

AUTORITÉ DES NORMES COMPTABLES
5, PLACE DES VINS DE FRANCE
75573 PARIS CÉDEX 12

Phone (+ 33 1) 53.44.28 53

Internet <http://www.anc.gouv.fr/>

Mel patrick.de-cambourg@anc.gouv.fr

Chairman

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Paris, September 27th, 2019

Mr Hoogervorst

Chairman IASB Board

7 Westferry Circus, Canary Wharf

London E14 4HD, United Kingdom

ED/2019/4 Amendments to IFRS 17

Dear Mr Hoogervorst,

On behalf of the Autorité des Normes Comptables (ANC), I am writing to express our views on the ED/2019/4 proposing to amend IFRS 17. This letter sets out some of the most critical comments raised by interested stakeholders involved in ANC's due process.

Objective of the proposed amendments

ANC welcomes the IASB responsiveness in addressing with the proposed amendments issues raised by our stakeholders.

ANC has been contributing to the diagnosis and analysis of the application of IFRS 17, persistently supporting the implementation of that new genuine global standard in place of the previous IFRS 4 which has mainly been grandfathering local GAAP. ANC has consistently expressed the view that some amendments could dramatically improve the relevance and practicability of IFRS 17. We have summarised in seven papers our preliminary analyses on issues, developed examples in order to illustrate our understanding of the standard's provisions and eventually suggested amendments. These papers are available on our website and relate to: Acquisition cash-flows, Balance sheet presentation, CSM allocation related to investment services, Level of aggregation, Reinsurance, Transition and Interaction with IFRS 9.

In this letter, ANC is commenting on the answers provided by IASB to the concerns identified by ANC. The scope of these concerns slightly differs from the one retained by IASB (25 issues). Moreover, proposed amendments made in the ED have raised additional questions that are also addressed in this letter. Finally, this comment letter aims at suggesting technical improvements in the amendments of the standard, neither providing any hierarchy among the concerns nor evaluating their impact on the future European endorsement process that will be considered later on.

Main ANC comments

By and large, ANC welcomes the proposed amendments that address some of the concerns raised by its stakeholders and its Board. We remain however concerned that further improvements are still required. We believe the following concerns still require/deserve amendments in the standard (and not in the basis for conclusions).

We concur with IASB on the three objectives set to annual cohorts ensuring a timely recognition of onerous contracts, allocating the margin in a way properly reflecting services provided and informing on profitability trends. When applied to mutualised contracts, annual cohorts however lead to allocating and recombining the CSM within a portfolio on an artificial basis since it reflects neither the legally organised and contractually accepted mutualisation, nor the economics of such policies. In order to improve the relevance of the standard as well as its cost/benefit ratio, we therefore recommend introducing an exception to annual cohorts for intergenerational mutualised contracts. Such contracts have the characteristics of contracts described in IFRS 17.B67-B71 and additionally substantially share risks with other mutualised contracts in the portfolio. We hereafter outline that the three above-mentioned objectives can be achieved at mutualised level. Different types of mutualised contracts might exist but most of them in our jurisdiction would be eligible to the variable fee approach (VFA). Therefore an exception for mutualised VFA contracts would address a main operational concern of our constituents.

Bearing in mind the difficulties to implement a full retrospective approach for certain very significant portfolios of long duration, we think it is necessary to clarify in the standard the current transition requirements on estimates. This would encourage a retrospective application that, from a financial information perspective, provides the most useful and comparable information on the performance path of an entity. In addition, some transitional requirements of the modified retrospective approach still need to be adjusted.

We believe that reinsurance contracts' provisions deserve further amendments. The scope of the proposed amendments is too narrow when referring to "proportionate" reinsurance contracts. Moreover the requirement to include cash-flows from underlying reinsured contracts not written within the boundaries of reinsurance contracts held provides information of little relevance whereas it entails significantly high costs of implementation. Prohibition to apply the VFA to reinsurance contracts issued is not conceptually supported. Reinsurance contracts held are subject to the general standard's provisions with some adjustment that prove not literally applicable or ambiguous.

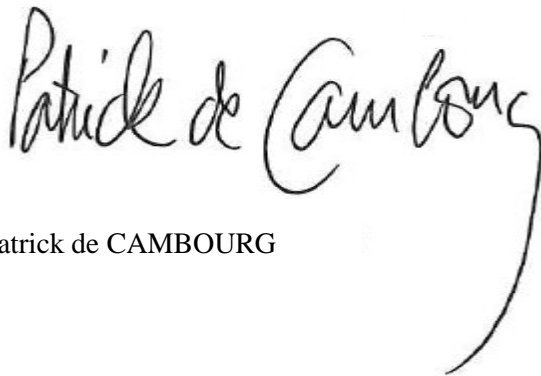
Finally several presentation requirements are still unsatisfactory. Not providing any definition of premiums to be received and not separately presenting main accruals in the face of the balance sheet leads to compensate cash-flows of different nature, terms and counterparts relegating useful information to the notes. In addition, suggested minor amendments will unduly present certain *non-financial* changes in assumption as insurance *financial* result. Finally, requirements on interim financial statement are not consistent with IAS 34.

Interactions between IFRS 9 and IFRS 17 are key since the interrelation between assets (financial instruments) and liability (insurance commitments) management is a core feature of many insurance contracts. We are concerned that the proposed amendments do not address the specific concerns and mismatches that arise when dealing with risk mitigation, equity investments and locked-in rate. We highlight that the effective date / postponement of both standards should be aligned.

We believe that the feedback from the current public consultation will help IASB addressing all relevant concerns before finalising amendments that are needed notwithstanding the planned implementation date by 1st January 2022. We do not hear from our stakeholders that a further postponement (by 6-12 months) would actually be disruptive. As standard setter, our priority remains to improve a standard built to last.

Please do not hesitate to contact us to further discuss that case,

Yours sincerely,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Patrick de CAMBOURG

Appendix 1: Responses to questions raised in the ED

Appendix 2: Example of level of aggregation applied to mutualised contracts

1 Q1: scope exclusions / interactions between IFRS 9 and IFRS 17

1.1 Comments on proposed amendments

- 1 ANC supports the amendments regarding loans that transfer significant insurance risk since they might ease the application of the standard.
- 2 In ANC's view, the amendments regarding credit cards (in our view also including *payment* cards) that provide insurance coverage offer a practical solution to a very specific issue.
- 3 We further note that insurance contracts that meet the definition of a financial guarantee *purchased* would henceforth be in the scope of IFRS 9 (because of IFRS 17 amending IFRS 9.2.1(e)(iii)). We suggest this unintended wording be amended in order to scope out purchased financial guarantee from IFRS 9.

1.2 Further comments: interactions between IFRS 9 and IFRS 17

Equity investment

- 4 Because they are in a "long cash position" and since their activity is stable on the long run, insurers are key long-term investors. Measuring their whole portfolio at fair value through P&L (FVPL) would present a volatility that would not reflect the long-term performance and stability of their ALM management. This would especially affect investments in equity instruments which is part of their business model as they permit to provide higher yields than investment in bonds and therefore to propose more attractive tariffs to policyholders.
- 5 Only the VFA addresses the equity investment issue, provided that IFRS 9 assets are recorded at FVPL.
- 6 Non-recycling OCI on equity investment and the accounting treatment of funds (UCITS, AIF) is an issue for all insurance contracts but those accounted for under the VFA. This remains also an issue for an entity investing on its own.
- 7 The equity investment issue is broader than IFRS 17 and may better be addressed at IFRS 9 level. In the frame of current European consultations, ANC suggests (i) to introduce recycling, (ii) to define a robust and simple impairment solution for equity or equity type instruments (on a clearly defined and agreed upon basis), (iii) to extend the solutions retained for equity instruments to equity type instruments (defined in accordance with clear criteria via a test) and (iv) to consider if need be some specific situations or business models in respect to the general principles retained.

IFRS 17 promotes fair value measurement of assets

- 8 Applying the VFA to an insurance contract, liabilities are reflected at their current value regardless of the measurement retained on the asset side. In order for changes in fair value of assets to be properly matched (in P&L or OCI), a measurement of assets at current value is promoted. Applying historical costs instead would automatically generate a mismatch either in the P&L or in the OCI. Accordingly, applying the VFA, creates a disincentive to choosing another measurement of assets than fair value, regardless of the business model that would best fit applying IFRS 9 solely.
- 9 The effects of this preference may not be limited to VFA contracts. If an asset covers several types of insurance contracts (some being VFA others not), applying historical

cost measurement to assets will create a mismatch in the VFA part, whereas applying fair value may create undesired volatility in the non-VFA part. This situation may happen to financial assets in a general fund or even to non-financial assets such as investment property (applying IAS 40).

- 10 This issue has been exacerbated by:
- The limitation to the application of the FVOCI applying IFRS 9 business models. For instance, investing in a SPPI Held-to-collect debt instrument, an entity will be enticed to apply fair value (because of IFRS 17) but prevented from applying FVOCI (because of the IFRS 9 business model) which eventually may lead to apply the FVPL.
 - The existing prohibition to disaggregate investment property (IAS 40.32B)
- 11 Since insurance contracts are measured at current value, any corresponding asset is best matched when also measured at current value, i.e. fair value. This core principle in IFRS 17 leads to application issues (for instance by segregating assets into ringfenced pools or accepting the created mismatch) that can hardly be solved by standard-setting.
- 12 However, targeted improvements are possible in facilitating the alignment of the measurement of underlying assets with the measurement of the insurance contract (at current value, possibly with OCI option):
- by allowing measuring loans at FVOCI even if the IFRS 9 business model is held-to-collect i.e. adding a FVOCI option similar to the existing FVPL in IFRS 9.4.1.5;
 - by splitting investment property providing returns to different types of contracts (amending IAS 40.32A and IAS 40.32B)

Suggested amendments:

- 13 IFRS 9.4.1.6 Despite paragraph 4.1.2, an entity may, at initial recognition, irrevocably designate a financial asset that would otherwise be measured at amortised cost as measured at fair value through other comprehensive income (with subsequent transfer to profit or loss) if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’) that would otherwise arise from measuring the related liabilities through other comprehensive income.
- 14 IAS 40.32A: An entity may:
- (a) choose either the fair value model or the cost model for ~~all~~ each investment property (or a part of it) backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property (or a part of it); and
 - (b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).
- 15 IAS 40.32B: Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund. Similarly, some entities issue insurance contracts with direct participation features, for which the underlying items include investment property. For the purposes of paragraphs 32A–32B only, insurance contracts include investment contracts with discretionary participation features. ~~Paragraph 32A does not permit an entity to measure property held by the fund (or property that is an underlying item) partly at cost and partly at fair value.~~ (See IFRS 17 Insurance

Contracts for terms used in this paragraph that are defined in that Standard.)

Locked-in Discount rate

- 16 Participating contracts not meeting the VFA criteria require to follow in the accounting IT-systems a “locked-in” discount rate in addition to the current rate for the purpose of CSM calculation. In addition, this accounting treatment might generate temporary OCI-volatility.

2 Q2: Expected recovery of insurance acquisition cash flows

2.1 Comments on proposed amendments

- 17 ANC agrees that amendments proposing the recognition of an asset for acquisition cash flows on new business expected to renew outside the contract boundary are improving the relevance of the standard in better reflecting the economic substance of these transactions.
- 18 IFRS 17.79 has not been amended to require a separate presentation of the new created asset at portfolio level. As a consequence, an acquisition cash-flows asset will be presented as part of the carrying amount of the portfolio of insurance contracts, whereas presenting it separately in the balance sheet instead of disclosing that information in the notes (as required by amended IFRS 17.105A) is useful to users.

3 Q3: Contractual service margin attributable to investment-return service and investment-related service and disclosures about the profit recognition patterns

3.1 Comments on proposed amendments

- 19 ANC agrees that the amendments proposing to consider investment-related services in the CSM allocation of contracts that are not in the scope of the Variable Fee Approach (VFA) are improving the relevance of the standard in better reflecting the economic substance of the services provided.
- 20 We have been reported that the criteria set to define investment-return services might result in economically similar contracts having different accounting results. We therefore suggest retaining a more principles-based definition of that service, as considered by IASB when discussing that topic in January 2019. Accordingly, an investment-return service could be “providing the policyholder with access to an investment return that would not otherwise be available to the policyholder because of the amounts invested, liquidity, complexity and expertise”.

3.2 Further comments on CSM allocation and the level of aggregation

Annual cohorts are not appropriate for all insurance contracts

- 21 ANC disagrees with IASB not amending the standard on the annual cohorts’ requirement. We are of the view that such a requirement is not a core requirement in the standard but a rule that has been set to address three core objectives of the standard.
- 22 We agree with IASB on the three qualitative objectives outlined in the bases for conclusions:
- Objective 1: Ensuring onerous contract are recognised in the P&L on a timely basis;
 - Objective 2: Ensuring a “correct” allocation of the margin (CSM) based on service provided;
 - Objective 3: Providing information on “trends in the profitability of a portfolio”.
- 23 However ANC disagrees with IFRS 17.BC 173 that, for contracts with cash-flows that affect or are affected by cash flows to policyholders of contracts in another group, the fulfilment cash flows (FCF) allocated to a group result in the CSM appropriately reflecting the future profit expected to be earned from the contracts in the group. For such contracts, the annual cohort does not provide relevant information and requires an arbitrary allocation of cash flows that are fungible across all the contracts in the portfolio.
- 24 Indeed IFRS 17.24 requires that the FCF determined at a higher level of allocation than the groups are allocated to groups of contracts whereas IFRS 17.BC 265 highlights that “payments to policyholders form part of the fulfilment cash flows regardless of whether payments are expected to be made to current or future policyholders”. The standard therefore requires that payments to **future** policyholders are included in the FCF of **existing** cohorts for the purpose of measuring the CSM. This disregards the fact that when contracts share the returns of a common pool of underlying items across generations, the returns from the pool of assets benefit to both existing and future policyholders. This also implies that for such contracts, the CSM, being a residual, does not provide relevant information.

- 25 ANC acknowledges that IFRS 17.B67-.B68 partially allow addressing this concern by taking into account the discretionary cash flows already included in the measurement of previous cohorts when measuring a newly written group of contracts. However, this “reallocation” upon the recognition of a new cohort still fails to depict the fact that the cash flows allocated to existing cohorts also benefit to future contracts not yet written (as acknowledged in IFRS 17.B68 (a)).
- 26 In addition, ANC would like to stress that this creates a burdensome and artificial divide of future discretionary benefits between annual groups that does not reflect the contractual and economic features of mutualised contracts. Indeed, IFRS 17.22 leads to arbitrarily allocate the discretionary benefits to annual groups that afterwards need to be combined together for the purpose of determining the allocation of fulfilment cash-flows (FCF) to newly written contracts (IFRS 17.B68-B71). Accordingly, the initial allocation of benefits to a cohort needs to be reconsidered in all subsequent periods in order to reflect the allocation decisions made by the entity.
- 27 In that regard, our constituents have highlighted that implementing such a complex mechanism is a major driver of costs that requires costly upgrades of IT systems without providing relevant information.
- 28 The arbitrary allocation resulting from the current application of the standard is exacerbated for contracts under the Variable Fee Approach (VFA). Indeed, IFRS 17.24 requires allocating the fair value returns of the underlying items (including the entity’s share) to the *existing* cohorts, even if such returns might ultimately benefit to *future* policyholders. In fact, policyholders might contractually be ultimately entitled to returns calculated on a different measurement basis (local GAAP, historical cost) or attributed on a discretionary basis. The allocation disregards the fact that changes in fair value of the underlying items generate future payments to both existing and future policyholders. Especially, an underlying asset may be held over a longer period of time than the lifetime of existing cohorts thus benefitting only to future policyholders. This leads to the situation where the entity’s share in the fair value of the underlying items (i.e. the CSM) is spread over a shorter period than the period in which service is provided to the policyholders. In our view this contradicts the objective of aligning the CSM allocation with the service rendered and proves, in addition, not prudent.
- 29 Within the context of VFA contracts, ANC moreover disagrees with the assumption made in BC 178 of the ED that annual cohorts *create* the entity’s share in the fair value of the underlying items. This statement assumes that the underlying items are managed separately on a cohort by cohort basis whereas in practice investments are managed on a portfolios basis. In that regard, the most widespread French participating contracts primarily provide policyholders with discretionary benefits based on the returns from an underlying pool of items that backs all generations of contracts. In addition, the contractual terms provide that policyholders’ participation is determined based on the realised gains and losses of the portfolio. This implies that (i) no generation of policyholders has *a priori* a contractual right to any subset of returns on underlying items and that (ii) the fair value returns from the underlying pool of items are shared across generations of policyholders through management’s allocation of discretionary benefits.

Scope of an exception

- 30 ANC suggests introducing an exception to annual cohorts for intergenerational mutualised insurance contracts (hereafter referred to as “mutualised contracts”).
- 31 IFRS 17.BC138 already acknowledges that situations exist where annual cohorts are not necessary. Examples provided by IASB of such situations however refer to a narrow understanding of “full risk sharing” (see also § 53) and the requirement to “achieve the same outcome” as with annual cohorts.

- 32 For scoping such an exception, we therefore suggest other criteria that would be as follows:
- (a) Mutualised contracts are in the scope of “contracts with cash flows that affect or are affected by cash-flows to policyholders of other contracts” as referred to in IFRS 17.B67-B71;
 - (b) Within that population of contracts referred to in IFRS 17.B67-B71, mutualised contracts subject to the exception are those that *substantially share in the risks* and returns of a pool of underlying items. A “substantially” mutualised contract is one that could not become onerous unless the whole mutualised population becomes onerous. In addition, no generation of policyholders of mutualised contracts has a *priori* a contractual right to any subset of returns on underlying items.
- 33 In most cases such contracts also are eligible to the VFA.
- 34 Mutualised contracts subject to the exception would achieve the three accounting *objectives* (rather than the same *outcome*) assigned to annual cohorts. Namely: (1) Ensuring onerous contract are recognised in the P&L on a timely basis; (2) Ensuring a “correct” allocation of the margin (CSM) based on service provided; (3) Providing information on “trends in the profitability of a portfolio”. In fact, when complying with the definition above (§ 32(b)) the two first objectives are already met. With regard to the third objective, we suggest introducing the additional following disclosures:
- (a) a qualitative disclosure describing the grouping criteria for contracts to which the annual cohort requirement is not applied;
 - (b) reconciliations for the CSM of those groups from the opening to the closing balances (according to paragraph 101 of the standard);
 - (c) a disclosure on profitability trends by presenting the CSM effect of new business joining the groups, extracted from (b), as a series of historical data (in the last 3 years);
 - (d) a disclosure on the actuarial technique applied for computing the CSM effect of new business joining the group as well as a disclosure on the method used for assessing the profitability referred to in (c).

Application of the three objectives to mutualised contracts

- 35 ANC has been developing analyses and examples (see also Appendix 2: Example of the level of aggregation applied to mutualised contracts) in order to assess whether, applied to intergenerational mutualised insurance contracts, the 3 objectives sets to annual cohorts (i) are actually met *thanks to* annual cohorts and (ii) can be achieved through another (less burdensome) way. These are summarised hereunder.

Objective 1: onerous contracts in mutualised groups

- 36 Within a population of mutualised contracts, a group of contracts does not become onerous (for the insurer) unless the cross-subsidisation among policyholders is not sufficient to cover the risks, so that the insurer is eventually exposed to a loss. There is no contract becoming “onerous” in a mutualised population unless the whole population becomes onerous.

Objective 2: CSM allocation reflecting services provided

- 37 The second objective addresses how the CSM allocation (with the help of coverage/service units) best reflects services rendered by the entity. Basis for conclusions of the ED mainly focus on that objective when justifying why IASB eventually decided not to amend the standard for providing an exception to the level of aggregation.

- 38 In the following sections, we address the two sub-objectives set by IASB (“correctly” reflect the profitability of contracts and prohibit open portfolios) by (i) commenting on the basis for conclusions and (ii) assessing whether they apply the same way to intergenerational mutualised contracts.

Ensuring a “correct” allocation of the margin (CSM) during the contract

Useful information on performance requires grouping

- 39 According to the basis for conclusions of the ED, the adequate level of aggregation should “provide improved information about the profitability” (BC 165) / the periodic financial performance (BC 171) of insurance contracts while not requiring measurement of individual contracts because insurance activities often rely on groups of similar contracts in order for the entity to *reduce* risk (BC167). This aims at striking the best possible balance between contract-by-contract information supposed to result in more transparency and a need to aggregate that necessarily leads to “averaging profits and losses between contracts or averaging different levels of profit over time”.

Relevance of assessing profitability at annual cohort’s level

- 40 With regard to the objective of assessing the profitability at annual cohort’s level, we note that:
- 41 First, it is noteworthy that in some jurisdictions, the contractual minimum participation to policyholders is determined based on the “historical cost measurement” returns (i.e. measured based on historical costs in the statutory accounts) as required legally or contractually in the main European countries. Accordingly, when surrendering its insurance contract, a leaving policyholder waives its right to possibly benefit from the unrealised accumulated changes in fair value of the underlying assets. This does however not preclude that the entity has to pay, for instance, 80% of the fair value returns to policyholders but the allocation among policyholders also depends on the discretionary assumptions / decisions made by management as well as on the policyholders’ behaviour (i.e. changes in the related assumptions).
- 42 Second, the relevance of information at the level of the annual cohort depends on whether contracts are mutualised or not:
- 43 In the case where expected cash-flows can reasonably be allocated to a group of policyholders based on the contractual terms, profitability may be usefully assessed at that level. Within the context of participating contracts with discretionary benefits based on the realised returns of an underlying pool of items, this condition is met only when the contractual terms provide that each generation of contracts participates in the returns of separate pools of underlying items (i.e. if the premiums from newly written contracts are invested by generation in ring-fenced assets so that to ensure that their returns are kept separate from policyholders in other groups). In such a case the performance of the investment as well as the technical result (from changes in actuarial assumptions) is directly and solely attributable to the policyholders of the cohort. It makes sense for the related CSM/ profitability/ fair value return for the entity to be strictly linked to the performance and allocated according to the duration of that closed group of policyholders.
- 44 However, when different cohorts of participating contracts share the returns of a common underlying pool of items, the financial performance assessed at the mere annual cohort’s level may not prove relevant or reliable. In the context of participating contracts eligible to the VFA, IASB discussed an example dealing with the evolution of the initial CSM of a mutualised group of contracts exposed to the addition of further

contracts (new business) as well as changes in assumptions (actuarial or discretionary). In a previous letter¹, we commented that example noting that:

- The reallocation process of FCF and CSM among groups/ annual cohorts (IFRS 17.B67-B71) is necessary to properly reflect the mutualisation mechanism; Notably to prevent a new cohort from being unduly considered onerous;
- The entity's share in the fair value of the mutualised pool of underlying items stems from the overall portfolio, which includes all the items acquired from investing the premiums collected from all policyholders. As a consequence, no generation has *a priori* a contractual right to any subset of returns on the underlying items. This is illustrated by the possibility for an insurer to decide to use the premiums received from a new cohort to indemnify the lapse of policyholders instead of selling assets.
- Applying the allocation provisions (IFRS 17.B 68-B 71), the CSM of a new cohort depends on *changes in discretionary assumptions made in periods before* issuing the new cohort (see also § 217 in Appendix 2).
- Assuming a change in expectations takes place (e.g. market rate, crediting rate setting the returns to policyholders), the resulting change in fair value from the pool of underlying items has to be allocated to the existing and newly written groups. Indeed, it is common in managing participating contracts in France to allocate to policyholders additional discretionary benefits that exceed the minimum contractual participation features of the contracts. For instance, the contract may entitle the policyholders to 80% of the realised returns from an underlying pool of assets but for commercial reasons, insurers may anticipate future benefits above that threshold. Assuming that this expectation is reassessed in future periods, the change in the discretionary benefits also has to be allocated to the annual cohorts:
 - this does however not mean that the changes in fair value are *created* by the existing groups and *belong* to them. In fact, should new policyholders join the mutualised group later on, a portion of that surplus might be allocated to them. This results from the discretion granted by law or contract to the entity (and accepted by the policyholders) in deciding when and how to allocate the FCF among the beneficiaries (see also § 181-182 in Appendix 2).
 - the discretionary allocation is not necessarily related with the initial expected entity's share of the fair value returns of each group. Accordingly, even if the CSM determined upon the initial recognition of a new group of contact was deemed valuable, it quickly becomes obsolete because of the discretion left in the allocation of subsequent changes.

45 As a result, even if a minimum proportion of cash-flows is economically and legally due to policyholders (say 80%), the final allocation among policyholders of a mutualised group also largely depends on discretion and conditions in other groups.

46 The CSM is the entity's compensation for managing the cash-flows of and among policyholders. By contrast with IFRS 15 services, it is therefore not a portion of the payment received (and therefore determined on an individual contract basis) but rather a margin i.e. a difference between cash-inflows and cash-outflows or a commission between parties contributing and receiving cash-flows. Such a margin/surplus might as well be considered a portion of the premiums received as a deduction from the insurance payments made. These two conceptual approaches can be described as follows:

- surplus *absorbed* by a contract, i.e. making estimates about expected allocations to policyholders;

¹ See on our Website: [ANC comments on the recent IASB decisions on the level of aggregation \(6 Mai 2019\)](#)

- surplus *generated* by a contract, i.e. making estimates about the contribution of each contract to insurer's profit.

- 47 In our view, when analysing “profitability” i.e. creating a linkage between the CSM and the expected cash-flows, it is more relevant to consider the prospective final absorption of the cash outflows by the policyholders of groups (including upcoming new cohorts) than the evolution of cash-flows generated under initial conditions ignoring the other groups they are supposed to be mutualised with.
- 48 As a result, in the context of intergenerational mutualised contracts, we note that the informative value of the CSM at annual cohort's level *alone* appears largely artificial (i.e. does not reflect the contractual terms or management's decisions) and that the cumulative CSM for mutualised groups provides the most relevant information about profitability.

Prohibiting open portfolios

- 49 We concur with the objective to ensure that the allocation of the CSM in the P&L should not be indefinitely postponed; especially when contracts are not mutualised, there is no reason for having unduly open portfolios.

Profitability is not necessarily indefinitely averaged in an open portfolio

- 50 According to BC 173 of the ED, in an open portfolio, the life of groups would last indefinitely and their CSM would average the profitability of all contracts over this indefinite life.
- 51 We however believe that adding new business to an existing group (in-Force) does not extend the portfolio duration indefinitely or make it “perpetual” since cash-flows attributable to the policyholders and the entity are permanently added and consumed in accordance with contractual terms. This mechanism is adequately reflected by the coverage units.
- 52 The averaging effect that results from grouping contracts is not an issue as long as it is contractually organised and accepted by the mutualisation. This effect is in fact already in the standard. ANC showed that thanks to the existing mechanism in the standard (IFRS 17.B68-B71) when allocating FCF from one cohort G 1 to another G 2, the entity *duly* postpones a portion of G 1 CSM in a period that exceeds the initial G 1 coverage period. We have evidenced that situation an example that shows the slight increase in the CSM due to the accretion effect by one year on that deferred part (see also § 177 in Appendix 2).

The reference to the TRG example is not helpful

- 53 BC 175 and BC 176 of the ED refer to an example discussed at the TRG. It is worth noting that this example is not sufficiently demonstrative since:
- A large majority of TRG members did not agree with the conclusions drawn by the staff;
 - This example is based on the non-realistic assumption that the insurer does not share any risk or return on the cash-flows (CSM is therefore nil);
 - The example is flawed since there is a critical confusion between expected and realised cash-flows. The standard instead requires that FCF be measured at inception considering estimates of future cash flows, not actual ones.
- 54 For the purpose of the ED, we suggest these BC be removed.

Phantom CSM

- 55 Situations have been illustrated where a “phantom CSM” haunts financial statements after the lapsing of the policyholders who initially paid an insurance fee. Such examples only take into consideration policyholders as *initial contributors* when the CSM has been generated, and not policyholders as *ultimate beneficiaries* of the allocation of that CSM, which might happen much later (as discussed previously in § 46).
- 56 In addition, these illustrating examples assume that:
- Changes in expectations may affect one cohort only and not the others: this could happen when cohorts are actually not mutualised (for instance because of ring-fenced assets dedicated to the cohort). However, within a portfolio of mutualised contracts, a change in expectations affects the cash-flows of all mutualised contracts at the same time;
 - The CSM per coverage unit significantly differs from one cohort to another: this might happen when cohorts are actually not mutualised. However, within a portfolio of mutualised contracts, a change in the pricing for the same service from one year to another equally applies to the cash-flows of all mutualised contracts at the same time. We note that BC 178 of the ED assumes similarly that each annual cohort provides a specific profitability i.e. amount of the entity’s share in the returns from the underlying items. This assumes that the premiums paid by new policyholders are immediately invested according to current market conditions and that the underlying items are identifiable (managed separately) for each cohort. However, in practice within the context of participating contracts that share in the returns of a common pool of underlying items, premiums from new contracts may be used to pay the surrender value of an older contract and the underlying items are not managed separately by generations of contracts.

Conclusion on objective 2

- 57 We conclude that:
- An open portfolio does not mean that the profitability is indefinitely materially averaged as long as cash-flows attributable to the policyholders and the entity are permanently added and consumed;
 - For non-mutualised contracts, annual cohorts prohibit new-business to be added to in-force so that there is in fact no “averaging effect” possible;
 - For mutualised contract, an averaging effect is duly recognised (even with annual cohorts). In fact, since a contractual or legal intergenerational mutualisation is accepted and organised, there is no reason to divide into annual cohorts a pooled CSM that will finally be reassembled through an allocation process (B67-B71).

Objective 3: Providing information on “trends in the profitability of a portfolio”

Users’ expectations

- 58 According to IASB, investors expects from the Insurance standard to provide information on (i) specific risks taken in a year as well as on (ii) trends in the profitability (i.e. whether new business is less or more profitable than the old one).

Limits of annual cohorts in providing such information

- 59 We mentioned previously (§ 40-48) the limits of providing information on the profitability of intergenerational mutualised contracts at the annual cohort’s level:

- 60 First, the standard does not require the CSM be presented at cohort's level in the primary FS or in the disclosures. It is therefore unclear to us what useful information for users would get lost if it is not currently required.
- 61 Second, in some jurisdictions, the minimum return to policyholders is determined based on the "historical cost measurement" returns (i.e. measured based on historical costs in the statutory accounts) as required legally or contractually in the main European countries and not IFRS "fair value returns" (taken as a reference by IASB for measuring profitability). The allocation among policyholders / cohorts therefore also depends on the discretionary assumptions / decisions made by management.
- 62 Third, the relevance of information at the level of the annual cohort is limited in mutualised groups because:
- returns on the underlying items will flow to the community of policyholders without a generation having *a priori* individual contractual rights on any subset of the returns of the overall underlying items;
 - even if a minimum proportion of cash-flows is economically and legally due to policyholders (say 80%), the final allocation among policyholders largely depends on discretion and conditions in other groups;
- 63 Fourth, CSM is a margin and when analysing "profitability" i.e. creating a linkage between the CSM and the expected cash-flows, it is more relevant to consider the prospective final absorption of the cash outflows by the policyholders of groups (including upcoming new cohorts) than the evolution of cash-flows generated under initial conditions ignoring the other groups they are supposed to be mutualised with.
- 64 As a result, in the context of intergenerational mutualised contracts, we note that the informative value of the CSM at annual cohort's level *alone* appears largely artificial (i.e. does not reflect the contractual terms or management's decisions) and that the cumulative CSM for mutualised groups provides the most relevant information about profitability.
- 65 In addition, we have not collected evidence about the usefulness of the information provided by annual cohorts to users, as reported in an EFRAG's user outreach.

Alternative disclosures providing the expected information

- 66 Users are generally interested in analysing the effects of new business on in-force contracts.
- 67 An analysis of the impact (contribution or dilution) of newcomers (new business) on an existing mutualised portfolio (In-force) provides useful information since it indicates business profitability trends. By contrast, identifying which of the former generations of policyholders is actually "subsidising" a new coming one (through the "allocation process" in IFRS 17.B68-B71), or the other way around, is not usual and the information usefulness is questionable in particular if groups are numerous on the basis of a very granular approach to contracts grouping.
- 68 In order to enhance transparency, additional information could be provided on the intergenerational mutualised groups of contracts benefiting from an exception to the annual cohorts requirement:
- (a) qualitative disclosure describing the grouping criteria for contracts to which the annual cohort requirement is not applied;
 - (b) reconciliations for the CSM of those groups from the opening to the closing balances (according to IFRS 17.101);

- (c) disclosure on profitability trends by presenting the CSM effect of new business joining the groups, extracted from (b), as a series of historical data (in the last 3 years);
- (d) disclosure on the actuarial technique applied for computing the CSM effect of new business joining the group as well as disclosure on method used for assessing the profitability referred to in (c).

69 Among the existing actuarial techniques, we note the followings identified by EFRAG:

- (a) The stand-alone method: the CSM of new business is calculated without taking into account the wealth of the stock;
- (b) The adjusted stand-alone method: the CSM is calculated, regardless of the stock of contracts, by allocating some of the “wealth” of the underlying items to the new business;
- (c) The marginal approach: the CSM of the new business corresponds to the difference between the CSM of the book of business stock with and without new business;
- (d) The value in force method by generation: the CSM is calculated including new business and the CSM of new business is identified separately;
- (e) The value in force method allocated to new business: in each period, the CSM of the book (including new business) is calculated and a portion of CSM is allocated to new business.

Intergenerational mutualisation is a key feature of life-saving business in many European jurisdictions

- 70 The way insurers organise mutualised populations is a highly sensitive feature of insurance markets since it reflects and also shapes up a level of “social/societal” understanding of what is covered by insurance and what is left to the direct responsibility of the individual (natural or moral person). In this context the coherence and consistency of pricing and detailed coverage policies is a key element of stability and decision making for individuals and businesses in the development of their respective activities.
- 71 The perimeter of mutualised populations and the terms and conditions offered to them by insurers are the outcome of very long term evolutions and decisions reflecting fundamental choices made at the level of the society as a whole (explicitly via regulations, semi-explicitly when practices reflect or influence changes in behaviour). In many cases, the strategy of insurers is heavily influenced by a prevailing insurance environment (or culture) the evolution of which requires extensive debates.
- 72 Modifying the perimeter of mutualised populations for accounting purposes only may lead to unintended changes in the way insurers cover insurance risks. There is a significant difference between (i) reflecting, via accounting treatments, a slow and complex evolution of the insurance coverage system and (ii) introducing accounting treatments which may directly influence the way the insurance coverage system is organised and possibly reduce the current and accepted level of mutualisation.

4 Q4: Reinsurance contracts held – recovery of losses on underlying insurance contracts

4.1 Comments on proposed amendments

- 73 ANC agrees that the amendments proposing to recognise at inception a gain on reinsurance contracts are improving (i) the relevance of the standard by removing an accounting mismatch (acknowledged in BC 77 of the ED) and (ii) its consistency in aligning the accounting treatment at inception with the one after.
- 74 In a proportional reinsurance contract a reinsurer takes a part of the cash flows of the individual underlying insurance contracts. IASB has been proposing an accounting treatment for the net gain on a proportionate reinsurance treaty covering onerous underlying contracts. Conversely, IASB decided not to address “non-proportionate” reinsurance contracts (e.g. excess of loss such as reinsurance on catastrophic risks or where an insurance company takes the first 20% of the losses and the reinsurer anything above that benchmark) since they do not relate to one contract only but to several (possibly issued at different times or in different portfolios).
- 75 ANC’s view is that proportional and non-proportional reinsurance treaties are conceptually similar for the ceding entity. For the primary insurer, they both are risk mitigation techniques that provide an effective hedge against the risks arising from underlying insurance contracts. Therefore, any timing difference between the recognition of gains on reinsurance held and losses arising from the underlying reinsured contracts gives rise to an accounting mismatch. Accordingly, there is no reason for not addressing the accounting mismatch in both situations. In practice, non-proportional reinsurance might require further estimates and thus raise more application difficulties than proportional reinsurance. This should however not preclude the amendments from providing a conceptual requirement based on a continuous symmetry in the accounting treatment of reinsurance contract held and the underlying insurance contracts issued, with no distinction between proportional and non-proportional reinsurance treaty. Non-proportional contracts are very common in our jurisdiction. A typical situation is where an insurer provides coverage for risks within an accepted range and where extreme cases make that direct insurance onerous if not specifically reinsured. A common non-proportional reinsurance compensates for serious personal injury in motor insurance.
- 76 Using the term “proportionate” instead of “proportional” is uncommon and adds ambiguity. The definition of “proportionate” provided in the Appendix A of IFRS 17 would encompass *quota-share* reinsurance (e.g. the insurance company takes 60% of the losses and the reinsurer 40%) but would exclude *surplus-share* contracts (e.g. the reinsurer takes all losses above a benchmark on *each* insurance contract in a group); which is different from *excess of loss* (where the reinsurer takes all losses above a benchmark on *cumulative losses from a series of* insurance contracts). Surplus-share contracts are commonly considered to pertain to proportional reinsurance. Finally, the definition of proportionate reinsurance coverage proposed in the ED are limited to contracts that provide “the right to recover from the issuer a percentage of all claims incurred on a group of underlying insurance contracts”. This definition disregards all other contractual terms such as reinsurance commissions and may therefore not adequately capture the economic substance of the reinsurance arrangement.
- 77 The snapshot issued with the ED provides an example (Chapter 6 , page 11-12) of reinsurance contracts that provide a coverage at a net cost. In our view, the amendments are aiming at providing a solution to reinsurance contracts held that are at

a net *gain*. This excludes reinsurance treaties providing additional costs (i.e. a negative CSM) that have some similarities with “financial reengineering”.

4.2 Further comments on reinsurance contracts issued with direct participation features

- 78 In contradiction with the view expressed in IFRS 17.BC 249, some reinsurance contracts *issued* actually provide an indirect compensation for the underlying insurance service rendered to policyholders. And for that service, the reinsurer does not only receive a fixed premium but rather a share of the returns in a pool of underlying items. Such reinsurance contracts, in addition to meeting the criteria for VFA contracts also comply with the view depicted in IFRS 17.BC 241.
- 79 In a previous letter², we have therefore suggested removing the prohibition in IFRS 17.B109. Reinsurance contracts should be subject to the same VFA criteria as insurance contracts.

4.3 Further comments on contract boundary of reinsurance contracts held

- 80 IASB has decided that the measurement of reinsurance contracts held includes future cash-flows in order to be symmetrical to the reinsurance contracts issued, rather than promoting symmetry with the underlying contracts. In our view, both approaches are conceptually possible. Applying the former, it is very unlikely that the assessment made by the primary insurer is comparable with the one made by the reinsurer who generally manages several reinsurance treaties together and thanks to this broader population as well as diversification probably calculates a lower risk adjustment. By contrast, from an economic point of view, reinsurance held by the primary insurer (being proportional or non-proportional, life or non-life) aims at mitigating the insurance risks recorded in the underlying liabilities. We note that the extension of the risk mitigation provision to reinsurance held reflects that approach.
- 81 At this stage, we recommend considering a cost/benefit analysis rather than introducing a conceptual debate.
- 82 The information added to the P&L and disclosures by the boundaries retained for reinsurance contracts results from (i) changes between the initial assessment of future contracts and the assessment of future cash flows when contracts are eventually recognised; (ii) changes in estimates in key assumptions during that transitional period; (iii) the discount rate locked-in at inception whereas related future cash-flows may change during that transitional period.
- 83 We believe such additional information is of little relevance since it overemphasises discount rate changes that are one of the risks taken by the reinsurer when accepting the treaty. On the other hand, it creates volatility in the P&L and an asymmetric treatment as compared to the underlying reinsurance contracts. It also raises significant costs due to the operational complexity to deal with such temporary estimates in the IT systems and their possible discounting effect and subsequent changes.
- 84 Based on a cost/benefit analysis, we therefore suggest limiting the boundaries of reinsurance contracts held to the recognised underlying contracts and amending IFRS 17 consequently.

² See on our Website: [Draft for discussion on reinsurance \(6 Mai 2019\)](#)

5 Q5: Presentation in the statement of financial position

5.1 Comments on proposed amendments

- 85 ANC concurs with BC 95-96 of the ED and welcomes the amendments proposing to aggregate assets and liabilities at portfolio level instead of at group level. At portfolio level, virtually all insurance contracts will then be presented as liabilities which would be very similar to presenting assets and liabilities at entity level.
- 86 Conversely, the presentation required by the standard does not distinguish accrual from non-accrual expected cash flows. Moreover the required presentation offsets assets and liabilities of different nature and with different counterparts. ANC is of the view that such distinctions in the existing presentation (under IFRS 4) are currently very helpful and informative.

5.2 Further comments on presentation: Non-separation of receivables and payables in the balance sheet

- 87 ANC does not agree with IASB not requiring a separate presentation of certain accrual in the balance sheet and not defining “premium receivables”.
- 88 Removing or offsetting current information commonly used by analysts on accruals would obscure relevant information. When possible, relevant information shall be presented in the balance sheet rather than being disclosed in the notes (IFRS 17.100 on liabilities for remaining coverage and for incurred claims; IFRS 17.101(c) on the CSM). In addition no information is currently required in the notes on premium receivables.
- 89 Amending the standard in order to require a separate presentation of the main accruals would significantly improve understandability and relevance. From an operational standpoint, implementation would be simplified and costs would be saved.
- 90 In addition to the modifications to the standard suggested below, amendments to IFRS 17.79 (especially regarding a separate presentation of assets for acquisition cash-flows as mentioned above in § 18) and disclosure requirements (IFRS 17.98-109) have to be revised consequently. As mentioned in the IASB tentative decisions in March 2019, changes in the unit of account for presentation purpose also induce similar changes in the unit of account for disclosure requirements (amending IFRS 17.99).
- 91 It is also necessary that a non-ambiguous definition of certain accruals (such as premium receivables) is clarified in order to provide comparative and useful information on them.
- 92 We suggest supplementing Appendix A of IFRS 17 with a common definition of premium receivables that could be based on the IFRS 15.105 definition of the “unconditional rights to consideration” taking into account the effective (not the theoretical) period before policyholder’s rights (to coverage) actually lapse.
- 93 IFRS 17 is based upon a cash basis approach for recognition and measurement. Without changing the recognition and measurement provisions, we believe that also applying such a cash basis approach to the presentation aggregates assets and liabilities of a different nature in a combined amount for each portfolio of contracts. The decisions taken to elaborate IFRS 17 have the following consequences in terms of B/S presentation:

- 94 – **Premium receivables** (corresponding to a coverage period that has already started but for which payment has not yet been received) are not shown separately. This information is key for a proper understanding of the activity and risks involved. Generally, in case of non-payment, the coverage will remain in force for a period of time, i.e. until the contract is terminated following certain legally/contractually organised procedures. Following termination, the insurer is entitled to the payment of the premium up to that date and will have to cover any claim incurred during the coverage period.

95 Illustrative example 1: presentation of premium due in the general model

96 Assuming a one-year motor insurance policy is issued on 15 December N that covers third party liability. On 31 December N, the policyholder has still not paid the insurance premium of 240 CU. Under the local jurisdiction, not paying premium at the exact moment when due does not invalidate the insurance coverage. The estimates of future outflows relating to future claims and costs amount to 192.

97 As of 31 December N, applying IFRS 17.32-37, a liability for remaining coverage is recognised and measured as the difference between the premium due (240 CU), the other fulfilment cash flows relating to expected claims (192 CU) and the CSM ($48 \times 345 / 360 = 46$ CU). Finally, the amount presented for that insurance contract will be an asset amounting to 2 CU. The usefulness of information conveyed by the amount presented on the balance sheet and resulting from offsetting different components is questionable.

98 – **Liabilities for claims incurred and liabilities for remaining coverage** are not shown separately. This information is key for a proper understanding of the activity and risks involved. When an insured event occurs, there is a fundamental change in nature from liability for remaining coverage (LRC) to liability for incurred claim (LIC). The key factor for the former is the probability of occurrence in the future, the key factor for the latter is the quality of estimates (from very simple estimates to more complex ones and IBNR).

99 – **Collateral deposits related to reinsurance accepted and held** are not shown separately. This information is key for a proper understanding of the activity and risks of the reinsurer as well as of the cedant. The information on the liability for remaining coverage of the reinsurer does not depend on the nature of the guaranty provided by the reinsurer (deposit in cash, assets pledged or third party guarantee). This issue is the same for the insurer and the insurance contract held. Accordingly, deposits made or received are considered within the boundaries of the reinsurance contract.

Premium receivables

100 IFRS 17 does not require information on premium receivables in the balance sheet or in the notes. A definition of “premium receivables” should clarify whether they encompass “due and payable” (expected cash flows) or only “due and payable and enforceable” amounts (expected enforceable cash flows).

101 A common definition of a receivable shall not depend on the payment schedule i.e. be different when settled in one payment upfront compared with 12 instalments.

Measurement of premium receivables and liabilities for incurred claims

102 The nature of premium receivables and liabilities for incurred claims may put them under IFRS 9. It remains to be demonstrated that the risks covered under IFRS 9 (in particular related to premium receivables) are properly taken into account in the estimated FCF following IFRS 17.32 and IFRS 17.40.

- 103 We are of the view that there is no need for changing *measurement*, i.e. referring to IFRS 9 and therefore strongly suggest restricting the issue raised to the *presentation* of accruals in the balance sheet.

ANC additional suggestions

- 104 We suggest amending the presentation requirement in order to introduce direct requirements to present the main accruals in the face of the balance sheet (instead of in the notes):
- 105 IFRS 17.78: An entity shall present separately in the statement of financial position the carrying amount of ~~groups of~~:
- (a) ~~insurance contracts issued that are assets~~ premium receivables related to insurance contracts,
 - (b) liabilities for remaining coverage (including contractual service margin) related to insurance contracts,
 - (c) liabilities for incurred claims related to insurance contracts,
 - (d) premium receivables (reinsurer) and payables (insurer) related to reinsurance contracts,
 - (e) liabilities for remaining coverage (reinsurer) and asset for reinsurance contracts held (insurer) for reinsurance contracts,
 - (f) liabilities for incurred claims (reinsurer) and assets for reinsurance contracts held (insurer) for reinsurance contracts,
 - (g) liabilities for deposits received (insurer) and assets for deposits made (reinsurer) related to reinsurance contracts.
- ~~(b) insurance contracts issued that are;~~
~~(c) reinsurance contracts held that are assets;~~
~~(d) reinsurance contracts held that are liabilities.~~
- 106 Appendix A: Premium receivable: represents the unconditional right of the entity to consideration for the coverage to be provided. It takes into account the effective, not the theoretical, period before policyholder's rights to coverage actually lapse.

5.3 *Further comments on presentation: Interim financial statements*

- 107 IFRS 17.B137 requires the CSM be “locked-in” at interim reporting which is in contradiction with the “year to date” approach required otherwise by IAS 34. Moreover, the CSM measurement would then depend on the frequency of external financial reporting and thus reduce comparability.
- 108 We therefore suggest removing IFRS 17.B137.

6 Q6: Applicability of the risk mitigation option

6.1 Comments on proposed amendments

- 109 Risk mitigation provisions in the standard primarily provide a specific accounting treatment in order to prevent a mismatch with some financial instruments accounted for under IFRS 9. The scope of the risk mitigation provisions has been expanded to also include reinsurance contracts held to mitigate financial risk. This extension helps circumventing an accounting mismatch arising from reinsured contracts accounted for under the VFA approach whereas IFRS 17.B109 prohibits applying the VFA to reinsurance contracts held.
- 110 ANC's preferred solution to the issue relating to the prohibition of applying VFA to reinsurance contracts held is to simply remove the prohibition in IFRS 17.B109. In our view, reinsurance contracts should be subject to the same VFA criteria as insurance contracts (see also § 79).
- 111 ANC acknowledges that the extension of the risk mitigation also provides a workable solution to that issue. We therefore consider that the amendment is an improvement of the standard. We are however concerned that the current scope of the risk mitigation is too narrow since it excludes mitigating:
- risks other than financial: e.g. climate-related derivatives which are accounted for at fair value through profit and loss whereas changes in the fulfilment cash-flows of insurance contracts relating to future service adjust the contractual service margin (CSM);
 - risks relating to non-VFA participating contracts applying the OCI option, with minimum guarantees hedged with the help of financial derivatives
- 112 The extension of the scope of the risk mitigation to some reinsurance contracts held has extended the prohibition in IFRS 17.C3 (b) from applying retrospectively the risk mitigation exception to reinsurance contracts held. The reasons for extending this prohibition to reinsurance contract held are outlined in BC 128 of the ED.
- 113 The definition of a reinsurance contract held in appendix A of IFRS 17 secures the existence of an economic offset whereas the contractual terms allow identifying whether the reinsurance contract actually mitigates risks. As a consequence, the risk of hindsight arising from the absence of a documented risk management strategy does not apply. ANC therefore suggests that the retrospective application of risk mitigation relating to reinsurance be *mandatorily* applied (and IFRS 17.B115 requirements consequently amended).

7 Q7: Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4

- 114 ANC welcomes the IASB's decision to defer the effective date of IFRS 17. We believe that IASB should thoroughly consider the feedback from the current public consultation and address all relevant concerns before finalising the amendments notwithstanding the planned implementation date by 1st January 2022. We do not hear from our stakeholders that a further postponement (by 6-12 months) would actually be disruptive. As standard setter, our priority remains to improve a standard built to last.
- 115 The effective date for IFRS 9 should continue to be aligned with the effective date of IFRS 17.

7.1 Further Interaction with IFRS 9 regarding the comparative information

- 116 We do not oppose the implementation date be postponed by one further year (1st January 2023) and would be in favour of offering the option for an earlier application in that case.
- 117 We would not oppose a mandatory requirement to provide IFRS 9 comparatives in that case (i.e. for 2022) provided that IFRS 9 transition requirements are adapted in order to allow a retrospective application of IFRS 9 to financial instruments that have been derecognised before transition (currently prohibited by IFRS 9 transition requirements).

8 Q8: Transition modifications and reliefs

8.1 Comments on proposed amendments

- 118 ANC agrees that the option to classify as a liability for incurred claims a liability for settlement of claims incurred before a contract was acquired (Q8A) provides a workable solution to the issue raised by the modified retrospective approach. Based on a cost/benefit analysis, we believe that it would be worth considering offering that simplification also when the full retrospective approach (FRA) is applied, i.e. even when it is “practicable” for an entity to retrospectively apply the business combination (creating a new Paragraph C5B as an exception to C5).
- 119 Risk mitigation provisions in IFRS 17.B115 allow for recording in the P&L instead of in the CSM the financial risk’s component of changes in the CSM, in order to match the corresponding changes in the derivatives. Retrospectively applying such risk mitigation on transition would accordingly impact the CSM and the retained earnings. However IFRS 17.C3(b) specifically prohibits a retrospective application of risk mitigation that may “give rise to the risk of hindsight” (IFRS 17.BC 393). In our view, not reflecting it on transition could distort the historical CSM and significantly impact the insurance result for years. In our view, the documentation on the risk-management objective and strategy for using derivatives to mitigate financial risk arising from the insurance contracts referred to in IFRS 17.B116 may already exist prior to the transition.
- 120 There is no conceptual reason for excluding the retrospective application of IFRS 17.B115 as long as the same documentation requirement applies. Risk mitigation is derived from a corporate strategy and does not result from a deliberate choice. An overall consistency with information provided in other parts of the previous reports could be additionally required: description of the hedging strategy and its major impact, clear distinction between instruments providing risk mitigation and the related contracts, and those that do not provide such risk mitigation.
- 121 Moreover, the reference made in IFRS 17.C6 to “reasonable and supportable information available without undue cost or effort” should be a general principle ensuring an adequate financial information in the very specific and temporary situation of a transition.
- 122 The possibility to apply the FVA approach (Q8C) is not a solution to a preferable retrospective application, and the possibility to apply the risk mitigation on transition date is limited to the effect during the comparative period, but not addressing the opening effect on CSM and retained earnings (Q8B).

8.2 Further comments on transition: Modified retrospective approach and fair value approach

- 123 The EFRAG’s case study has been the unprecedented opportunity to test on a large basis the practicability of the transition requirements. It raised several issues among which the most pervasive is an operational difficulty to apply the criteria for the three approaches offered (full retrospective FRA, modified retrospective MRA and fair value FVA).
- 124 ANC supports the application of retrospective approaches. In the insurance business, transactions are rarely performed on a quoted market so that fair value is difficult to gather and generally pertains to level 3 valuations that probably require as much judgment and assessments (and as few comparability) as applying a retrospective

approach. We therefore do not consider that the fair value approach should take precedent on any retrospective approach.

- 125 Our understanding is that the FRA is very demanding. The concern has been raised that the simplifications introduced by the MRA may not result in much less efforts than the FRA. In order to facilitate a retrospective application rather than a prospective approach, the MRA should therefore be as flexible as possible.
- 126 We concur with the principle set in IFRS 17.C6 that the MRA aims at achieving “the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort”.
- 127 We expect the practice to develop in this area (and the reference to “supportable information” invites to such a development). However, we think that either in the FRA or in the MRA, it would be very useful that the standard more clearly states how estimates (which might relax a too strict application) may be used in FRA before being considered as a departure requiring applying the MRA or the FVA. Questions on how to use “reasonable and supportable” information under the FRA or MRA are key, for instance when determining the initial value or when applying annual cohort requirements.
- 128 ANC believes it would be useful that IASB clarifies the possibility within a chosen approach (among the three available) to make estimates, including those requiring to apply different methodologies depending on the available information in order to approximate missing information complying with the retained approach.
- 129 We welcome BC 143 of the ED confirming that the MRA *supplements* the full retrospective approach with focused rules-based solutions where no reasonable and supportable information is available (except the information that might be required to apply the specified modification as stated in BC 139 of the ED). In other words, estimates under the MRA can still approximate missing past data. Such estimates can rely on variable methodologies depending on the available information. We however believe such a clarification should be placed directly in the standard (e.g. amending IFRS 17.C8) instead of in a BC.
- 130 We also welcome BC 144 of the ED commenting on IFRS 17.C12 that estimates will often be needed as proxies for cash-flows. This clarification should however be placed directly in the standard (e.g. amending IFRS 17.C12) instead of in a BC and the wording “are known to” be deleted.
- 131 IFRS 17.C8 could be amended as follows:

To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–C19 only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach. In addition, the existence of specified modifications in the modified retrospective approach does not prohibit an entity from:
(a) making estimates that are necessary in retrospectively applying an accounting policy as described in paragraph 51 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or
(b) similarly, making estimates when applying a specified modification in the modified retrospective approach.

- 132 IFRS 17.C12 could be amended as follows:

To the extent permitted by paragraph C8, an entity shall estimate the future cash flows at the date of initial recognition of a group of insurance contracts as the amount of the future cash flows at the transition date (or earlier date, if the future cash flows at that earlier date can be determined retrospectively, applying paragraph C4(a)), adjusted by ~~the~~ actual or estimated cash flows that ~~are known to~~

have occurred between the date of initial recognition of a group of insurance contracts and the transition date (or earlier date). The actual or estimated cash flows that ~~are known to have~~ occurred include cash flows resulting from contracts that ceased to exist before the transition date.

8.3 Further comments on transition: OCI option for non VFA participating contracts under the MRA

- 133 For an entity that chooses to disaggregate insurance finance income or expenses between P&L and OCI in accordance with IFRS 17.88 (b), the MRA requirements indicate that the cumulative OCI relating to non-VFA contracts at the transition date should be assessed as nil under the assumption that the discount rate retained is the current rate on transition (IFRS 17.C19(b)(ii)).
- 134 From an economic standpoint, there is an issue in considering that changes in discount rate have not yet been recognised on the asset side (measured at amortised cost of FVOCI), whereas the insurance liability would be recognised on transition at a current value, e.g. implicitly considering that past changes in discount rate have been recorded in the retained earnings.
- 135 Not considering any impact of the OCI carried forward on the liabilities could significantly impact the result of future periods and then undermine the credibility of the transition which is a higher risk than the risk of hindsight created by accepting to retrospectively calculate former FCF.
- 136 In our view, transition requirements should not only provide a solution to VFA contracts (as IFRS 17.C19(b)(iv) does) but more broadly to participating contracts (as defined in IFRS 17.B132) that are “directly” (i.e. with a clearly identified linkage) linked with assets without complying with all the VFA criteria set in IFRS 17.B101. This would allow for a more continuous accounting treatment of participating contracts preventing the “cliff effect” of VFA criteria.
- 137 We note that IFRS 17.116 assumes that there is such a link between OCI on assets and liabilities upon transition, even for non VFA contracts.
- 138 FCF could be discounted at the rate the entity is expecting to be committed to against its policyholders (the “crediting rate”). Accordingly, accretion of the liability would reflect the returns transferred to policyholders. From an economic standpoint, the difference between that rate (estimated at transition date) and the current date on transition could be a proxy of what would have been put in OCI, be IFRS 17 applied from inception.
- 139 We suggest amending IFRS 17.C19(b) so that transition requirements address the cumulative amount of OCI carried forward on the liability for participating contracts (as defined in IFRS 17.B132) that are “directly” (i.e. with a clearly identified linkage) linked with assets without complying with all the VFA criteria set in IFRS 17.B101.
- 140 FCF should be discounted at a proxy of the locked-in rate at initial recognition calculated as the fixed interest rate based on which the entity expects to determine its commitment under the contract. Accordingly, accretion of the liability would reflect the returns transferred to policyholders. From an economic standpoint, the difference between that rate (estimated at transition date) and the current date on transition could be a proxy of what would have been put in OCI, be IFRS 17 applied from inception³.

³ See also on our website: [Draft for discussion on transition \(6 Mai 2019\)](#)

Suggested modifications

- 141 IFRS 17.C19: For groups of insurance contracts that do not include contracts issued more than one year apart:
- (a) if an entity applies paragraph C13 to estimate the discount rates that applied at initial recognition (or subsequently), it shall also determine the discount rates specified in paragraphs B72(b)–B72(e) applying paragraph C13; and
 - (b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income, applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative difference:
 - (i) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B131—if the entity applies paragraph C13 to estimate the discount rates at initial recognition—using the discount rates that applied at the date of initial recognition, also applying paragraph C13;
 - (ii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B132 — on the basis of the difference at transition date between the current rate and the rate based on which the entity expects to determine its commitment under the contract (crediting rate); otherwise on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, ie as nil;
 - (iii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B133—if the entity applies paragraph C13 to estimate the discount rates at initial recognition (or subsequently)—using the discount rates that applied at the date of the incurred claim, also applying paragraph C13; and
 - (iv) for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

9 Q9: Minor amendments

9.1 Comments on proposed amendments

- 142 ANC's view is that the minor amendments proposed improve the standard except for the two following ones:
- 143 Amending IFRS 17.28 (as explained in IFRS 17.BC 150) also requires to replace "issued" by "recognised" in IFRS 17.22. The level of aggregation applies to the recognition and measurement of insurance contracts; disconnecting IFRS 17.22 from this purpose is, in our view neither properly justified in BC 150 of the ED nor relevant from a conceptual point of view.
- 144 Amending IFRS 17.B128 (as explained in IFRS 17.BC 161) provides a rules-based presentation of "changes in underlying items" as insurance financial result in the P&L. IFRS 17.B128 not solely applies to VFA contracts. Therefore, referring to "underlying items" without restricting to VFA creates an ambiguity on how to apply these requirements to non-VFA contracts. Moreover, underlying "items" do neither solely refer to "assets" nor to the sole "financial" component of an item. The proposed amendment would for instance lead to record as insurance financial result any effects of time value of money and financial risks whereas the related changes in the underlying item would be presented as part of the finance income or expense. We do not support this amendment that does not "clarify" but rather (i) adds confusion on the scope of "underlying items", (ii) introduces a non-conceptually funded presentation of non-financial changes in insurance financial result and finally (iii) creates a mismatch in the P&L.

9.2 Further concerns with minor amendments

- 145 IFRS 17.B107(b) has been amended, replacing "group of insurance contracts" by "the insurance contract" when assessing the variability in the amounts as defined in IFRS 17.B101(c). To our knowledge that amendment has not previously been discussed in IASB meetings addressing IFRS 17 issues. Since IFRS 17.B101 defines the criteria for applying the Variable Fee Approach (VFA), ANC is concerned that narrowing the application of the criteria might have unintended effects on the scope of the VFA and could disrupt the current implementation of the standard. We suggest that additional unsupported amendment be removed.

10 Q10: Terminology

146 Terminology amendments are welcome even if non critical.

147 In a previous letter⁴, we have suggested several improvements in the wording of the standard that appear to us being more critical. Reinsurance contracts held are subject to the general standard's provisions with some adjustment expressed in IFRS 17.60-70. A simulation makes it clear that the specific provisions on reinsurance contracts held are not literally transposable into the general requirements of the standard on insurance contracts. Among others, we stress the point that:

- Level of aggregation requirements relating to onerous contracts (or contracts that may become onerous) are incompatible with IFRS 17.68 stating that reinsurance contracts cannot be onerous. In addition, the modifications to IFRS 17.14 to 24 required by IFRS 17.61 introducing the notion of “contracts on which there is a net gain on initial recognition” do not seem to create the conditions for an adequate aggregation of reinsurance contracts held.
- General provisions on subsequent measurement (IFRS 17.40-43) refer to liabilities and unearned profits and therefore cannot apply without further adjustments to reinsurance contracts held.

⁴ See on our Website: [Draft for discussion on Reinsurance \(6 Mai 2019\)](#)

11 Example of the level of aggregation applied to mutualised contracts

A first example had been prepared in a first draft document on the level of aggregation (11/02/2019)⁵.

A similar example has been partly commented in the March 2019 IASB's meeting.

We have further commented on that Board's discussion in a letter (06/05/2019)⁶.

We finally developed the following example in order to illustrate how the current standard applies to mutualised contracts when discretion is used (06/05/2019)⁷.

11.1 Problem statement

- 148 An insurance company issues the following participating contracts:
- In year Y: 10 contracts with an individual premium of 1 000
 - In year Y+1: 15 contracts with an individual premium of 1 000
- 149 The contracts share the returns of a common pool of assets segregated in a dedicated fund and are contractually entitled to a minimum of 80 % of the returns (determined based on the historical cost of the investments) from the pool, yet with the insurer's discretion as to the timing and allocation of the payments to individual policyholders. The contract duration is five years. Upon the contractual terms, policyholders are entitled to the account balance including the accumulated premiums and discretionary bonuses. Discretionary bonuses are set by management on a yearly basis and credited to policyholders' account. Afterwards, policyholders have an enforceable right to the payment of the bonus. For commercial reasons, management credits all policyholders' accounts using a single crediting rate (no distinction by year of subscription). Expected payment may exceed the contractual minimum of 80 % depending on market conditions and competitive pressure.
- 150 The contracts are investment contracts with discretionary participation features that fall under IFRS 17. The example assumes that they meet the criteria for the variable fee approach (IFRS 17.B 101).
- 151 The premiums are assumed to be paid on January 1st and immediately invested in zero-coupon bonds:
- in year Y: 10 000 in bonds with a 5 year maturity and an interest rate of 5 % capitalised until maturity;
 - in year Y+1: 15 000 in bonds with a 5 year maturity and an interest rate of 3 % capitalised until maturity.
- 152 At the end of year Y, the market interest rate for bonds goes down to 3 %. For simplicity reason, yield curves are assumed to be flat.

⁵ See on the ANC website: [ANC shares with IASB drafts for discussion on IFRS17 issues : Transition and illustrative example on the level of aggregation \(11/02/2019\)](#)

⁶ See on the ANC website: [ANC comments on the recent IASB decisions on the level of aggregation \(06/05/2019\)](#)

⁷ See on the ANC website: [ANC shares with IASB and EFRAG amended drafts for discussion on IFRS17: Level of aggregation \(06/05/2019\)](#)

- 153 At the end of year Y+1, the market interest rate for bonds goes down to 1 % and remains flat afterwards.
- 154 In future periods, notwithstanding the drop of market interest rate, everything happens as expected at inception.
- 155 The credit risk of the bonds is assumed to be negligible. The bonds are accounted for at amortised costs. Applying IFRS 17.B81 the entity determines the discount rate based on the yield curve implicit in the fair value measurement of the dedicated fund.
- 156 For simplicity reason, it is assumed that the company starts its activity in Y and has no other portfolios. Furthermore, the CSM is allocated to profit and loss based on the passage of time and no risk adjustment for non-financial risk is considered.

11.2 In year Y:

Recognition of the first group of contracts

- 157 Upon the receipt of the premium, the entity recognises the group of contracts issued in year Y.
- 158 The investment in bonds will provide a cash inflow of $10\,000 \times 1.05^5 = 12\,763$ in year 5 (Y+4).
- 159 Because of market competition, the insurance company expects to make a final payout upon year Y+4 with an implicit yearly yield rate of 4.5 % for the policyholders. The final expected payment is therefore $10\,000 \times 1.045^5 = 12\,462$. The participation of the policyholders is therefore $2\,462 / 2\,763 = 89\%$, above the contractually guaranteed minimum, and the insurer's fee amounts to 301.
- 160 The dedicated portfolio of assets is considered as the reference portfolio for the determination of the discount rate. The bonds bear no credit risk and the entity decides to apply the option in IFRS 17.B81 not to adjust the reference portfolio's rate for differences in the liquidity characteristics. Therefore, the discount rate equals the rate of return implicit in the fair value of the dedicated portfolio of assets (top-down approach). At initial recognition the discounted value of the payment is $12\,462 / 1.05^5 = 9\,764$.
- 161 The initial CSM is therefore $10\,000 - 9\,764 = 236$.

At the end of year Y:

- 162 At the end of year Y the company's management decides to credit policyholders' account with a return of 4.5 %. The policyholders' account balance therefore becomes $10\,000 \times 1.045 = 10\,450$.
- 163 The bonds are accounted for at amortised cost, the entity records the interests earned over the period: 500.
- 164 As interest rate have fallen to 3 %, the fair value of the bonds purchased in year Y has increased to $10\,000 \times 1.05^5 / 1.03^4 = 11\,340$.
- 165 The discount rate for the determination of the liability for remaining coverage is updated to reflect the current market rate of returns implicit in the fair value measurement of the reference portfolio, which is 3 %.
- 166 Because of the drop in market interest rate, the entity now does not expect to pay back 88 % of the pool's expected yield anymore and thus reduces its estimates of discretionary benefits from 4.5 % to 4.1 %. The expected final payment is $10\,000 \times 1.045 \times 1.041^4 = 12\,272$. The expected participation of policyholders is 82 % of the yield from the pool of assets.

- 167 The liability for remaining coverage under IFRS 17 is the discounted value of the expected terminal payment which is $10\,000 \times 1.045 \times 1.041^4 / 1.03^4 = 10\,904$. The increase is $10\,904 - 9\,764 = 1\,140$.
- 168 Furthermore, as contracts are accounted for under the variable fee approach, the entity also updates the CSM by 200 up to the difference between:
- the change in the fair value of the underlying assets: $11\,340 - 10\,000 = 1\,340$.
 - the change in the liability for remaining coverage: $9\,764 - 10\,904 = -1\,140$.
- 169 In addition, as the entity holds the underlying items, it chooses to disaggregate the insurance finance income between profit and loss and OCI so as to eliminate the mismatch with the assets carried at amortised costs. The difference is $1\,140 + 200 - 500 = 840$.
- 170 Finally, the entity allocates the contractual service margin to P&L:

New contracts issued (§ 161)	236
Change in the entity's share of the underlying items (§ 168)	200
Amounts before allocation to profit and loss	436
Allocation to profit and loss 1/5	-87
CSM at year end	349

Balance sheet	Year Y
Bonds (§ 163)	10 500
Liability for remaining coverage (§ 167)	(10 904)
Contractual service margin (§ 170)	(349)
Net income (§ 170)	(87)
Other comprehensive income (§ 169)	840

Profit and loss statement	Year Y
Insurance revenue (§ 170)	87
Finance income (Bonds) (§ 163)	500
Insurance finance expenses: -1 140 -200 +840	(500)
Net income	87

11.3 In year Y + 1:

Recognition of the second group of contracts

- 171 The implicit rate of return in the fair value measurement of the reference portfolio of assets is 3 %.
- 172 The expected returns from the overall portfolios of investments in bonds amounts to: $10\,000 \times (1.05^5 - 1) + 15\,000 \times (1.03^5 - 1) = 5\,152$.
- 173 Considering the market conditions, the entity expects to credit policyholders' accounts with a single rate of 3 %.
- The expected terminal payment to group 1 (G 1) is therefore expected to be $10\,450 \times (1.03)^4 = 11\,762$
 - The expected terminal payment to group 2 (G 2) is thus expected to be $15\,000 \times (1.03)^5 = 17\,389$
 - Thus the expected returns to be passed to the policyholders amount to $1\,762 + 2\,389 = 4\,151$, that is 81 % of the total expected returns from the pool of assets.
- 174 Applying IFRS 17.B68 (b), the fulfilment cash flows included in the measurement of G 2 reflect the extent to which the contracts in the group cause the entity to be affected by expected cash flows.

- 175 In this example, the entity expects to pay 17 389 in year 5 to the policyholders of G 2, however, the measurement of G 1 already includes a $12\,272 - 11\,762 = 510$ payment allocated to G 2.
- 176 Applying IFRS 17.B68, the discounted fulfilment cash flows allocated to G 2 therefore amount to $(17\,389 - 510) / 1.03^5 = 14\,560$. The CSM amounts to 440.
- 177 The calculation of the CSM of G 2 upon initial recognition (440) reflects the fact that a payment of 510, which was previously allocated to the policyholders of G 1, is expected to be paid in year Y+5 to the policyholders of G 2. However, applying IFRS 17.B68, this amount is allocated to G 1 and included in its discounted FCF up to $510 / 1.03^4 = 453$. As a consequence, the discounting effect due to the time lag between the expected payments to G 1 and G 2 ($453 - 440 = 13$) adjusts the CSM of G 2.

The CSM of G 2 depends on the assumptions made on the whole mutualised population that (i) the crediting rate is 3 % and (ii) G 1 allocates 510 thanks to the pooling of assets' returns and applying IFRS 17.B 68. It is noteworthy that the amount of the CSM allocated to G 2 depends to a large extent on the discretionary assumptions made in past periods. This is illustrated in § 212-213 thereafter highlighting that whenever discretionary benefits allocated to a group exceed the minimum contractual participation, the determination of the CSM of future groups is affected by the timing of changes in discretionary assumptions.

At the end of year Y+1

- 178 The bonds are accounted for at amortised costs, the entity therefore records the interest rate for the period that is $10\,500 \times 5\% + 15\,000 \times 3\% = 975$.
- 179 The current market interest rate falls to 1 %. The fair value of the bonds held by the entity amounts to $10\,000 \times 1.05^5 / 1.01^3 + 15\,000 \times 1.03^5 / 1.01^4 = 12\,388 + 16\,710 = 29\,098$. The fair value change is therefore $29\,098 - 15\,000 - 11\,339 = 2\,759$.
- 180 The entity computes the discounted fulfilment cash flows:
- For G 1, the liability is $(11\,762 + 510) / 1.01^3 = 11\,911$ with an increase of $11\,911 - 10\,903 = 1\,008$
 - For G 2, the liability is $(17\,389 - 510) / 1.01^4 = 16\,220$ with an increase of $16\,220 - 14\,560 = 1\,660$.
- The total increase in the discounted fulfilment cash flows is therefore 2 668.
- 181 Then the entity unlocks the CSM to record its share in the changes in the fair value of the underlying item that is $2\,759 - 2\,668 = 91$.

IFRS 17 does not provide guidance in applying paragraphs B104 (b) (i) and B112 to groups of contracts that share in the same pool of underlying assets.

In this fact pattern, the changes in the fair value of the bonds cannot be specifically attributed to a cohort because policyholders do not have an individual right to the assets of the pool. Actually, the entity has not allocated discretionary bonuses to policyholders' accounts. As a consequence the fair value gain from the assets of the pool still belongs to the community of policyholders as a whole.

The entity therefore needs to determine an accounting policy to perform the allocation. In this example, it is *assumed* that the entity's share of the fair value of the underlying items is allocated proportionally to the increase in the discounted fulfilment cash flows allocated to each group.

182 According to its accounting policy, the entity thus allocates the entity's share of the fair value of the underlying items as follows:

- The amount allocated to G 1 is therefore $91 \times 1\,008 / 2\,668 = 34$
- The amount allocated to G 2 is therefore $91 \times 1\,660 / 2\,668 = 57$

The allocation policy applied affects the CSM of the cohorts. Given the lack of guidance in the standard, this challenges whether the information provided by the cohorts can lead to relevant and comparable information on profitability trends.

Actually, in the absence of a direct contractual relationship between the payments to individual policyholders and the returns on the underlying items, the annual cohort leads to an arbitrary allocation of mutualised discretionary benefits.

183 Then the entity applies IFRS 17.B134 and disaggregates its insurance finance expenses between profit and loss and OCI. The amount booked to OCI is therefore $2\,668 + 91 - 975 = 1\,783$.

184 Then the entity allocates CSM to P&L according to IFRS 17.B119

	G 1	G 2	Total
Opening balance	349		349
New contracts issued		440	440
Change in the entity's share of the underlying items	34	57	91
Amounts before allocation to profit and loss	383	497	880
Allocation to profit and loss 1 / 4 for G 1 and 1 / 5 for G 2	(96)	(99)	(195)
CSM at the end of year Y+1	287	398	685

185 The financial statements are as follows:

Balance sheet	Year Y+1	Profit and loss statement	Year Y+1
Bonds	26 475	Insurance revenue	195
Liability for remaining coverage	(28 131)	Finance income	975
Contractual service margin	(685)	Insurance finance expense	(975)
Net income	(195)		
Retained earnings	(87)		
Other comprehensive income	2 623	Net income	195

In years Y+2 and Y+3

186 The bonds are accounted for at amortised costs, the entity therefore records the interest rate for the period that is:

- In Y+2: $11\,025 \times 5\% + 15\,450 \times 3\% = 1\,015$;
- In Y+3: $11\,576 \times 5\% + 15\,914 \times 3\% = 1\,056$.

187 The current market interest rate is flat at 1 %. The fair value of the bonds held by the entity amounts to:

- In Y+2: $10\,000 \times 1.05^5 / 1.01^2 + 15\,000 \times 1.03^5 / 1.01^3 = 12\,511 + 16\,878 = 29\,389$;
- In Y+3: $10\,000 \times 1.05^5 / 1.01 + 15\,000 \times 1.03^5 / 1.01^2 = 29\,683$.

188 The fair value changes of the bonds are therefore:

- In Y+2: $29\,389 - 29\,098 = 291$;
- In Y+3: $29\,683 - 29\,389 = 294$.

189 The entity computes the discounted fulfilment cash flows

For G 1, the liability is:

- In Y+2: $(11\,762 + 510) / 1.01^2 = 12\,030$ with an increase of $12\,030 - 11\,911 = 119$
- In Y+3: $(11\,762 + 510) / 1.01 = 12\,150$ with an increase of $12\,150 - 12\,030 = 120$

For G 2, the liability is:

- In Y+2: $(17\,389 - 510) / 1.01^3 = 16\,382$ with an increase of $16\,382 - 16\,220 = 162$
- In Y+3: $(17\,389 - 510) / 1.01^2 = 16\,546$ with an increase of $16\,546 - 16\,382 = 164$.

190 Then the entity unlocks the CSM to record its share in the changes in the fair value of the underlying item that is:

- In Y+2: $291 - 119 - 162 = 10$
Of which: $10 \times 119 / (119 + 162) = 4$ allocated to G 1
Of which: $10 \times 162 / (119 + 162) = 6$ allocated to G 2
- In Y+3: $294 - 120 - 164 = 10$.
Of which: $10 \times 120 / (120 + 164) = 4$ allocated to G 1
Of which: $10 \times 164 / (120 + 164) = 6$ allocated to G 2

191 Then the entity applies IFRS 17.B134 and disaggregates its insurance finance expenses between profit and loss and OCI. The amount booked to OCI is therefore:

- In Y+2: $119 + 162 + 10 - 1\,015 = (724)$;
- In Y+3: $120 + 164 + 10 - 1\,056 = (762)$.

192 Then the entity allocates the CSM to profit and loss according to IFRS 17.B119

	G 1	G 2	Total
Opening balance Y+1	287	397	685
Change in the entity's share of the underlying items	4	6	10
Allocation to profit and loss 1/3 for G 1 and 1/4 for G 2	(97)	(101)	(198)
CSM at the end of year Y+2	194	302	496
Change in the entity's share of the underlying items	4	6	10
Allocation to profit and loss 1/2 for G 1 and 1/3 for G 2	(99)	(103)	(202)
CSM at the end of year Y+3	99	205	304

193 The financial statements are as follows:

Balance sheet	Y+2	Y+3	Profit and loss	Y+2	Y+3
Bonds	27 490	28 546	Insurance revenue	198	202
Liability for remaining coverage	(28 412)	(28 697)	Finance income	1 015	1 056
Contractual service margin	(496)	(304)	Insurance finance expense	(1015)	(1 056)
Net income	(198)	(202)			
Retained earnings	(282)	(480)			
Other comprehensive income	1 899	1 137	Net income	198	202

In years Y+4

194 Underlying assets:

- The bonds are accounted for at amortised costs, the entity therefore records the interest rate for the period that is $12\,155 \times 5\% + 16\,391 \times 3\% = 1\,099$.
- The bonds subscribed in year Y reach their maturity and the entity receives the final inflow of 12 763.
- The fair value of the remaining bonds held by the entity amounts to $15\,000 \times 1.03^5 / 1.01^1 = 17\,217$.
- The change in fair value of the underlying assets is therefore $(17\,217 + 12\,763) - 29\,683 = 297$.

195 The contracts of G 1 reach their maturity. The entity makes its expected final payment of $10\,000 \times 1.045 \times 1.03^4 = 11\,762$. The change in the liability for remaining coverage for G 1 is therefore:

Opening balance	12 151
Unwind of the discount rate (1 %)	121
Terminal payment to policyholders of G 1	-11 762
Closing balance – Residual amount allocated to G 2	510

196 The entity applies IFRS 17.B71 and recognises a liability for the fulfilment cash flows allocated to G 2 up to 510.

197 At the end of year Y+5, the company has cash at hand up to $12\,763 - 11\,762 = 1\,001$

198 The discounted fulfilment cash flow to G 2 amounts to $(15\,000 \times 1.03^5 - 510) / 1.01 = 16\,712$. The change amounts to $16\,712 - 16\,546 = (165)$.

199 Then the entity unlocks the CSM to record its share in the changes in the fair value of the underlying item that is $297 - 121 - 165 = 10$, which is fully allocated to G 2.

200 Then the entity applies IFRS 17.B 134 and disaggregates its insurance finance expenses between profit and loss and OCI. The amount booked to OCI is therefore $287 + 10 - 1\,099 = (803)$.

201 Then the entity allocates the CSM to profit and loss according to IFRS 17.B119:

	G 1	G 2	Total
Opening balance	99	205	304
Change in the entity's share of the underlying items	0	10	10
Allocation to profit and loss 1 / 1 for G 1 and 1 / 2 for G 2	- 99	-108	-207
CSM at the end of Y+4	0	108	108

202 The financial statements are as follows:

Balance sheet	Y+4
Cash at hand	1 001
Bonds	16 883
Liability for remaining coverage	-17 222
Contractual service margin	- 108
Net income	-207
Retained earnings	-682
Other comprehensive income	334

Profit and loss statement	Y+4
Insurance revenue	207
Finance income (bonds)	1 099
Insurance finance expense	-1 099
Net income	207

11.4 At the end of year Y+5

- 203 The bonds are accounted for at amortised costs, the entity therefore records the interest rate for the period that is $16\,883 \times 3\% = 506$.
- 204 The bonds subscribed in year Y+1 reach their maturity and the entity receives the final inflow of 17 389. The change in the fair value of the bonds is $17\,389 - 17\,217 = 172$.
- 205 The contracts of G 2 reach their maturity. The entity makes its expected final payment of $15\,000 \times 1.03^5 = 17\,389$.
- 206 The balance of cash in hands amounts is therefore unchanged and amounts to 1 001.
- 207 The changes in the liability for remaining coverage amounts to $17\,389 - 16\,712 - 511 = 167$.
- 208 The CSM is adjusted by $172 - 167 = 5$ to recorded the entity's share of the fair value changes.
- 209 The entity releases the contractual service margin to profit and loss: $108 + 5 = 113$.
- 210 Then the entity applies IFRS 17.B 134 and disaggregates its insurance finance expenses between profit and loss and OCI. The amount booked to OCI is therefore $167 + 5 - 506 = (334)$, which settles the balance of OCI.
- 211 The financial statements are as follows:

Balance sheet	Y+5	Profit and loss statement	Y+5
Cash at hand	1 001	Insurance revenue	113
Bonds	0	Finance income (bonds)	506
Liability for remaining coverage	0	Insurance finance expense	(506)
Contractual service margin	0		
Net income	(113)		
Retained earnings	(888)		
Other comprehensive income	0	Net income	113

11.5 Alternative case

- 212 § 166 indicates that, because of the drop in market interest rate, the entity discretionary changes its estimates of the crediting rate from 4.5 % to 4.1 % at the end of year Y. Accordingly, the expected participation of G 1 policyholders in the yield of the pool of assets decreases from 88 % down to 82 %. The expected final payment thus decreases from 12 462 to $10\,000 \times 1.045 \times 1.041^4 = 12\,272$.
- 213 Had that change in assumption not taken place at the end of Y, the expected final payment to G 1 would have remained at $10\,000 \times 1.045^5 = 12\,462$.
- 214 In that case, § 167-168 is changed as follows:
- At the end of year Y, the liability for remaining coverage under IFRS 17 is the discounted value of the expected terminal payment which is $10\,000 \times 1.045^5 / 1.03^4 = 11\,072$. The increase is $11\,072 - 9\,764 = 1\,308$.
 - Furthermore, as contracts are accounted for under the variable fee approach, the entity also updates the CSM by **32** up to the difference between:
 - the change in the fair value of the underlying assets: $11\,340 - 10\,000 = 1\,340$.
 - the change in the liability for remaining coverage: $9\,764 - 11\,072 = -1\,308$.

215 Furthermore § 175-177 are changed as follows

- In year Y+1 upon the initial recognition of G 2, the entity expects to pay 17 389 in year 5 to the policyholders of G 2, however, the measurement of G 1 already includes a $12\,462 - 11\,762 = 700$ of payment allocated to G 2.
- Applying IFRS 17.B68, the discounted fulfilment cash flows allocated to G 2 therefore amount to $(17\,389 - 700) / 1.03^5 = 14\,396$. The CSM amounts to **604**.
- The FCF allocated to G 1 include a payment of 700 to G 2 which results in discounted FCF of $700 / 1.03^4 = 622$ allocated to G 1 whereas for the calculation of the CSM of G 2, this amount is discounted over 5 years: $700 / 1.03^5 = 604$ with a difference of 18. This amount impacts the CSM of G 2.

216 Consequently § 180-182 are amended as follows:

- The entity computes the discounted fulfilment cash flows:
 - o For G 1, the liability is $(11\,762 + 700) / 1.01^3 = 12\,095$ with an increase of $12\,095 - 11\,072 = 1\,023$
 - o For G 2, the liability is $(17\,389 - 700) / 1.01^4 = 16\,038$ with an increase of $16\,038 - 14\,396 = 1\,642$.

The total increase in the discounted fulfilment cash flows is therefore 2 665.
- Then the entity unlocks the CSM to record its share in the changes in the fair value of the underlying item that is $2\,759 - 2\,665 = 94$.
- According to its accounting policy, the entity thus allocates the entity's share of the fair value of the underlying items as follows:
 - o The amount allocated to G 1 is therefore $94 \times 1\,023 / 2\,665 = 36$
 - o The amount allocated to G 2 is therefore $94 \times 1\,642 / 2\,665 = 58$

217 The cumulative CSM of G 1 and G 2 has not significantly changed:

	Allocation: 510			Allocation: 700		
	G 1	G 2	Total	G 1	G 2	Total
New contracts issued in year Y	236		236	236		236
Change in the entity's share of the underlying items	200		200	32		32
Release to profit and loss (1/5)	-87		-87	-54		-54
Balance carried forward to year Y+1	349		349	214		214
Change in the entity's share of the underlying items	34	57	91	36	58	94
New contract issued in Y+1		440	440		604	604
CSM at the end of Y+1	383	497	880	250	662	912

By and large, the cumulative amount of CSM remains the same disregarding the discretionary assumptions made on the mutualised population in-Force (G 1) before the new business (G 2) has been issued. The difference in amount mainly results from the CSM released to profit and loss in year Y i.e. the CSM allocation to P&L in Y ($87-54=33$).

On the other hand, the CSM allocation between both cohorts is very different (G1: 383 vs 250 i.e. a difference amounting to -133; G2: 497 vs. 662 i.e. a difference amounting to +165). Since each cohort has a different remaining duration, the CSM amortisation will differ.