose targeted improvements in three areas of IFRS17 which it expects will ease implementation and make it easier for companies to explain results. For reinsurance, the proposed amendment requires an entity to recognise a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that a reinsurance contract covers the losses of the contracts on a proportionate basis. This change removes one of the key differences between Solvency II and IFRS17 relating to reinsurance, and addresses an important issue with the Standard which was raised with EFRAG by the AAE in May 2018. The AAE welcomes the proposed change, which aligns the economic effect of reinsurance with the contract which it is intended to support. The AAE considers that, with this change, there is likely to be a high and appropriate level of consistency between direct insurance contracts and reinsurance contracts held which are on a proportionate basis, as between IFRS17 and Solvency II. There may be some differences in valuation arising under IFRS17 as a result of the separate valuation of reinsurance contracts and underlying contracts, for instance in relation to risk margin and/or		settled insurance claims shall be accounted for outside the amounts recoverable from reinsurance contracts and special purpose vehicles and other elements of the technical provisions. Where a deposit has been made for the cash flows, the amounts recoverable shall be adjusted accordingly to avoid a double counting of the assets and liabilities relating to the deposit. 17.1.2015 L 12/39 Official Journal of the European Union EN 4. The amounts recoverable from reinsurance contracts and special purpose vehicles for non-life insurance obligations shall be calculated separately for premium provisions and provisions for claims outstanding in the following manner: (a) the cash flows relating to provisions for claims outstanding shall include the compensation payments relating to the claims accounted for in the gross provisions for claims outstanding of the insurance or reinsurance undertaking ceding risks; (b) the cash flows relating to premium provisions shall include all other payments. 5. Where cash flows from the special purpose vehicles to the insurance or reinsurance undertaking do not directly depend on the claims against the insurance or reinsurance undertaking ceding risks, the amounts recoverable from those special purpose vehicles for future claims shall only be taken into account to the extent that it can be verified in a prudent, reliable and objective manner that the structural mismatch between claims and amounts recoverable is not material. Counterparty default adjustment 1. Adjustments to take account of expected losses due to default of a counterparty referred to in Article 81 of Directive 2009/138/EC shall be calculated separately from the rest of the amounts recoverable. 2. The adjustment to take account of expected losses due to default of a counterparty shall be calculated as the expected present value of the change in cash flows underlying the amounts recoverable from that counterparty, that would arise if the counterparty defaults, including as a result of insolvency or dispute, at a certain point in time. For that purpose, the change in cash flows shall not take into account the effect of any risk mitigating technique that mitigates the credit risk of the counterparty, other than risk mitigating techniques based on collateral

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contract boundaries. The AAE considers that the valuations should generally be consistent as is the case with Solvency II, unless they reflect genuinely different economic impact.		SII delegated act article 42	holdings. The risk mitigating techniques that are not taken into account shall be separately recognised without increasing the amount recoverable from reinsurance contracts and special purpose vehicles. 3. The calculation referred to in paragraph 2 shall take into account possible default events over the lifetime of the reinsurance contract or arrangement with the special purpose vehicle and whether and how the probability of default varies over time. It shall be carried out separately by each counterparty and for each line of business. In non-life insurance, it shall also be carried out separately for premium provisions and provisions for claims outstanding. 4. The average loss resulting from a default of a counterparty, referred to in Article 81 of Directive 2009/138/EC, shall not be assessed at lower than 50 % of the amounts recoverable excluding the adjustment referred to in paragraph 1, unless there is a reliable basis for another assessment. 5. The probability of default of a special purpose vehicle shall be calculated on the basis of the credit risk inherent in the assets held by the special purpose vehicle.
		IFRS 3	An entity shall apply IFRS 17 to: (a) insurance contracts, including reinsurance contracts, it issues; (b) reinsurance contracts it holds; and (c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.
		IFRS 29b	(b) for groups of reinsurance contracts held, an entity shall apply paragraphs 32–46 as required by paragraphs 63–70. Paragraphs 45 (on insurance contracts with direct participation features) and 47–52 (on onerous contracts) do not apply to groups of reinsurance contracts held.
			Reinsurance contracts held

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		IFRS 60	The requirements in IFRS 17 are modified for reinsurance contracts held, as set out in paragraphs 61–70.
		IFRS 61	An entity shall divide portfolios of reinsurance contracts held applying paragraphs 14–24, except that the references to onerous contracts in those paragraphs shall be replaced with a reference to contracts on which there is a net gain on initial recognition. For some reinsurance contracts held, applying paragraphs 14–24 will result in a group that comprises a single contract.
		IFRS 62	Recognition
			Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held:
			(a) if the reinsurance contracts held provide proportionate coverage—at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the later; and
			(b) in all other cases—from the beginning of the coverage period of the group of reinsurance contracts held.
		IFRS 63	Measurement In applying the measurement requirements of paragraphs 32–36 to reinsurance contracts held, to the extent that the underlying contracts are also measured applying those paragraphs, the entity shall use consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of the future cash flows for the group(s) of underlying insurance contracts. In addition, the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.

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		IFRS 64 IFRS 65	Instead of applying paragraph 37, an entity shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts. The requirements of paragraph 38 that relate to determining the contractual service margin on initial recognition are modified to reflect the fact that for a group of reinsurance contracts held there is no unearned profit but instead a net cost or net gain on purchasing the reinsurance. Hence, on initial recognition: (a) the entity shall recognise any net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin measured at an amount equal to the sum of the fulfilment cash flows, the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held, and any cash flows arising at that date; unless (b) the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts, in which case, notwithstanding the requirements of paragraph B5, the entity shall recognise such a cost immediately in profit or loss as an expense. Instead of applying paragraph 44, an entity shall measure the contractual service margin at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for: (a) the effect of any new contracts added to the group (see paragraph 28); (b) interest accreted on the carrying amount of the contractual service margin, measured at the discount rates specified in paragraph B72(b); (c) changes in the fulfilment cash flows to the extent that the change: (i) relates to future service; unless

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		IFRS 66	(ii) the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts. (d) the effect of any currency exchange differences arising on the contractual service margin; and (e) the amount recognised in profit or loss because of services received in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of reinsurance contracts held, applying paragraph B119. Changes in the fulfilment cash flows that result from changes in the risk of non-performance by the issuer of a reinsurance contract held do not relate to future service and shall not adjust the contractual service margin. Reinsurance contracts held cannot be onerous. Accordingly, the requirements of paragraphs 47–52 do not apply. Premium allocation approach for reinsurance contracts held An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group: (a) the entity reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 63–68; or (b) the coverage period of each contract in the group of reinsurance contracts held (including coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

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		IFRS 67	An entity cannot meet the condition in paragraph 69(a) if, at the inception of the group, an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the asset for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example: (a) the extent of future cash flows relating to any derivatives embedded in the contracts; and (b) the length of the coverage period of the group of reinsurance contracts held.
		IFRS 68	Derecognition An entity shall derecognise an insurance contract when, and only when: (a) it is extinguished, ie when the obligation specified in the insurance contract expires or is discharged or cancelled; or (b) any of the conditions in paragraph 72 are met.
		IFRS 69	When an insurance contract is extinguished, the entity is no longer at risk and is therefore no longer required to transfer any economic resources to satisfy the insurance contract. For example, when an entity buys reinsurance, it shall derecognise the underlying insurance contract(s) when, and only when, the underlying insurance contract(s) is or are extinguished. Appendix - Guidance Reinsurance contracts issued and reinsurance contracts held cannot be insurance contracts with direct participation features for the purposes of IFRS 17.
		IFRS 70	

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		IFRS 74 IFRS 75 IFRS B109	