



ACTUARIAL ASSOCIATION OF EUROPE

- **IFRS 17 and specific European aspects**
- **Proposal for further action (DRAFT)**
- Kristoffer Bork, Chairperson IFRS17 Working Group

Introduction

1. The Professionalism Committee agreed in October 2021 that members of the ASSC and the Insurance Committee (with practical help from IFRS 17 WG) will review the EU IFRS 17 proposal in relation to ISAP 4 and IAN 100
 - Evaluate the need for an ESAP / European amendment to the standard
 - Evaluate the need for an EAN / European amendment to the note
2. The ASSC and the IFRS 17 WG report back conclusions to the Professionalism Committee and Insurance Committee before 1 December 2021
3. The Joint Task Force Kristoffer Bork, Ulrike Ebner, Hillevi Mannonen and Pentti Soininen prepared this report
4. The report and its recommendations are approved by the Insurance Committee and its IFRS 17 WG and the ASSC

Aspects specific to Europe

1. Carve out of the IFRS 17 standard
2. Recommendations in relation to developing European versions of IFRS 17 publications from IAA
 - a) ISAP 4
 - b) IAN 100
3. Proposal for next steps

The Carve-out

- The IFRS 17 requires that an entity shall not include contracts issued more than one year apart in the same group(annual cohorts).
- European relaxation to this requirement at least until the review by the Commission to be completed 31.12.2027:

Article 2 (Commission Regulation (EU) 2021/2036 of 19 November 2021)

1. *Each company shall apply the amendment referred to in Article 1 at the latest as from the commencement date of its first financial year starting on or after 1 January 2023.*
2. *By way of derogation from paragraph 1, a company may choose not to apply the requirement laid down in paragraph 22 of the Annex to this Regulation to:*
 - a) *groups of insurance contracts with direct participation features and groups of investment contracts with discretionary participation features as defined in Appendix A to the Annex to this Regulation, and with cash flows that affect or are affected by cash flows to policyholders of other contracts as laid down in paragraphs B67 and B68 of Appendix B of that Annex;*
 - b) *groups of insurance contracts that are managed across generations of contracts and that meet the conditions laid down in Article 77b of Directive 2009/138/EC and have been approved by supervisory authorities for the application of the matching adjustment.*

When a company does not apply the requirement laid down in paragraph 22 of the Annex to this Regulation in accordance with paragraph 2 (a) or 2 (b) it shall disclose this, in accordance with International Accounting Standard 1 Presentation of Financial Statements, in the notes as a significant accounting policy and provide other explanatory information such as for which portfolios the company has applied this exemption.

Background

- IFRS 17 is the new international reporting standard for insurance contracts developed by the IASB
- The IFRS 17 standard will replace IFRS 4 with commencement date of its first financial year starting on or after 1 January 2023
- The IFRS 17 as approved in EU according to regulation (EC) no 1606/2002 of the European Parliament and of the Council contains a relaxation to the general requirements on grouping that requires entities to group insurance contracts into annual cohorts

Evaluation of the actuarial publications from IAA

ISAP 4

Issue

- ISAP 4 is a model standard to actuaries
- The preface opens for local actuarial standard setters to adapt/amend to local variants of IFRS 17
- ISAP 4 is quite general in the formulation
 - ISAP 4 has not been updated to reflect the 2020 amendments to the standard because the amendments did not have impact on ISAP 4
- Although the EU regulation (EC) no 1606/2002 of the European Parliament and of the Council includes additional options on how to apply the IFRS 17, the content of the ISAP 4 as such does not require European adjustments (other than editorial corrections such as references to AAE and ESAP 1 instead of IAA and ISAP 1 and the use of the AAE Glossary)

Conclusion

- The ASSC and the IFRS 17 WG recommend not to develop an ESAP in relation to IFRS 17

Evaluation of the actuarial publications from IAA (I/II)

IAN 100

Issue

- The IAN 100 is written to assist actuaries in the practical actuarial work on IFRS 17 reporting
 - IAN 100 was published in August 2021 and covers the 2020 amendments of the IFRS 17. However, we observe that it does not completely take into account the minor amendments made in 2021
- IAN 100 is much more descriptive when it comes to “how to”
- Particularly Chapter 5, Level of Aggregation, of IAN 100 deals with grouping of insurance contracts in a much more elaborate fashion than the ISAP 4
 - An integral part of the grouping decision will relate to evaluating whether a specific group of insurance contracts qualify for the relaxation as defined in article 2
 - A closer analysis may identify other derived need for changes as a consequence of the European relaxation of the annual cohort requirement

Evaluation of the actuarial publications from IAA (II/II)

IAN 100

Conclusion

- The ASSC and the IFRS 17 WG recommend developing an EAN, i.e. a European version of the IAN 100 in relation to IFRS 17
- The format of an EAN could be designed in several ways, and we recommend to consider
 - A brief European Actuarial Note only covering sections relevant in relation to the carve out supplemented by the existing IAN 100 from the IAA attached as an appendix or by referral to the IAN 100

Proposal to Develop an EAN on IFRS 17

Objectives and the Scope of the EAN

(Paragraph 2.1 of the Due Process)

- The objective of the EAN is to give advisory, non-binding guidance to actuaries when applying IFRS 17 as defined in the EU regulation (EC) no 1606/2002 of the European Parliament and of the Council and this way enhance consistent and high quality actuarial work
- The EAN will be based on IAN 100 but dealing explicitly with issues related to the European adjustments to the IFRS 17 standard
- In the form and content, the EAN should reuse all relevant parts of IAN 100, and only divert in relation to the EU amendments to the IFRS 17

DP 2.1 Any AAE Committee may put forward a Proposal to Develop an EAN (PDEAN). The PDEAN should describe the objectives and scope of the proposed EAN and, once the PDEAN is adopted by the Committee, it is sent to the ProfC for approval. In certain cases it may become necessary for more than one AAE Committee to provide their resources for the development of an EAN. In such cases, one Committee will be assigned the ownership and responsibility of the development of the EAN

Summary and Next Steps

Recommendations

- 1) Not to develop an ESAP in relation to IFRS 17
- 2) Develop an brief European Actuarial Note EAN only covering sections relevant in relation to the carve out supplemented by the existing IAN 100 from the IAA attached as an appendix or by referral to the IAN 100
- 3) Approve the Proposal for the EAN (PDEAN) as presented in slide 9 and as required in paragraph 2.1 of the Due Process for Development of EANs

Next Steps

- 1) The recommendations above are proposed for approval by the Professionalism Committee
 - If approved the Insurance Committee will proceed to establish a Task Force according to the Due Process

