European Parliament
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Committee on Economic and Monetary Affairs

2018/2689(RSP)

20.6.2018

MOTION FOR A RESOLUTION

further to Question for Oral Answer B8-0000/2018

pursuant to Rule 128(5) of the Rules of Procedure

on International Financial Reporting Standards: IFRS 17 Insurance Contracts (2018/2689(RSP))

Theodor Dumitru Stolojan
on behalf of the Committee on Economic and Monetary Affairs

B8-0000/2018

European Parliament resolution on International Financial Reporting Standards: IFRS 17 Insurance Contracts
(2018/2689(RSP))

The European Parliament,

– having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[1],

– having regard to Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC[2],

– having regard to Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings[3],

– having regard to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)[4],

– having regard to the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II),

– having regard to the International Financial Reporting Standard (IFRS) 17 Insurance Contracts issued on 18 May 2017 by the International Accounting Standards Board (IASB),

– having regard to the October 2013 report by Philippe Maystadt entitled ‘Should IFRS standards be more European?’,

– having regard to its resolution of 7 June 2016 on International Accounting Standards (IAS) evaluation and the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB)[5],

– having regard to its resolution of 6 October 2016 on International Financial Reporting Standards: IFRS 9[6],

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[1] OJ L 243, 11.9.2002, p. 1.
[2] OJ L 182, 29.6.2013, p. 19.
[3] OJ L 374, 31.12.1991, p.7.
[4] OJ L 335, 17.12.2009, p.1.
[5] Texts adopted, P8_TA(2016)0248.
[6] Texts adopted, P8_TA(2016)0381.

– having regard to the Commission consultation document of 21 March 2018 on ‘Fitness Check on the EU Framework for public reporting by Companies’,

– having regard to the Commission’s call for advice of 27 October 2017 related to the ‘Endorsement advice on IFRS 17 Insurance Contracts’ to EFRAG,

– having regard to the Opinion of the European Banking Authority and the Comment Letter of the European Securities and Markets Authority to IASB’s Exposure Draft on Insurance Contracts,

– having regard to the Report from the Commission to the European Parliament and the Council of 23 November 2017 on the activities of the IFRS Foundation, EFRAG and PIOB in 2016[1];

– having regard to the ESRB Report of July 2017 on ‘Financial stability implications of IFRS 9’,

– having regard to the IMF Global Financial Stability Report of October 2017,

– having regard to the Financial Stability Board (FSB) press release on IFRS 17 of 17 July 2017,

– having regard to the Paris Agreement on climate change adopted on 12 December 2015,

– having regard to the Financial Stability Board report of June 2017 entitled ‘Recommendations of the Task Force on Climate-related Financial Disclosure’,

– having regard to the Commission Communication Action Plan: Financing Sustainable Growth[2],

- having regard to Final Report of the EU High-Level Expert Group on Sustainable Finance,

– having regard to the EFRAG’s IFRS 17 background briefing papers on the Release of the Contractual Service Margin, on the Transition Requirements, and on the ‘Level of Aggregation’ requirements,

– having regards to the exchange of views with the Chair of the International Accounting Standards Board (IASB), Mr Hoogervorst, with the Chairman of the IFRS Foundation Trustees, Mr Prada, with the President of EFRAG Board Mr Gauzès on IFRS 17 Insurance Contracts,

– having regard to the study of January 2016 for its Committee on Economic and Monetary Affairs on ‘Changes to Accounting and Solvency Rules: The (possible) Impact on Insurance and Pensions’[3],

– having regard to the question to the Commission on International Financial Reporting

[1] COM(2017)0684;
[2] COM(2018)097.
[3] PE 569.996.

Standards: IFRS 17 Insurance Contracts (O-000068/2018 – B8-0000/2018),

– having regard to the motion for a resolution of the Committee on Economic and Monetary Affairs,

– having regard to Rules 128(5) and 123(2) of its Rules of Procedure,

A. whereas the International Accounting Standards Board (IASB) issued IFRS 17 Insurance Contracts on 18 May 2017; whereas, if endorsed by the EU, IFRS 17 will become effective in the EU on 1 January 2021 and will replace the interim standard IFRS 4; whereas IFRS 17 is the third major accounting standard issued by the IASB after IFRS 16 Leases and IFRS 9 Financial Instruments; whereas Amendments to IFRS 4 addressed the mismatch in the application dates between IFRS 17 and IFRS 9;

B. whereas IFRS 4 was only meant as a temporary standard; whereas it permits the use of a wide range of national accounting standards and practices; whereas there is a lot of diversity in current insurance accounting, including in the measurement of liabilities and in the recognition of revenue and profits;

C. whereas IFRS 17 brings a harmonisation of the accounting rules for insurance contracts across different constituencies; whereas it is intended to provide a more realistic description and better comparability of financial statements within the insurance sector;

D. whereas the International Monetary Fund (IMF) in the Global Financial Stability Report of October 2017 requested an improvement of the regulatory frameworks for life insurance in order to increase the reporting transparency and to increase the resilience of the industry; whereas the Financial Stability Board (FSB) welcomed the new insurance standard IFRS 17;

E. whereas the European insurance companies in providing a wide range of insurance and re-insurance products, differ in their business models, including their investment and liability structure; whereas insurance companies as major institutional investors are also important long-term investors;

F. whereas the Commission currently conducts a ‘Fitness Check on the EU Framework for public reporting by Companies’; whereas the Commission therein also examines possible interactions of IFRS 17 with the Insurance Accounting Directive and Solvency II;

G. whereas EFRAG is currently drafting its endorsement advice on IFRS 17 and is conducting for this purpose a detailed impact analysis; whereas EFRAG identified in background briefings as controversial areas the level of aggregation, the contractual service margin, reinsurance, transitional requirements and operational impact;

H. whereas its Committee on Economic and Monetary Affairs will carefully scrutinise IFRS 17;

1. Notes that IFRS 17 Insurance Contracts necessitates a fundamental change in the accounting for insurance contracts bringing the benefits of more consistency and transparency with the aim of increased comparability;

2. Notes that considerable and significant efforts and costs are needed in order to implement IFRS 17, in particular for Small and Medium Insurance Entities, also reflecting the complexity of the new standard; notes that implementation efforts are already in progress; notes that the IASB is providing implementation support, in particular by setting up an Transition Resource Group (TRG) for IFRS 17;

3. Notes concerns relating to the presentation of general insurance contracts, including the risk that it will reduce the quality of disclosure, unduly increase the expected cost of implementation and significantly increase the operational complexity of reporting under IFRS 17; and calls on EFRAG to consider the anticipated cost of this measure and if it will hinder understanding of the financial impact of general insurance contracts;

4. Notes that IFRS17 aims at generating relevant information for shareholders by valuating insurance contract liabilities; notes that this is a fundamentally complex process and may amplify financial disturbances;

5. Notes the ongoing work of the European Financial Reporting Advisory Group (EFRAG) in drafting its endorsement advice, in particular the issues identified, i.a. the level of aggregation, the contractual service margin, reinsurance, transitional requirements and operational impact; notes that the final endorsement advice is expected in December 2018; and recommends that this timeframe is reviewed once the full scale and complexity of the issues identified in the field testing process are understood; welcomes the issues addressed in the Commission call for advice to EFRAG; in particular to examine the potential effects on financial stability, on competitiveness, on the insurance markets and in particular for Small and Medium Insurance Entities, and the cost-benefit analysis; calls on EFRAG to check that all the core features of the insurance covers are reflected in a way that does not distort the social guarantees offered;

6. Stresses the need of fully understanding the interaction of IFRS 17, which is a principle based approach, with other regulatory requirements for insurance entities in the EU, in particular with Solvency II, especially in relation to the cost of the implementation of IFRS 17; regrets however that no field test has been developed yet to examine the potential effects that IFRS17 might have on financial stability, competitiveness and the financial markets; calls therefore on the Commission to consider broader tests, including field tests, to assess these effects and interactions; welcomes the ongoing fitness check on the EU framework for public reporting by companies currently conducted by the Commission; calls on the Commission to report to the Parliament the results of this check and to consider it appropriately in the endorsement procedure; notes the concerns put forward by EBA on IFRS 17 allowing for inconsistent accounting treatment applied for similar transactions depending on the issuers' industry; calls, therefore, on EFRAG to liaise closely with EBA to assess whether these concerns are still valid in the context of the final requirements of IFRS 17 and whether, in this respect, transactions with similar economic substance are consistently treated under IFRS 17;

7. Notes the concerns put forward by ESMA in the context of its response to the 2013 consultation on the IASB's Exposure Draft Insurance Contracts, on presenting the effects of changes in the discount rate partly in 'other comprehensive income (OCI)'

and partly in profit or loss making financial statements too complex to understand and thus impairing comparability of contracts with similar features; calls, therefore, on EFRAG to liaise closely with ESMA and to consider in developing its endorsement advice these concerns, if still relevant, in the context of the final requirements of IFRS 17 and to conclude whether, in this respect, IFRS 17 meets the endorsement criterion of understandability; notes the concerns put forward by ESMA in the above-mentioned 2013 comment letter on the then proposed requirements that IFRS 17 may fall short of providing sufficient clarity in the presentation of revenue, and that the determination of the discount rate and risk adjustment may hamper effective enforcement; calls, therefore, on EFRAG to liaise closely with ESMA and to consider in developing its endorsement advice these concerns, if still relevant, in the context of the final requirements of IFRS 17; notes the concerns put forward by EBA on IFRS 17 permitting an insurance entity to determine a discount rate using either a top-down or a bottom-up approach; calls, therefore, on EFRAG to liaise closely with EBA, and to consider in developing its endorsement advice these concerns, if still relevant, in the context of the final requirements of IFRS 17 notably whether this option might increase significantly the scope for judgement and inconsistency in the application potentially leading to reduced comparability of financial information and subjective earnings' management; welcomes IASB's research project on discount rates and encourages the IASB to develop a consistent and holistic approach on the methodology for estimating and applying discount rates;

8. Recalls its resolution on the IAS evaluation of 7 June 2016 and on IFRS 9 of 6 October 2016; calls on the Commission and EFRAG to consider the relevant recommendations in these resolutions for the endorsement of IFRS 17, notably as regards the impact of new standards on EU financial stability and EU long term investment as well as the risks entailed in accounting provisions prone to have pro-cyclical effects and/or cause higher volatility, in particular since IFRS 17 will shift the focus from historical cost to current values; recalls in this regard the Maystadt recommendations regarding the expansion of the 'public good' criterion, i.e. that accounting standards should neither jeopardise financial stability in the EU nor hinder the EU's economic development; calls on the Commission, in particular to examine whether the practice of some Member States to base distribution of profits on IFRS accounts without applying any filters to unrealised gains complies with the Capital Maintenance Directive;

9. Notes that with IFRS 17 and IFRS 9 two major changes in financial reporting standards are affecting the accounting for insurance undertakings; notes that, with IFRS 9 and IFRS 17, changes in valuation now occur both on the asset side as well as the liabilities side of insurers' balance sheet, as investment assets are marked-to-market and the valuations of insurance contracts includes forward-looking net cash flow estimates; calls on EFRAG to assess the potential interaction and any mismatches between IFRS 9 and IFRS 17;

10. Notes that exemptions to IFRS 17 and IFRS 9 allow for the application of IFRS 15 to relevant contracts and calls on EFRAG to assess whether this treatment is appropriate;

11. Calls on the Commission and EFRAG to consider concerns related to the level of aggregation, including the requirements regarding how the business is managed in practice and the requirement to group contracts into annual cohorts, resulting in a

potentially unclear reflection of the business;

12. Calls on the Commission and EFRAG to consider concerns related to the level of aggregation insofar that the disaggregation of a portfolio on profitability criteria and annual cohorts may not reflect how the business is managed, while possibly increasing costs, complexity and administrative burden for companies;

13. Calls for a clarification on certain potential negative implications of the transitional requirements, in particular in terms of complexity of the retrospective approaches and the limited availability of data in this regard; and calls on the Commission and EFRAG to consider the potential consequences on comparability and data issues of the need to apply multiple transition approaches for one portfolio of insurance contracts;

14. Calls on the Commission and EFRAG to consider potential benefits for all stakeholders;

15. Notes certain concerns relating to reinsurance contracts, which constitute a specific form of insurance; calls on EFRAG to consider the impact of the requirements in IFRS 17 relating to accounting for reinsurance, considering both the interests of the beneficiaries and the business models of the reinsurance providers;

16. Calls on the European Corporate Reporting Lab that will be set up within EFRAG to deliver on the design of best practices in corporate reporting, notably as regards climate-related disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosure;

17. Notes that the true scale and complexity of IFRS 17 will only become clear once EFRAG has completed its impact assessment; calls on the Commission and EFRAG to examine the achievability of the current implementation timeline of IFRS 17 based on the outcome of the impact assessment and to consider potential interaction with implementation dates in other jurisdictions;

18. Calls on the Commission, together with the ESAs, the ECB, ESRB and EFRAG, that if IFRS 17 is endorsed at the EU level, to closely monitor its implementation in the EU, to prepare an ex-post impact assessment no later than June 2024 and to present this assessment to the European Parliament and act in accordance with its views;

19. Stresses that insurers have the responsibility to inform investors about potential effects of the implementation of IFRS 17;

20. Calls on the ESRB to establish a taskforce on IFRS 17;

21. Calls on the Commission to make sure that, if adopted, IFRS 17 will be conducive to the European public good, including its sustainability and long-term investment objectives in line with the Paris agreement on climate change;

22. Instructs its President to forward this resolution to the Commission.