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25<sup>th</sup> September 2019

## Exposure Draft ED/2019/4: Amendments to IFRS 17 Insurance Contracts

Dear Mr Hoogervorst, ~~Dear Hans,~~

We have been following the development of IFRS 17 Insurance Contracts with much interest and fully support the IASB's objective of developing an accounting standard that fairly reflects the economics of the inherent risks and performance of insurance contracts.

As you may be aware, EIOPA has analysed<sup>1</sup> IFRS 17 from a European supervisory and regulatory perspective to foster a better understanding of the implications and potential impacts of the standard on European insurance and reinsurance undertakings, as well as to provide insights into the future interplay between insurers' financial and prudential reporting.

Overall, EIOPA found that the expected increase in transparency and comparability of insurers' financial statements prepared under IFRS 17, would provide better insights into insurers' business models and have the potential to strengthen financial stability in the European Economic Area (EEA). Therefore, EIOPA regards the implementation of IFRS 17 as beneficial for the European public good: IFRS 17's current, market-consistent and risk-sensitive measurement of insurance obligations better reflects economic reality, which consequently supports efficient risk management and allows stakeholders to gain important insights into the entity's business model, exposures and performance.

We welcome the IASB's decision to consider and address the concerns and reservations raised by stakeholders on certain aspects of IFRS 17. Further, we

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<sup>1</sup> EIOPA (2018): EIOPA's analysis of IFRS 17 Insurance Contracts, EIOPA-18-717, October 2018;  
[https://eiopa.europa.eu/Publications/Reports/EIOPA-18-717\\_EIOPA\\_Analysis\\_IFRS\\_17\\_18%2010%202018.pdf](https://eiopa.europa.eu/Publications/Reports/EIOPA-18-717_EIOPA_Analysis_IFRS_17_18%2010%202018.pdf).  
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found the IASB's approach to selecting and applying criteria for considering areas for amendments of IFRS 17 appropriate and helpful to support the ongoing implementation efforts by firms. Further, we believe the IASB proposes reasonable solutions for amendments to ensure a successful implementation of IFRS 17, on which we further elaborate in the annex to this letter.

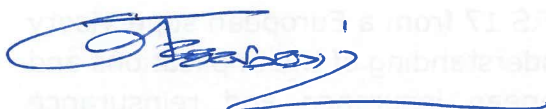
We understand that the IASB has decided not to address the reservations raised regarding IFRS 17's principles on determining the applicable discount rate and risk adjustment, which may have exceeded the appropriate level of allowing for entity-specific inputs and consequently may give rise to significantly different and potentially incomparable result. Here, we would recommend to monitor the actual implementation and to record the determination of the discount rate and of the risk adjustment as themes for assessment in a post-implementation review.

Similarly, as you may be aware, we would have supported a more principle-based approach to determining the appropriate level of aggregation, and so to measuring the profitability of insurance contracts. From EIOPA's perspective, the aggregation by annual cohorts is a key area to assess the efficiency of the standard in a post-implementation review.

The introduction of IFRS 17 is a long overdue and positive shift of paradigm compared to IFRS 17's predecessor IFRS 4 – and EIOPA fully supports the timely finalisation – and implementation - of this standard.

If you have any questions, or require further clarifications, on our comments, please do not hesitate to contact Ms Sandra Hack ([sandra.hack@eiopa.europa.eu](mailto:sandra.hack@eiopa.europa.eu)).

Yours sincerely,



**Question 1—Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30)**

(a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Do you agree with the proposed amendment? Why or why not?

(b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)–(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder’s obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

Do you agree with the proposed amendment? Why or why not?

EIOPA’s comments:

We agree with the proposed amendment, as it enables a relevant reflection of the entity’s business model in issuing such contracts. The policy choices made should be appropriately explained and disclosed in the notes to the financial statements.

**Question 2—Expected recovery of insurance acquisition cash flows (paragraphs 28A–28D, 105A–105C, B35A–B35C and BC31–BC49)**

Paragraphs 28A–28D and B35A–B35C propose that an entity:

(a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;

(b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and

(c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

Paragraphs 105A–105C propose disclosures about such assets.

Do you agree with the proposed amendments? Why or why not?

EIOPA’s comments:

We understand the rationale for allocating potentially significant acquisition costs, particularly distribution costs, to potential future contracts, when insurers can reasonably expect that the policyholder will renew its contract. However, we are concerned that allocating such ‘deferred acquisition costs’ to future groups of contracts may create significant scope for judgment, both in terms of allocation to future groups and in terms of impairment, and may affect the relevance of the reported figures.

To clarify the objective of the amendment and to guide entities on its application, we would recommend to define and specify to which ‘renewals’ the acquisition costs have to be allocated. Here, we could imagine to refer to ‘future renewals’ within the ‘related groups’ in paragraph 28B (as set out in proposed paragraph B35A(b)), and so to clearly limit the scope of this change.

In addition, the IASB could consider enhancing disclosure requirements in order to help users of the financial statements and facilitate comparison between firms. In particular, enhanced disclosures could help users to understand the impact of the

firm's approach to capitalising acquisition costs on its profitability, the consequences of changes to relevant estimates for such assets, as well as the implications of ceasing to write particular business lines. For example, the IASB could consider requiring firms to outline their approach to allocating acquisition costs to future renewals, the evidence available to support such allocation, and the amounts allocated by major product line.

**Question 3—Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44–45, 109 and 117(c)(v), Appendix A, paragraphs B119–B119B and BC50–BC66)**

(a) Paragraphs 44, B119–B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Paragraph B119B specifies criteria for when contracts may provide an investment-return service.

Do you agree with the proposed amendment? Why or why not?

(b) Paragraphs 45, B119–B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c)(v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Do you agree with the proposed disclosure requirements? Why or why not?

EIOPA's comments:

We support this amendment as the profitability of a contract that provides both insurance and investment services is in our view determined by the delivery of both the insurance investment services. We consider it may be worthwhile further clarifying how the profits from the services are allocated to the different service components of a contract.

For this reason, we want to stress the importance of clear and relevant disclosures, in particular on the processes and policies for allocating the contractual service margin and the weighting of different forms of service to determine the pattern of the release of the contractual service margin.

**Question 4—Reinsurance contracts held—recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B, B119C–B119F and BC67–BC90)**

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

(a) the loss recognised on the group of underlying insurance contracts; and

(b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Do you agree with the proposed amendment? Why or why not?

EIOPA's comments:

As highlighted in our detailed analysis<sup>2</sup> of IFRS 17, we support this amendment, as it allows for an economic view on closely interlinked insurance contracts written – and losses from those – and reinsurance contracts held, which gains are directly economically related to those losses.

We understand that the IASB considered this amendment to be limited to cases where the economic link between the losses from the underlying insurance contracts to the gains from the reinsurance contracts are very clear and can be evidenced by a pro quota share. Hereby we noticed that the IASB has introduced a definition of proportional reinsurance, which excludes common types of proportional reinsurance with certain types of non-proportional cash flows stemming from limits or retentions, for example 'surplus reinsurance' or 'quota share reinsurance', that limit the losses reinsured, so that the percentage of the right to recover is not fixed for all underlying contracts within a single group. Consequently, we advise the IASB to consider whether the definition of reinsurance contracts held that provide proportional coverage fully delivers the intended outcomes of the amendment. Further, we want to highlight the potentially unintended consequences for when proportional reinsurance contracts are recognised - following the introduction of this definition.

In addition, we are of the view that relevant disclosures would help the reader of the financial statements to differentiate the income from reinsurance held in respect of losses incurred at inception of an insurance contract from losses stemming from subsequent measurement and experience adjustments.

**Question 5—Presentation in the statement of financial position (paragraphs 78–79, 99, 132 and BC91–BC100)**

The proposed amendment to paragraph 78 would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Do you agree with the proposed amendment? Why or why not?

EIOPA's comments:

We agree this is a reasonable approach.

**Question 6—Applicability of the risk mitigation option (paragraphs B116 and BC101–BC109)**

The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

<sup>2</sup> See EIOPA (2018): EIOPA's analysis of IFRS 17 Insurance Contracts, EIOPA-18-717, October 2018; [https://eiopa.europa.eu/Publications/Reports/EIOPA-18-717\\_EIOPA\\_Analysis\\_IFRS\\_17\\_18%2010%202018.pdf](https://eiopa.europa.eu/Publications/Reports/EIOPA-18-717_EIOPA_Analysis_IFRS_17_18%2010%202018.pdf).

Do you agree with the proposed amendment? Why or why not?

EIOPA's comments:

We support this amendment, as it portrays economically equivalent forms of risk mitigation in a consistent manner.

**Question 7—Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs C1, [Draft] Amendments to IFRS 4 and BC110–BC118)**

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021.

The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date.

(a) The proposed amendment to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

(b) The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

EIOPA's comments:

We share the IASB's view that due to the further work on amending IFRS 17, entities should have the opportunity to implement the suggested changes in an appropriate manner, for which an additional year of adapting the reporting processes and IT systems seems appropriate. Further, we agree to extend the temporary exemption from applying IFRS 9 Financial Instruments in the same way. We note a potential misalignment of the need to provide comparative figures for the first-time application of IFRS 17, which is not required for the first-time application of IFRS 9.

We encourage the IASB to finalise the necessary amendments to IFRS 17 as early as possible and fully support an expeditious implementation of IFRS 17. Following the IASB's comprehensive process, EIOPA could only understand further deferral of implementation if this public consultation brings to light new information suggesting significant and severe implementation issues. In particular, the feedback received in the public consultation shall inform the IASB's efforts to avoid any potentially severe implementation issues triggered by the suggested amendments and shall facilitate the finalisation of a robust standard.

**Question 8—Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119–BC146)**

(a) Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.

Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims.

Do you agree with the proposed amendments? Why or why not?

(b) The proposed amendment to paragraph C3(b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option

in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Do you agree with the proposed amendment? Why or why not?

EIOPA's comments:

The suggested amendments seem reasonable and should enable the entities to more efficiently implement IFRS 17. The transition to IFRS 17 is particularly challenging, as significantly divergent accounting policies will have to be aligned in a manner that set a good basis for the subsequent accounting and fair presentation of remaining performance and profitability.

This public consultation may provide evidence for the need to implement further simplifications or support the use of estimates, in light of insurance contract-specific characteristics, such as exceptionally long durations, and the risk of applying hindsight in case of insufficient documentation. We recommend that the IASB considers such evidence in line with the approach they applied in considering this amendment.

**Question 9—Minor amendments (BC147–BC163)**

This Exposure Draft also proposes minor amendments (see paragraphs BC147–BC163 of the Basis for Conclusions).

Do you agree with the Board's proposals for each of the minor amendments described in this Exposure Draft? Why or why not?

No comments.

**Question 10—Terminology**

This Exposure Draft proposes to add to Appendix A of IFRS 17 the definition 'insurance contract services' to be consistent with other proposed amendments in this Exposure Draft.

In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. If that change is made, those terms would become 'service units', 'service period' and 'liability for remaining service', respectively, throughout IFRS 17.

Would you find this change in terminology helpful? Why or why not?

EIOPA's comments:

We agree with those changes, as we expect them to clarify the previous definitions. The responses from this public consultation would provide insights into practical implementation issues, if any, of the changed definitions for certain contracts.

