



18 December 2020

Via email: jean-paul.gauzes@efrag.org

Re: EFRAG's consultation on its draft endorsement advice on IFRS 17 insurance contracts as resulting from the June 2020 amendments

Dear Jean-Paul,

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to comment on EFRAG's consultation paper on its draft endorsement advice on IFRS 17 insurance contracts. We have recently held a discussion on this topic and would like to provide two over-arching comments that we hope cover the substance of many of your detailed endorsement-related questions.

1) EFRAG's endorsement assessment of IFRS17

We support endorsement. It is the unanimous view of the CRUF members who have discussed the issue that IFRS17 is an important step towards a common standard for the accounting of insurance liabilities. It is needed to replace a current IFRS 4 which is a standard in name only.

There are many points of detail in IFRS 17 upon which opinion differs. There are reservations about the opportunities for differences of application in the standard that have emerged as a result of compromises made in the setting process. Transitionals could create complexity in assessing financial performance for a prolonged period of time.

But we are persuaded by the level of due diligence that the standard creating process has involved and by the urgency of making a major step towards a common accounting policy.

Whilst this may not be desirable given the lengthiness of the creation process, we think it should be acknowledged that such a major accounting change may need adjustment based on experience after an appropriate period.

2) Annual cohorts

The vast majority of CRUF participants (near unanimity) support the application of annual cohorts to all business covered by IFRS 17. Our considerations are:

- Annual cohorts are already effectively common practice in the non-life market in the balance between initial and developed loss picks that are managed with an element of cross subsidy between products and over time. Conceptually, life insurance is the same.
- Many life companies already provide new business numbers. They are therefore already putting a value on the first year of business written. If they think the first year is important, they should also be obliged to show how profit is emerging over time for contracts written in a particular year.

- Insurance is a complex market and companies already need to explain their business and results. Therefore, as long as companies explain in their disclosures that there are inter-generationally-mutualised and cash-flow matched contracts, it should not be an issue.
- Annual cohorts should be a good way to describe management's actions and judgements made to a group of contracts in a particular year and it will help to identify managerial errors which would otherwise be diluted.

A very small minority of CRUF members are against annual cohorts for some business based on the following considerations:

- Annual cohorts for business with inter-generational management are an artificial construct the creation of which can undermine the product.
- They would be unlikely to offer additional useful insight for investors, and could add yet more confusion.

All CRUF members believe that compromise on the annual cohorts topic is preferable to allowing it to scupper the endorsement of IFRS 17 altogether.

Individual members of CRUF may take the opportunity to provide independent feedback that covers more of your specific questions in more detail.

As an organisation that brings together users across the capital markets with potentially disparate views, we thought it would be most useful to underscore for you where there is clear commonality of opinion.

IFRS 17 is likely to be complex to implement and challenging for all users to become familiar with. The quicker the process of acclimatisation and learning from experience can begin, the better.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not



participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

William Hawkins

Keefe, Bruyette & Woods

Crispin Southgate

Institutional Investment Advisors

Blair Stewart

Managing Director

Bank Of America Securities

Jed Wrigley

Investment Advisor

Farooq Hanif

Head of European Insurance Equity Research

Credit Suisse

Stephan Kalb

Senior Director

Fitch Ratings