



Institute
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IFRS 17 – Update on status and current deliberations

Speakers:

Anthony Coughlan & Kamran Foroughi, 5 March 2019, London

Richard Olswang & Kamran Foroughi, 19 March 2019, Edinburgh

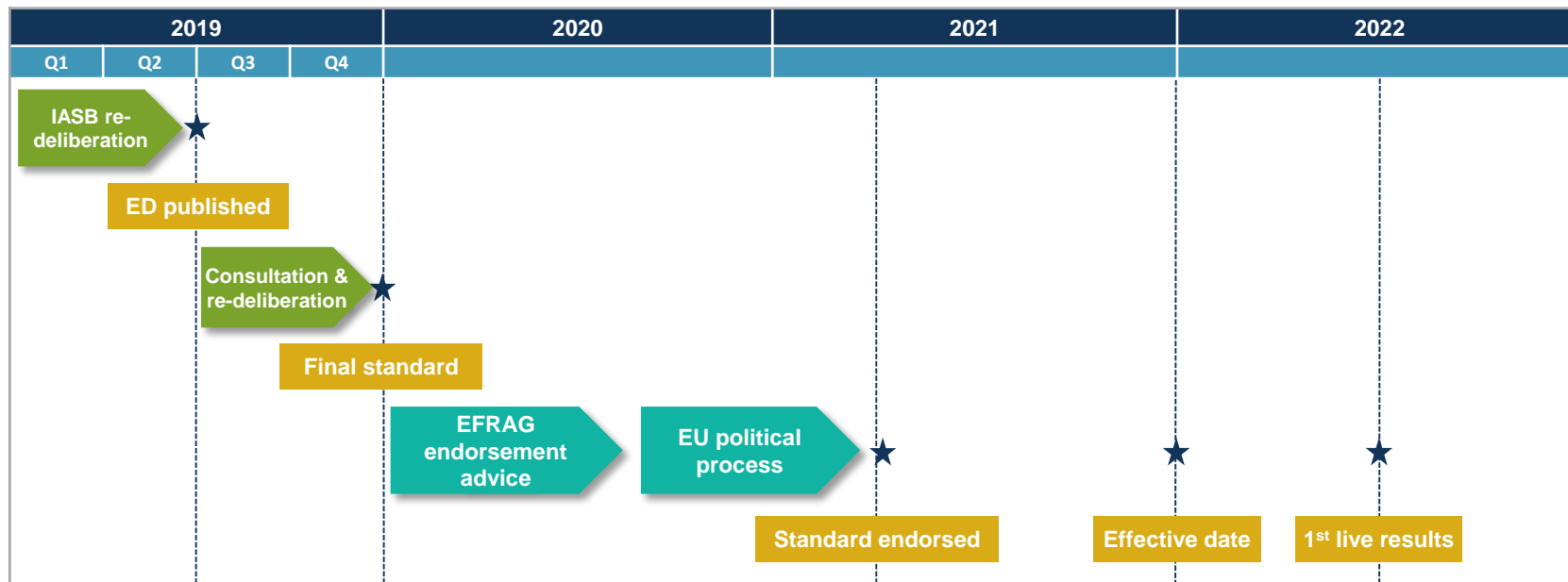
Members of the Financial Reporting Group, IFoA

Agenda

- Recent developments
 - EFRAG
 - IASB
 - TRG
- Current focus areas for UK life products & the status of implementation programmes
- IFoA and IAA response to IFRS 17



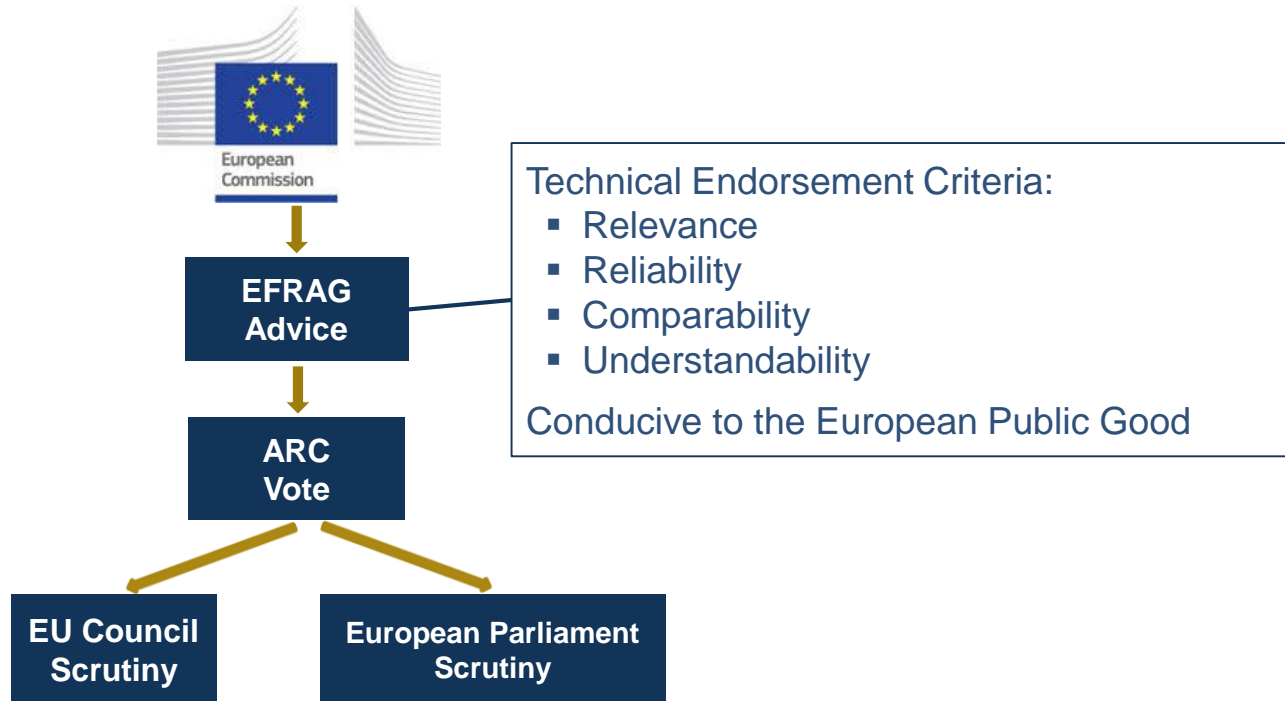
Expected timeline to go-live for IFRS 17



Key: IASB process EU endorsement process



IFRS 17 required in the consolidated accounts of publicly traded companies when endorsed by the EU



EFRAG process to date

Evidence gathering

Detailed case study	11 submissions
Simplified case study	49 submissions
User outreach	27 users
Economic study	<ul style="list-style-type: none">▪ Competition▪ Products & pricing▪ Asset allocation▪ Funding of insurance undertakings
Presentations to EFRAG Board	<ul style="list-style-type: none">▪ CFOs, users, audit and actuarial professions, reinsurers▪ CFO Forum Chairman



CFO Forum findings

- Testing provided evidence of **11 significant issues** and **their impact**:

Measurement

Operational
complexity

Implementation
challenges



These issues need to be resolved in IFRS 17 before endorsement

- In addition, the **implementation timelines are very challenging**

Total **implementation** cost for **12 companies**
providing estimates of **€1.9 bn**

- CFO Forum **proposed solutions** to the 11 issues



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EFRAG response: Letter to IASB

- EFRAG preparing draft endorsement advice on IFRS 17
- EFRAG has conducted significant outreach
- Constituents have raised a number of concerns
- EFRAG has not yet determined impact of issues on draft endorsement advice
- EFRAG Board identified 6 issues that merit further consideration by IASB



IASB response

- Criteria to assess whether there is a need to amend IFRS 17:



- Board agreed to defer IFRS 17 & IFRS 9 to 2022.
- Most issues raised discussed by the Board during Dec 2018 – Feb 2019.
- Remaining issues deferred to March.



Issues – current status (1)

		CFO Forum finding	In EFRAG letter	Amended by IASB
Scope of IFRS 17	Loans that transfer insurance risk	✓	✓	✓
Level of aggregation	Annual cohorts, profitability groups	✓	✓	Deferred to March
Acquisition cash flows	Allocation to future renewals	✓	✓	✓
Discount rate	Locked in rate under General Model	✓	✗	✗
	Prescribed approach	✗	✗	✗
Risk adjustment	Assessment at group level vs. entity level	✗	✗	✗
CSM: Coverage units	Allowance for investment services outside VFA	✓	✓	Partial
CSM: Hedging	Scope of hedge adjustment	✓	✗	✗
Premiums received	Identification for groups of contracts	✗	✗	✗



Issues – current status (2)

		CFO Forum finding	In EFRAG letter	Amended by IASB
Business combinations	Classification of contracts	✓	✗	✗
	Contracts acquired during settlement period	✓	✗	✓
Reinsurance	Asymmetry in profit recognition	✓	✓	✓
	Ineligibility for VFA	✓	✗	✗
	Inconsistent contract boundaries	✓	✓	✗
Presentation	Separation of contracts in asset / liability position	✓	✓	Partial
	Cash paid vs. received	✓	✓	✗
	Permitting OCI accounting	✗	✗	✗
	Exclusion of investment component from revenue	✓	✗	✗
	Offsetting liability by funds withheld	✓	✗	✗

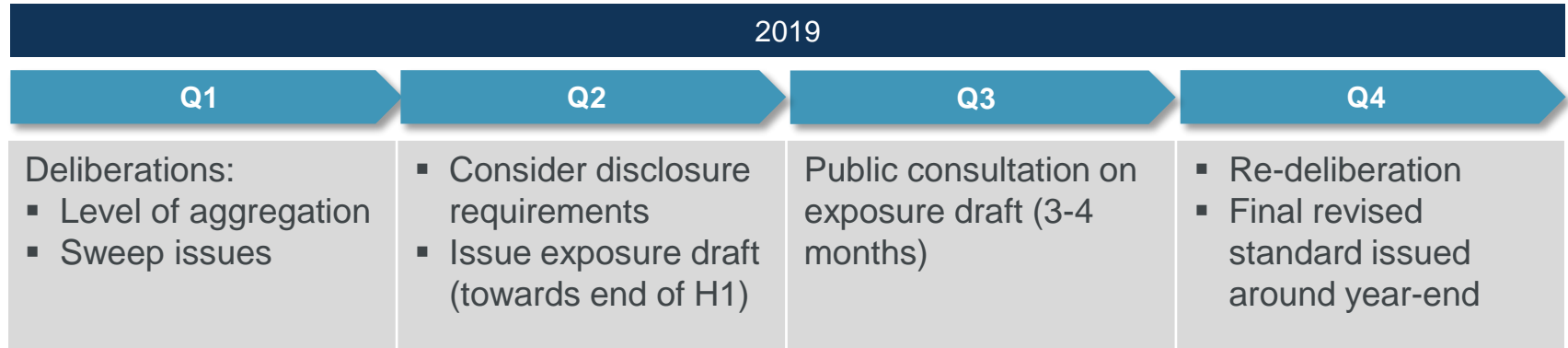


Issues – current status (3)

		CFO Forum finding	In EFRAG letter	Amended by IASB
Scope of VFA	Inconsistent treatment of economically similar products	✓	✗	✗
Interim accounts	Leads to dual accounting	✗	✗	✗
Comparatives	Requirement for comparatives	✗	✗	✗
Transition	Optionality	✗	✗	✗
	Modifications to the Modified Retrospective Approach	✓	✓	✗
	OCI balance under the Fair Value approach	✓	✓	✗



IASB – Next steps



EFRAG – Next steps

- EFRAG continuing to assess IFRS 17 from a technical perspective in preparation for:



- Informed by presentations to EFRAG Technical Experts Group:

February	March	TBC
EIOPA	CFO Forum	ANC (French Standard Setter)



UK post Brexit

The International Accounting Standards and European Public Limited-Liability Company (Amendment Etc.) (EU Exit) Regulations 2019

- EU-adopted IFRS brought into UK law, frozen at exit day
- National framework for endorsement and adoption of IFRS after exit
- Secretary of State for BEIS provided with delegated powers
- Powers will be sub-delegated to UK IFRS Endorsement Board
- Endorsement criteria similar to EU process



TRG meetings

Meetings 6 February, 2 May, 26-27 September 2018, 4 April 2019 and ...

Guidance

- TRG does not issue guidance, but assists Board in identifying actions to take
- Very high hurdle for amendments

Membership

- 6 auditors and 9 preparers.
Preparers: 4 from Europe, 3 from Asia, 1 each from Canada / Australia
- Observers from IAA, IAIS and IOSC

Papers and minutes

- IASB papers available 2 weeks in advance.
Minutes and podcast on IASB website

Submissions

- Anyone can submit an issue if it relates to IFRS 17, may result in diversity in practice and expected to be pervasive



TRG discussions relevant for life insurers

**Top 5 TRG
topics for
UK life
insurers**

Top down discount rate

Contracts with mutualisation

Coverage units to amortise CSM

Combination and separation of insurance components

Contract boundaries for reinsurance



Current topics for UK life products (1/2)

Annuities

- Discount rates – Reference portfolio, default allowance and implications
- CSM/profit released over deferred period
- Existence of investment components (distinct/non-distinct)?
- Investment expenses – excluded?
- Bulk transfers from ‘buy in’ to ‘buy out’ – new contract(s)?
- Reinsurance mismatch – longevity risk

Protection

- Reinsurance – Mismatches and P&L volatility
- Mismatch from day 1 lock-in for CSM
- Definition of portfolio and extent of offsetting
- Assessment of the illiquidity premium
- Transition – Separate consideration of gross and reinsured CSM



Current topics for UK life products (2/2)

With profits

- Practical application of the variable fee approach
- Definition of underlying item and implications
- Aggregation and grouping including mutualisation
- Illiquidity premium and stochastic modelling
- Treatment of non-profit contracts within funds – mismatches?

Other topics

- Practical approaches to the risk adjustment and related disclosures
- Transition – Application of FRA & MRA and what is fair value?
- Onerous contracts and profitability groups
- Dual reporting – Interims, expense look-through etc.
- Approach to hybrid (unit linked/with profit) contracts
- Eligibility for the variable fee approach

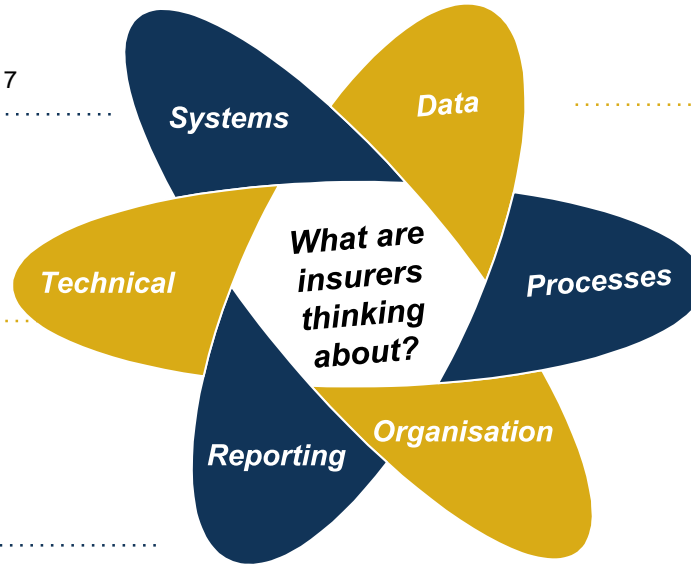


What else are insurers thinking about?

- How tactical should CSM solution be?
- Adapting legacy architecture
- Workarounds need to be translated quickly into BAU and then IFRS17
- Vendors moving on their propositions
- Join finance transformation with IFRS17

- Risk Adjustment – how to set, allocate
- CSM – amortisation patterns
- Reinsurance
- Transition

- Chart of Accounts
- Disclosure requirements
- Dealing with dual accounting
- FP&A - how to run business?
- KPIs/discussions with analysts
- Taxation



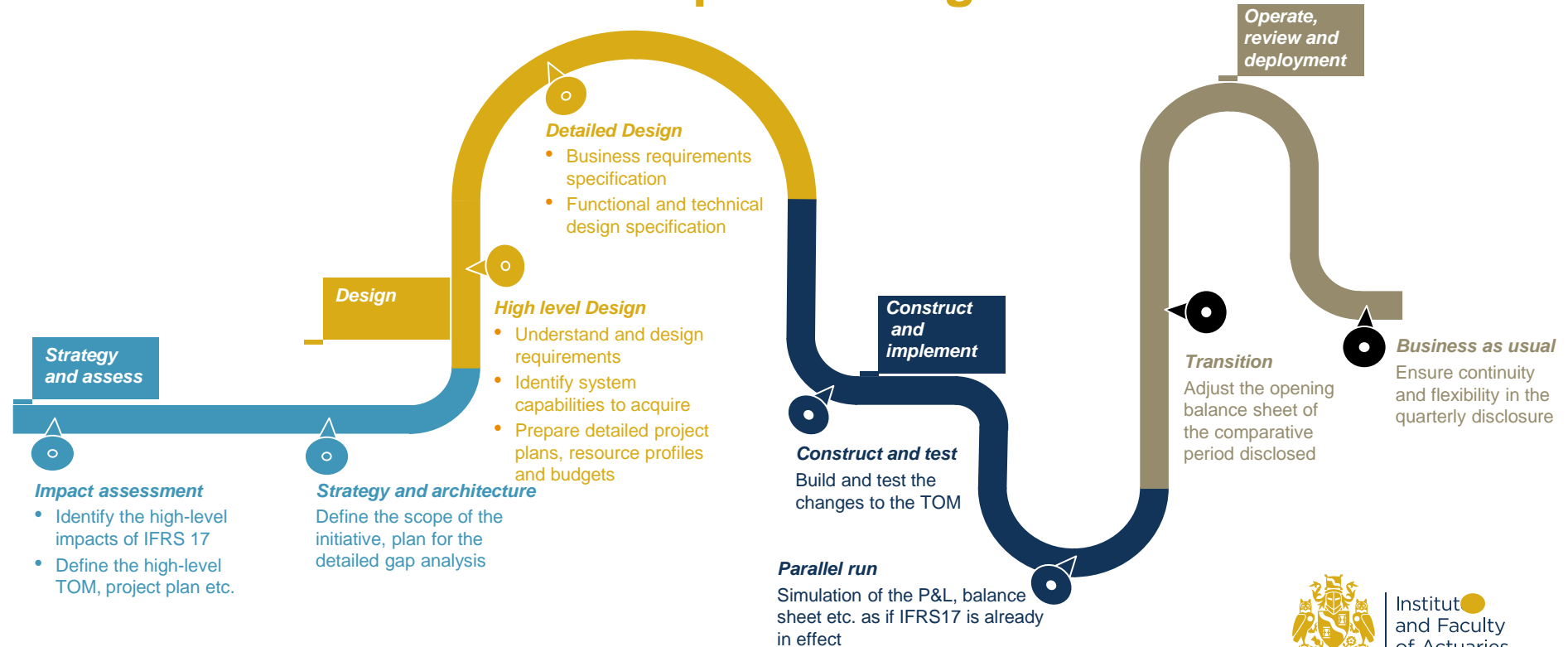
- New data items
- Workarounds
- Data quality issues
- Data previously not used
- Data governance

- 'As is' vs 'To be' controls
- Onerous contract calculations
- Expenses
- Working Day Timetable

- Education & demystifying terminology
- Global vs Functional
- Ownership of assumptions
- Handoffs (actuarial, accounting, FP&A, FinOps)
- Change Management



Where are insurers in implementing IFRS 17?



IFoA cross-practice Financial Reporting Group

Current focus:

- Steering IFoA activity related to financial reporting
- Supporting IAA ISAP 4 / IAN 100 development & IFoA response
- Developing IFoA response to IFRS 17 exposure draft expected by end of H1 2019
- Engaging with external stakeholders (IASB, EFRAG, FRC, HRMC etc.) as appropriate

Past materials:

- Life Conference presentations 2010-2018
- July & September 2017 Staple Inn seminars
- 2011 Staple Inn paper critiquing 2010 ED
- 2013 published IFoA response to 2013 ED

Current membership:

- Kamran Foroughi (Chair)
- Anthony Coughlan
- Nick Dexter
- Richard Olswang
- Tony Silverman
- Gail Tucker
- Martin White
- Derek Wright
- Murray Wright



Financial Reporting Group website

<https://www.actuaries.org.uk/about-us/governance-and-structure/other-boards-and-committees/regulation-board/financial-reporting-group>

The screenshot shows a browser window with the URL <https://www.actuaries.org.uk/about-us/governance-and-structure/other-boards-and-committees/r...>. The browser's address bar and tabs are visible. The website header features the Institute and Faculty of Actuaries logo on the left and a navigation menu on the right with items: "Near you", "Practice areas", "Login", "About us", "Membership", "Find an Actuary", "Research and knowledge", "CMI", and "Shop". Below the header is a horizontal menu with items: "Home", "Become an actuary", "Studying", "Learn and develop", "Upholding standards", "Get involved", and "News and insights". The main content area has a breadcrumb trail: "Home > About us > Governance and structure > Other Boards and Committees > Regulation Board". The title "Financial Reporting Group" is prominently displayed. The text below the title reads: "The Financial Reporting Group (FRG) supports the Institute and Faculty of Actuaries by providing a steer on accounting and financial reporting issues across actuarial practice areas. The group has a primary focus on providing the IFoA's input to the work of the International Actuarial Association (IAA) on IFRS17. Including the work of the IAA's Insurance Accounting Committee." Below this text, it states: "Membership is drawn from a spectrum of accounting experts in a various practice areas." The footer of the website features the Institute and Faculty of Actuaries logo and name on the right side.

IFoA Life IFRS 17 working parties recently established

Future of discount rates

Chair:

Richard Olswang

Contractual Services Margin

Chair:

Rebecca Sardar

Transversal issues

Chair:

Dom Veney



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IFoA support & response to ISAP 4 & IAN 100

- **International Standard of Actuarial Practice 4:**
 - Purpose to increase confidence that IFRS 17 related actuarial services carried out professionally and with due care
 - Less than 10 pages covering: standards across knowledge requirements, GMM, VFA, disclosures and transition.
 - Exposure draft period in H1 2018 with revised (final) draft expected Q1 2019.
- **International Actuarial Note 100:**
 - Exposure draft issued 17 January 2019 with comments due by 26 April 2019.
 - Target final draft end of 2019 (subject to IASB revisions)
 - Non-binding educational document (235 pages).
 - Questions & Answer format
- **Other relevant IAA support:** Stochastic modelling, discount rate and risk adjustment monographs

Current volunteers:

- Anthony Coughlan (Chair)
- Derek Wright (IAA)
- Tamsin Abbey
- Darren Clay
- Greg Douglas
- Sophia Ch'ng Sok Heang
- Joanne Lonergan
- Natalia Mirin
- Erica Nicholson
- Ainsley Normand
- Michael Reid
- Lucinda Parlett
- Mark Sweetenham
- Nick Walker
- Martin White



Content of IAN 100

- Introduction and Summary of IFRS/IFRS 17 approach
- Section A – General Measurement Approach
 1. Classification of Contracts
 2. Estimates of future cash flows
 3. Discount Rates
 4. Risk adjustment for non-financial risks
 5. Unit of Account
 6. CSM
- Section B – Model Variations
 7. Premium Allocation Approach
 8. Contracts with Participating Features and other Variable Cash Flows
 9. Reinsurance
- Section C – Uses of Fair Value
 10. Fair Value
 11. Business Combinations and Portfolio Transfers
 12. Transition



Questions

Comments

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