ANC contribution to IFRS 17

IFASS Meeting
Buenos Aires 29 March 2019

Introduction

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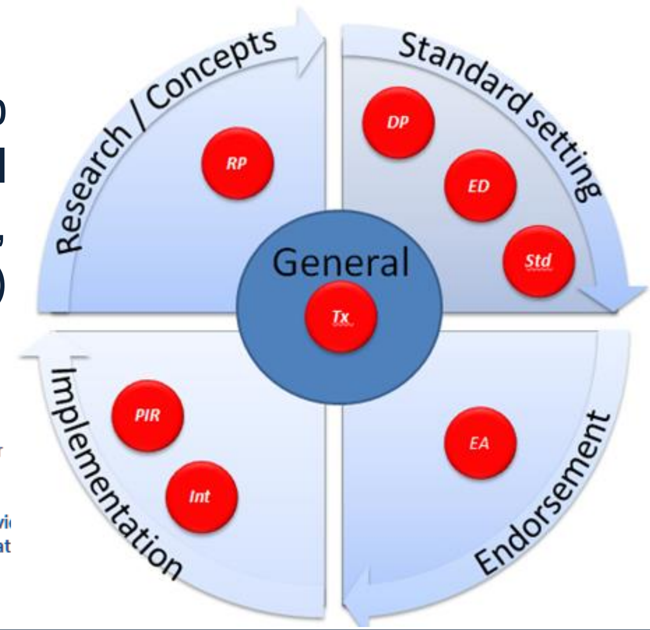
The ***Autorité des Normes Comptables*** (ANC) is the French accounting standard setter responsible for (1) adopting French accounting standards, (2) contributing to international accounting standard-setting and (3) encouraging and promoting accounting research.

As member of EFRAG (Board and TEG), ANC actively contributes to the endorsement of IFRS in Europe and intends to do so at all stages of the "Accounting standard-setting cycle."

ANC has put in place a working group dedicated to the IFRS 17, gathering all interested stakeholders (preparers, auditors, users, actuaries, regulators,…) and meeting monthly.



RP: research paper
DP: discussion paper
ED: exposure draft
Std: standard
EA: endorsement advi
PIR: post-implementat
Int: interpretation
Tx: taxonomy

Introduction

ANC is committed to the development of high quality financial reporting standards that meet the needs of all stakeholders.

We therefore fully support the implementation of a genuine international Insurance standard (by contrast with IFRS4 which is a “weak” standard).

However since significant concerns have been identified and since the standard should be “built to last”, ANC considers it is essential to address all identified concerns prior to implementation.

Our purpose is therefore to contribute to improving a standard designed to last.

The following analysis is limited because it represents one contribution among others and because the standard itself is still debated at this stage of the analysis.

Only the final wording of the amended standard will provide the full picture supporting a comprehensive and fair assessment as to whether concerns have properly been addressed.

Introduction

The purpose of this session is to share and discuss ANC contribution to IFRS17 that:

- results from an ongoing dialogue with IASB, EFRAG, other NSS and our stakeholders in the last three years;
- provides views and suggestions on the current discussions and questions raised on IFRS17, by EFRAG in particular;
- summarises insights and analyses on the current topics that are further detailed in separate draft documents for discussion;
- will continue during the consultation process while welcoming dialogue on challenges emerging from other experiences and fact patterns in order to ultimately improve a crucial standard.

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Current status

ANC-IASB ongoing dialogue in the last 3 years

Time period	IASB & EU activity	ANC contribution
Feb.-Dec. 2016		ANC outlines key concerns in a number of letters and meetings
Dec.2016-Feb.2017	Editorial review of IFRS17 draft	ANC communicates on 5 reported key concerns (Feb. 2017)
May 2017	IFRS17 issued	
Feb.-June 2018	EFRAG testing (case studies)	ANC issues a progress report identifying concerns (June 2018)
Sept. 2018	EFRAG letter to IASB on 6 topics raising concerns	
Oct. 2018	IASB starts to address 25 topics reported by various stakeholders	
Nov. 2018-Feb 2019		ANC sends 2 letters (to EFRAG/IASB) accompanying 6 "draft for discussion" documents (V1) providing analysis, examples and suggestions)
April 2019		ANC expects to issue a V2 of its documents. ANC expects to send an additional letter accompanying a "draft for discussion" document (on the relationship between IFRS9 and IFRS17). ANC expects to send a letter on the interpretation of its example related to the level of aggregation concerns.

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ANC assessment on concerns relating to EFRAG's topics

Topic		Concern as addressed by ANC	IASB tentative decision	Remaining concern
Level of Aggregation	1	Clarify that top-down approach is paramount	Not addressed	Yes
	2	Improved information to users	Not addressed	Yes
	3	Introduce exception to annual cohorts in case of intergenerational mutualisation (BC138)	Change rejected	Yes
Acquisition cash-flows		Recognise an asset for acquisition cash-flows on new business expected to renew outside the contract boundary	Change proposed	No
CSM		Authorise considering investment related services in the CSM allocation of non-VFA contracts	Change proposed	Partial: may be limited to certain contracts
Transition	1	Retrospective approaches are too restrictive and rules-based	Change rejected	Yes
	2	OCI mandatorily set to nil	Change rejected	Yes
	3	Risk mitigation cannot apply retrospectively	Change proposed (addresses new derivatives in N-1)	Yes
	4	Disincentive restating comparative information	Change rejected	Yes
	5	Option to change measurement date of contracts acquired before transition	Change proposed	No

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ANC assessment on concerns relating to EFRAG's topics

Topic		Concern as addressed by ANC	IASB tentative decision	Remaining concern
Reinsurance	1	Reinsurance held: unclear provisions	Not addressed	Yes
	2	Reinsurance held: initial recognition when underlying insurance contracts are onerous	Change proposed to proportionate reinsurance	Still a concern for non-proportionate reinsurance (impact to be assessed)
	3	Reinsurance held: ineligibility for the variable fee approach	Change proposed: reinsurance held assimilated to financial risk mitigation	New concern at transition?
	4	Reinsurance issued: ineligibility for the variable fee approach	Not addressed	Yes
	5	Reinsurance held: contract boundaries expected cash flows arising from underlying insurance contracts not yet issued	Change rejected	Yes
B/S presentation	1	Remove the asset/liability presentation at group level	Change proposed: presentation at portfolio level	Still conceptual and operational concerns
	2	Require separate presentation of the major accruals in the B/S	Change rejected	Yes

ANC assessment of status of other concerns

Topic		Concern as addressed by ANC	IASB tentative decision	Remaining concern
Interactions with IFRS9	1	Create a scope exception to insurance embedded in credit cards or loans	Change proposed	No
	2	Equity investment for non-VFA contracts	Not addressed	Yes (to be dealt with IFRS9)
	3	IFRS17 implies FV measurement to assets (under IFRS9 or IAS40)	Not addressed	Yes
	4	Risk mitigation non applicable to non-VFA contracts	Not addressed	Yes
	5	Locked-in rate	Change rejected	Yes (to be dealt with scope of VFA)

Status of other concerns not yet addressed by ANC

Topic		Concern not yet addressed by ANC	IASB tentative decision	Remaining concern
Mutual entities		Mutual entities may have equity and CSM	Not addressed	Yes
Scope VFA		VFA criteria to be extended to constructive obligations	Change rejected	Yes
Business combination and transfers		Accounting depends on the acquisition date, not on initial characteristics of a contract	Change rejected	Yes
Interim FS		Current requirements do not comply with IAS34	Change rejected	Yes

Key points on remaining concerns

Level of aggregation (1/2)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 1: Clarify that top-down approach is paramount		
The applicable methodology to define the proper level of aggregation (top-down or bottom-up) is ambiguous. Concern not addressed by IASB	A disaggregation at too low a level would not reflect or may even affect the accepted mutualisation that is derived from regulatory or contractual obligations and creates fully accepted "social glue" (relevance, public good)	Clarify that top-down approach always applies to the level of aggregation process in order to prevent disaggregation at too low a level (amending IFRS17.17 and IFRS17.19)
Concern 2: Improved information to users		
Information provided to users may improve without cohorts. Concern not addressed by IASB	Limited information provided by annual cohorts. Transfers (necessary to reflect the appropriate profitability of mutualised groups) also permit aligning profitability among cohorts and so neutralise the "averaging" issue (relevance, cost).	Extend disclosures on historical data on new business/ inforce for mutualised portfolios (amending IFRS17.109)

Level of aggregation (2/2)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 3: Introduce exception to annual cohorts		
The annual cohort's requirement is not necessary for contracts that "fully share risks" between policyholders. (AP2A 2019-03)	In an intergenerational mutualised portfolio, annual cohorts do not provide useful information and are burdensome (relevance, cost).	Introduce an exception to the annual cohorts requirement for a portfolio where "risks are fully shared". "Risks are fully shared" among policyholders when policyholders share a significant amount of the financial returns and of the insurance risks across generations so that no set of contracts within the group could possibly become onerous alone (amending IFRS17.22 considering IFRS17.BC138).

CSM and investment services

Tentative Board decisions	Key points remaining	ANC suggestions
☑ Concern: Considering investment related services in the CSM allocation		
Clarify that "coverage" includes "investment-related/ investment-return services" provided the contracts includes an investment component (a necessary, albeit not sufficient, condition). If there is no "investment component" (because benefits are not paid in all circumstances), an "investment return service" does not exist. (AP2B 2018-06 and AP2E 2019-01)	The current (broad) definition of an investment component limits the extent of the improvement proposed in the tentative IASB decision (relevance, comparability)	Include in Appendix A the definition of "investment-return services" as defined by IASB staff (in AP2E.27 2019-01) (adding definition) Amend IFRS17 according to the tentative Board decision but without the requirement that "an investment component exists" (amending IFRS17.B119)

Transition (1/3)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 1: Retrospective approaches are too restrictive and rules-based		
Retrospective approaches are too restrictive and rules-based: retrospective approach does not prohibit making estimates, modifications address the lack of information not a methodology for estimates (AP2D 2019-02)	Retrospective approaches understood to apply as if the standard had always been applied appears impracticable. Modifications in the MRA are not sufficient (trade-off relevance & comparability vs. cost)	Clarify when estimates stop and become a departure to applying retrospective approaches (amending IFRS17.C8)
Concern 2: OCI mandatory set to nil		
OCI mandatory set to nil (IFRS17,C19(b)): applying the discount rate at transition date there is no difference left between current and inception rate so that OCI should be nil. (AP2C 2019-02)	OCI mandatorily set to nil may have a material and long-standing undue (positive) impact on future periods if OCI on assets still exists (relevance)	“Allow” instead of “require” to set OCI to nil. Otherwise, suggest to recalculate OCI using the rate the entity is expecting to be committed to (amending IFRS17.C19)

Transition (2/3)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 3: Risk mitigation cannot apply retrospectively		
Risk mitigation applicable prospectively from the application date on: retrospective application prohibited in order to prevent "cherry picking" (AP2C 2019-02 & AP2E 2019-03)	Risk mitigation (and consequently reinsurance held) cannot apply retrospectively even where current hedging would meet the standard's requirement. Complexity to restate as if no risk mitigation. Disincentive to mitigate risks (relevance, comparability, cost)	Remove the prohibition to retrospectively apply risk mitigation (that would then be subject to the same conditions as those set in IFRS17.B115-B116 of the standard) (removing IFRS17.C3(b))
Concern 4: Disincentive restating comparative information		
Restating comparative information is an option. Entities not applying IFRS9 before transition will have to apply simultaneously both standard (IFRS9 and IAS39) in the comparative period. Concern not yet addressed by IASB (sweep issues to come)	Disincentive restating comparative information if IFRS9 and IAS39 should simultaneously apply: burdensome and conceptually inconsistent (trade-off relevance & comparability vs. cost).	Make optional the exception introduced in IFRS9 regarding financial instruments derecognised during the comparative period (amending IFRS9.7.2.1)

Transition (3/3)

Tentative Board decisions	Key points remaining	ANC suggestions
☑ Concern 5: Option to change measurement date of contracts acquired before transition		
Tentative amendment to allow for using inception date instead of acquisition date for measuring acquired insurance contracts (AP2D 2019-02)	No	No further

Reinsurance (1/4)

Preliminary Remark

Wording of IFRS17 provisions related to reinsurance are limited and “by reference”. The provisions are very difficult to understand. It would be probably better to have a fully autonomous section. Reinsurance is key in economic and public good terms (ultimate level of risk sharing and capacity to insure). In addition it is very global and crucial in terms of financial stability.

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 1: Reinsurance held: unclear provisions		
Level of aggregation’s requirement regarding reinsurance are not intelligible: Concern not addressed by IASB	Unintelligibility of standard’s provisions on the level of aggregation applied to reinsurance held (intelligibility)	Reword the modifications prescribed for reinsurance contracts held (amending IFRS17.60-70) especially when incompatible with grouping requirement (IFRS17.14-24) when onerous or when “there is a net gain on initial recognition”, or making reference to “liabilities and unearned profits” (IFRS17.40-43).

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Reinsurance (2/4)

Tentative Board decisions	Key points remaining	ANC suggestions
☑ **Concern 2: Reinsurance held: initial recognition when underlying contracts are onerous**		
Reinsurance held: recognise a gain when the entity recognises losses on onerous underlying insurance contracts, to the extent that reinsurance is proportionate. Non-proportionate reinsurance contract is not addressed for practical reasons since it does not relate to one contract only but to several (possibly issued at different times or in different portfolios) (AP2B-2C 2019-01)	Accounting mismatch remains for non-proportional reinsurance contracts held covering onerous underlying insurance contracts. Impact to be assessed (relevance, comparability).	Amend IFRS17 according to the tentative Board decision. Consider removing the limitation set by "on a proportionate basis"; (amending IFRS17.66(c)(ii))
☑ **Concern 3: Reinsurance held: ineligibility for the variable fee approach**		
Reinsurance held – non eligibility to VFA: the scope of the risk mitigation provisions for VFA contracts has been expanded to also include reinsurance contracts held to mitigate financial risk (AP2D 2019-01)	Assimilating reinsurance held to risk mitigation should not prohibit retrospective application (IFRS17,C3(b)) (relevance, comparability);	Remove the prohibition for reinsurance contracts held to retrospectively apply the risk mitigation provisions; (removing IFRS17.C3(b))

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Reinsurance (3/4)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 4: Reinsurance issued: ineligibility for the variable fee approach		
Reinsurance issued – non eligibility to VFA: VFA requirement for contract issued (entity committed to policyholders) are not suitable to reinsurance issued (entity committed to insurer); (AP2D 2019-01)	The prohibition from applying the VFA to reinsurance contracts may stem from their specificities (change in value linked with underlying items) that could make them meet the VFA criteria even when not being "in substance VFA". However, some reinsurance contracts issued actually include commitments against primary insurers and their policyholders and are genuine VFA (relevance, comparability);	Revisit VFA criteria in order to not unduly encompass reinsurance contracts that would not be "in-substance VFA" or replace prohibition by adding additional VFA-criteria to reinsurance contracts (Removing or amending IFRS17.B109)

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Reinsurance (4/4)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 5: Reinsurance held: contract boundaries		
Reinsurance held – contract boundaries: measurement includes future cash-flows in order to be symmetrical to the reinsurance contract issued, rather than promoting symmetry with the underlying contracts. (AP2E 2018-12)	Including estimated underlying future new business within the reinsurance asset leads to disproportionately complex disclosures as well as to unnecessary adjustments when discount rates varies (costs).	Amend contract boundaries of reinsurance contracts to include cash-flows relating to recognised underlying contracts (amending IFRS17.63)

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Balance-sheet presentation (1/2)

Tentative Board decisions	Key points remaining	ANC suggestions
☑ Concern 1: Remove the asset/liability presentation at group level		
The presentation of insurance contract assets and liabilities is determined using portfolios rather than groups of contracts. At portfolio level, virtually all insurance contracts will be presented as liabilities (i.e. very similar to presenting at entity level) (AP2A 2018-12)	Presentation offsets assets and liabilities of different nature and with different counterparts in contradiction with the conceptual framework (relevance, comparability). Unnecessary complexity in providing net amounts at portfolio level where IT systems are on a "due-date" basis not on a cash basis (costs).	Even if the tentative decision solves the asset/liability presentation, providing net amounts at portfolio level still raises operational concerns: remove the reference to groups instead of replacing it by portfolios (amending IFRS17.78)

Balance-sheet presentation (2/2)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 2: Require separate presentation of the major accruals in the B/S		
Main accruals (e.g. premium receivables, liability for remaining coverage, liability for incurred claims) are not required to be presented separately. But they may be presented as subline-items within an insurance contract liability. There is no unified definition of premium receivables (AP2A 2018-12)	Useful information provided by accruals presented in the face of the balance sheet is missing (relevance). A unified definition of "premium receivables" would improve the comparability (relevance, comparability).	Introduce requirements to present the main accruals on the face of the balance sheet (instead of in the notes). Suggest a common definition of premium receivables. This could be based on the IFRS15.105 definition of the "unconditional rights to consideration" taking into account the effective (not the theoretical) period before policyholder's rights (to coverage) actually lapse (amending IFRS17.78 and supplementing appendix A).

Interactions with IFRS 9 (1/3)

Tentative Board decisions	Key points remaining	ANC suggestions
☑ Concern 1: Create a scope exception to insurance embedded in credit cards or loans		
Create scope exceptions in IFRS17: - allowing to apply another standard to insurance contracts embedded in loans (covering the settlement of the remaining policyholder's obligation) (AP2A 2019-02, AP2F 2019-03) - requiring to apply another standard to insurance contracts embedded in credit cards (as long as not specifically priced for the customer) (AP2D 2019-03)	No	No further

Interactions with IFRS 9 (2/3)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 2: Equity investment for non-VFA contracts		
Non recycling OCI on equity investment for non-VFA contracts: Concern not addressed by IASB	VFA provides an adequate answer to the non-recycling OCI on equity investment, that is not available to non-VFA contracts; (relevance, comparability)	Non-recycling OCI on equity investment and the accounting treatment of funds (UCITS, AIF) is a broader issue than IFRS17 and may better be addressed at IFRS9 level (amending IFRS9)
Concern 3: IFRS17 implies FV measurement to assets (under IFRS9 or IAS40)		
IFRS17 implies fair value measurement to assets under IFRS9 or IAS40: Concern not addressed by IASB	IFRS17 might imply the “fair-value-P&L” measurement to assets the business model of which would have rather led to applying another measurement under IFRS9 or IAS40; (relevance)	Facilitate the alignment of the measurement of underlying assets with the measurement of the insurance contract (at current value, possibly with OCI option). For instance by allowing measuring loans at FVOCI even if the IFRS9 business model is held-to-collect (amending IFRS9); or splitting investment property providing returns to different types of contracts (amending IAS40.32B).

Interactions with IFRS 9 (3/3)

Tentative Board decisions	Key points remaining	ANC suggestions
Concern 4: Risk mitigation non applicable to non-VFA contracts		
Risk mitigation only applies to derivatives hedging financial risk in VFA contracts (AP2C 2018-12)	Risk mitigation provisions are too limited to prevent hedging strategies put in place by insurers from generating mismatches (e.g; for non financial risks or in the general model); (relevance, comparability)	Risk mitigation provisions relate to the CSM mechanism (rather than to VFA) and therefore should also be available in the general model (amending IFRS17.44) Risk mitigation should also address non-financial risks (e.g. weather derivatives) (amending IFRS17.B115-B118)
Concern 5: Locked-in rate		
Locked-in rate creates OCI-volatility in participating contracts not meeting the VFA criteria. (AP2B 2018-12)	Locked-in rate creates OCI-volatility in participating contracts not meeting the VFA criteria. (comparability)	"Locked-in rate" required for participating contracts in the general model raises concerns that could be solved by reconsidering and extending VFA criteria. (amending IFRS17.B101)

Summary of impact of remaining concerns

Topic		Concern addressed by ANC	Operational	Conceptual
Level of Aggregation	1	Ambiguity top-down / bottom-up approach		X
	2	Improve information provided to users	X	X
	3	annual cohorts not necessary under certain circumstances	X	X
CSM		Investment service not in CSM of non-VFA contracts		X
Transition	1	Retrospective approaches are too restrictive and rules-based	X	X
	2	OCI mandatorily set to nil		X
	3	Risk mitigation cannot apply retrospectively	X	X
	4	Disincentive restating comparative information	X	X
Reinsurance	1	Reinsurance held: unclear provisions		X
	2	Reinsurance held: gain on onerous underlying contracts		X
	3	Reinsurance held: ineligibility for the VFA		X
	4	Reinsurance issued: ineligibility for the VFA		X
	5	Reinsurance held: contract boundaries	X	X
B/S presentation	1	Asset/liability presentation at group level is too granular	X	X
	2	Major accruals are not separately presented in the B/S	X	X
IFRS9	2	Equity investment for non-VFA contracts		X
	3	IFRS17 implies FV measurement to assets (IFRS9 or IAS40)		X
	4	Risk mitigation non applicable to non-VFA contracts		X
	5	Locked-in rate		X