
**Intergovernmental Working Group of Experts on
International
Standards of Accounting and Reporting
(ISAR)**

36th SESSION

30 October – 1 November 2019
Room XIX, Palais des Nations, Geneva

Thursday, 31 October 2019
Afternoon Session

**Agenda Item 4. Review of current developments in
international standards of accounting and reporting in the
public and private sectors**

Presented by

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ISAR – 36TH SESSION

CURRENT DEVELOPMENTS IN IFRSs

31 October 2019

Chiara Del Prete

EFRAG TEG Chairwoman

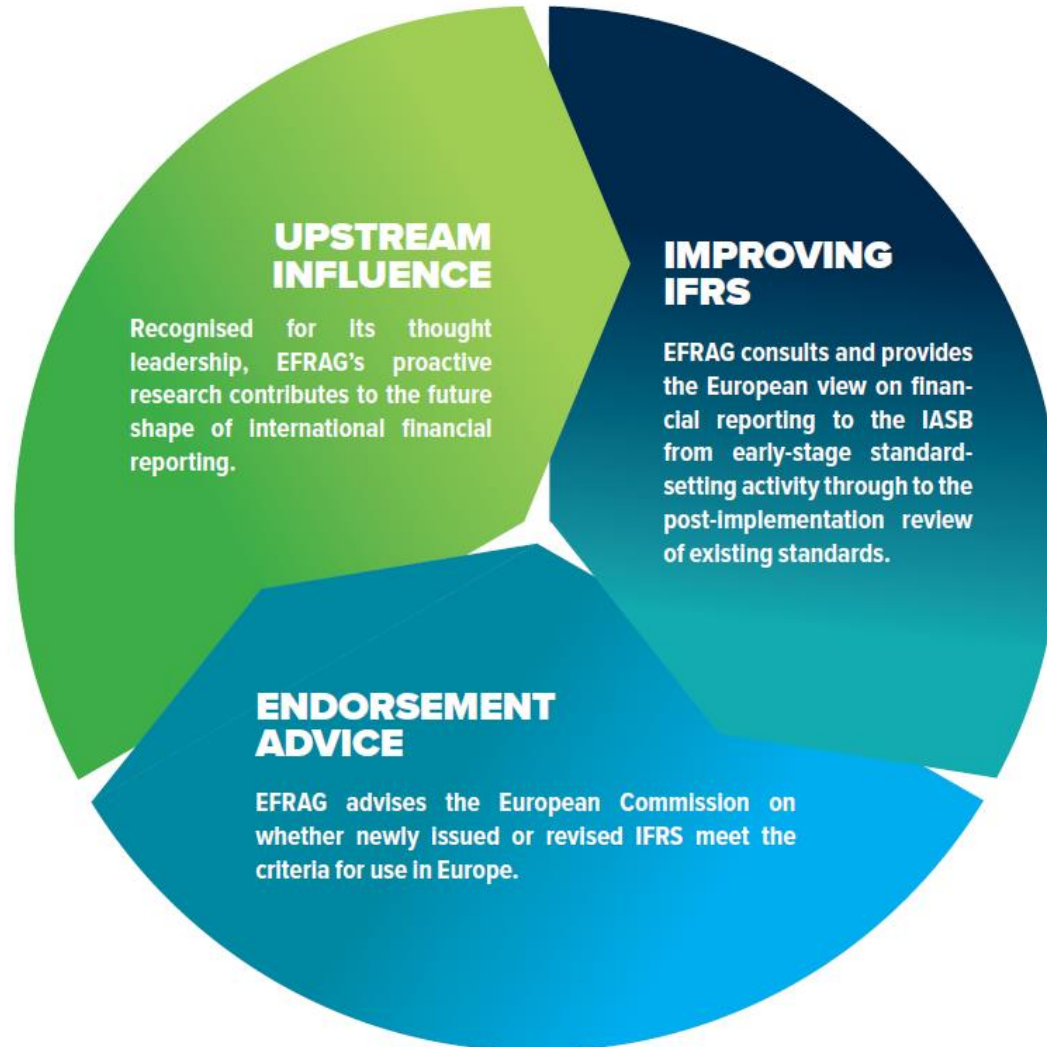


European Financial Reporting Advisory Group

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ABOUT EFRAG



EXAMPLES OF INVOLVEMENT

- ✓ FICE early stage analysis of impact of the IASB ED
- ✓ IFRS 17 Insurance Contracts: from the Case Study to the Amendments
- ✓ Request by the EC: Research on alternative accounting treatments to IFRS 9 for equity instruments held in a long-term investment business model



FICE EARLY STAGE ANALYSIS

FICE PROJECT 2018/2019 PILOT FOR EARLY STAGE ANALYSIS

FICE CAMPAIGN

20 outreach events 

Number of FICE outreach events organised in partnership with European National Standard Setters or other organisations and in cooperation with the IASB

500 viewers 

Number of participants and viewers of the FICE Webinar and the FICE Consultation and Feedback Statement videos

49% of market 

The FICE preparer survey included responses from some of the largest non-financial issuers of perpetual bond instruments - representing 49% of the European Economic Area outstanding issuance. It also includes responses from some of the largest EU banking and insurance entities.



FICE EARLY STAGE ANALYSIS – a pilot

February 2019: Evidence-based early-stage analysis of some possible effects of the IASB's Discussion Paper DP/2018/1 Financial Instruments with Characteristics of Equity (IASB DP).

July 2019: as this was a pilot study, the usefulness of it was the subject of a separate consultation process. Key feedback:

- early-stage analysis can contribute to a faster endorsement process at later stages of the project
- encourage and contribute to the greater adoption of an evidence-based approach by the IASB and other standard setters
- inclusion of specific examples was helpful in reducing uncertainty on the topic
- useful to have cost/benefit analysis and anticipated implications on financial stability.



IFRS 17 INSURANCE CONTRACTS

ASSESSING THE IMPLEMENTATION CHALLENGES

- IFRS 17 issued May 2017
- Preparatory work performed until the first quarter 2018:
 - (a) Paper on Level of aggregation;
 - (b) Paper on Release of the contractual service margin;
 - (c) Paper on the Transition requirements of IFRS 17.
- Consulted a number of European investor and users between April and May 2018. 31 users were interviewed – 24 specialists and 7 generalists.
- Structured case study, comprising an extensive case study (involving 11 preparers) and a simplified case study (involving 49 preparers). The evidence gathered through this exercise covers several European countries and segments (life, non-life).
- The preparatory work performed in 2018 resulted in the identification of 6 topics included in the letter sent by to the IASB as meriting further consideration. Starting from November 2018, the IASB started to discuss targeted amendments to IFRS 17, to respond to concerns and challenges raised by stakeholders as IFRS 17 is being implemented. The 6 issues identified by EFRAG were included in the topics of the IASB deliberations.

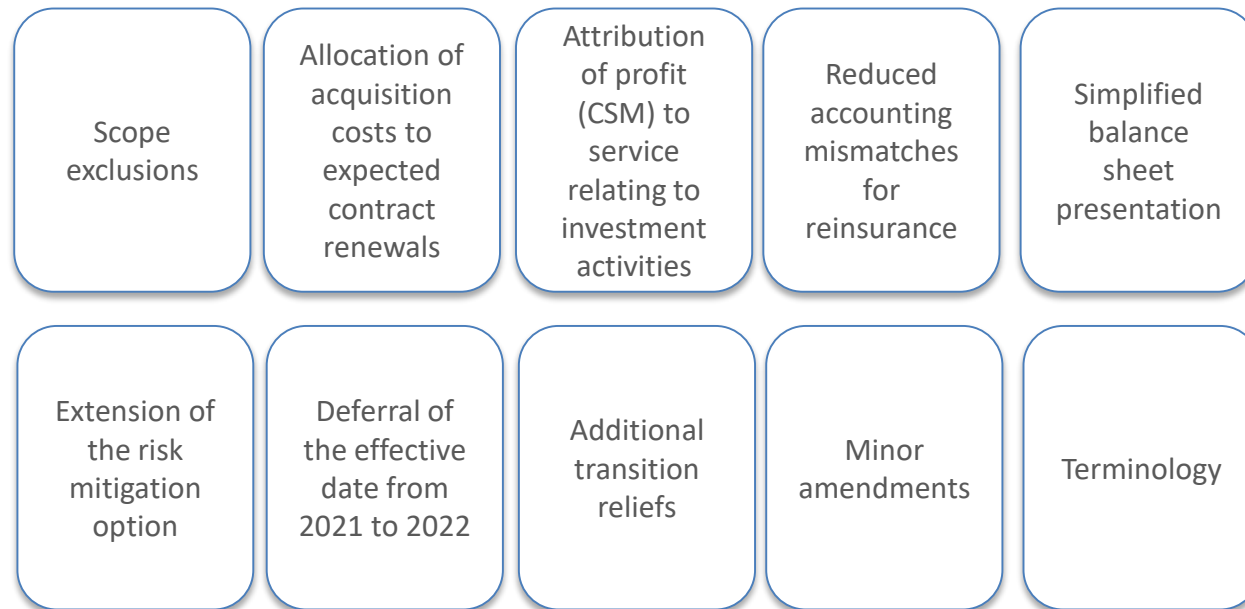
FOLLOWING THE TRANSITION RESOURCE GROUP

Discussion of the EFRAG Insurance Accounting Working Group

- Provides support to [EFRAG TEG](#)
- Members have considerable expertise in insurance accounting and more generally in IFRS issues and practice.
- EIOPA, ESMA, Insurance Europe, Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), and the reinsurance industry have observer status
- IASB members and staff are also invited to participate as observers as part of the IASB outreach activities.
- 18 members: preparers, auditors, actuaries, academics, users.
- The IASB IFRS 17 TRG is one of the ways the IASB is supporting implementation of the new Standard. The purpose of the group is to:
 - provide a public forum for stakeholders to follow the discussion of questions raised on implementation; and
 - inform on action needed to address those questions. Possible actions include providing supporting materials such as webinars, case studies and/or referral to the Board or Interpretation Committee.
- The EFRAG IAWG discussed the topics in the agenda of the TRG in a systematic way.

IASB AMENDMENTS TO ADDRESS IMPLEMENTATION CONCERNS

Topics in the Amendments



Additional topics in EFRAG comment letter

- Annual cohorts
- Modified Retrospective Approach
- Interim reporting (IAS 34)
- OCI to nil at transition (FVA)



RESEARCH ON EQUITY MEASUREMENT

BACKGROUND

EFRAG ENDORSEMENT ADVICE ON IFRS 9 (2015)

EFRAG notes that the use of FVPL and FVOCI without recycling for equity instruments might limit the reporting of performance of some long-term investors but no significant changes in investment strategies expected

EFRAG ADVICE TO EC (2018)

EFRAG notes that the reintroduction of recycling would need to be accompanied by a robust impairment model but EFRAG did not have, at the time, sufficient evidence to recommend the reintroduction of recycling

EC REQUEST FOR ADVICE (2017)

The EC sends a request for advice to ask EFRAG to consider the relevance of an impairment model to the reintroduction of recycling for equity instruments

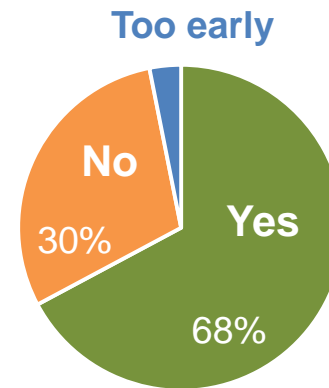
EC REQUEST FOR ADVICE (2018)

EC publishes its action plan on sustainable finance and requests technical advice on alternative accounting treatments to FVPL for equity and equity-type investments

KEY MESSAGES

AN ALTERNATIVE ACCOUNTING TREATMENT NEEDED?

- Majority of the respondents, particularly from the financial sector, considered that there is a need for an alternative accounting treatment in IFRS 9 but not all respondents related it to the objective of 'properly portraying the performance and risks of equity instruments held in a LTIBM'
- Most of the remaining respondents were not convinced that there is a need to identify a long-term investment business model nor an alternative accounting treatment for long-term equity investments in IFRS 9
- Some mentioned that it was too early to conclude whether IFRS 9 (together with IFRS 17) affects any asset allocation decisions to the disadvantage of long-term equity investments



KEY MESSAGES

WHY AN ALTERNATIVE ACCOUNTING TREATMENT NEEDED?

- Most respondents justified the need for an alternative accounting treatment in IFRS 9 by highlighting the limitations of accounting for equity instruments either at FVPL or FVOCI without recycling

FVPL is not appropriate to adequately depict the financial performance of long-term investors as it increases the volatility and generates an asset liability mismatch

market-to-market estimates fail to provide a faithful representation of the real strategy underlying long-term equity investments

the use of FVOCI without recycling creates the false impression that the cumulative gains and losses at the time of disposal are not economically relevant

the ability to identify realised vs. unrealised gains or losses is fundamental and IFRS 9 in its current form creates disincentives for insurers to maintain and increase investments in long-term and/or illiquid assets

KEY MESSAGES

IMPAIRMENT MODELS SUGGESTED

- Many respondents considered that a robust impairment model can be developed without undue costs by using IAS 39 as a starting point but with additional guidance to reduce subjectivity
 - improve definition and criteria for the notion of ‘significant’ and ‘prolonged’ decline
 - allow the reversals of impairments
 - additional disclosures, including on methodology



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THANK YOU



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