

PUBLIC STATEMENT

Transparency on implementation of IFRS 17 *Insurance Contracts*

1. The European Securities and Markets Authority (ESMA) is issuing this Public Statement on the implementation of IFRS 17 *Insurance Contracts* ('IFRS 17' or 'the Standard') to promote its consistent application and high-quality implementation by issuers. Given the expected impact and importance of IFRS 17 specifically for insurance undertakings and financial conglomerates, ESMA highlights the need for issuers to provide relevant and comparable information in their financial statements that enables users to assess the possible impact that IFRS 17 will have in the period of initial application.
2. ESMA notes that the scale of the changes introduced by IFRS 17 and the level of judgement involved in its application require that issuers inform users of financial statements, on a timely basis, about the expected impact of the new requirements in a gradual, but effective manner. Such communication efforts are even more necessary given that, for most issuers, IFRS 17 and IFRS 9 *Financial Instruments* will be applied for the first time concurrently.
3. Furthermore, in light of the expected impacts related to changes in information systems and (if relevant) risk management and possibly prudential calculation systems, ESMA urges issuers to proceed with their implementation efforts on a timely basis.
4. Management and supervisory bodies of issuers and their auditors should take this Public Statement into consideration in their work during the implementation of IFRS 17, particularly when disclosing and auditing information in the IFRS financial statements (annual and interim) on the (expected) effects of this Standard. ESMA expects that, where relevant, the quality of the implementation of IFRS 17 will be closely monitored by Audit Committees. Furthermore, ESMA recognises that some matters set out in this Public Statement may not be relevant for all issuers and that the level of detail provided should be adapted depending on the significance of the matter to the financial statements.
5. ESMA expects that this Public Statement will be considered and reflected in the 2022 interim and annual financial statements to enhance the comparability of IFRS financial statements in the EU. ESMA, together with national competent authorities, will monitor the level of transparency that issuers provide in their financial statements about the implementation of IFRS 17.

Background

6. IFRS 17 replaces the requirements of IFRS 4 *Insurance Contracts* which generally allows entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations in those requirements¹. IFRS 17 includes

¹ Paragraph BC 1 of IFRS 17 - Basis for Conclusions.

principles-based requirements that aim to improve the comparability of the measurement and presentation of insurance contracts across issuers. The Standard requires issuers to reflect, on a more timely and transparent basis, the effect of economic changes arising from insurance contracts on the performance and financial position and cash flows of the issuer. By increasing the level of transparency, IFRS 17 provides better insights into the issuers' business models. Overall, the new requirements are expected to have a positive impact on investor protection and financial stability^{2,3}.

7. The effective date of application of IFRS 17 in the EU is 1 January 2023 with earlier application permitted. Since IFRS 17 requires the preparation of comparative information for the annual reporting period immediately preceding the date of initial application, the transition date of IFRS 17 is 1 January 2022⁴. IFRS 17 provides for specific transition provisions, which require a full retrospective application of the Standard unless it is impracticable (in which case, issuers should apply either a modified retrospective approach or a fair value approach).
8. ESMA notes that many issuers in the insurance sector have applied the temporary exemption from the first-time application of IFRS 9 and have continued to apply the predecessor standard IAS 39 *Financial Instruments: Recognition and Measurement*. Those issuers will apply IFRS 9 for the first time concurrently with their initial application of IFRS 17. ESMA notes that, in these cases, the matters outlined in ESMA's 2016 Public Statement on the first-time implementation of IFRS 9 remain valid⁵.

Transparency on implementation and effects of IFRS 17

9. ESMA notes that paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of an impending change in accounting policies when an issuer has yet to implement a new IFRS that has been issued but is not yet effective. For this purpose, IAS 8 paragraph 30 (b) requires disclosure of "*known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application*". ESMA highlights that these requirements encompass both qualitative and quantitative information. Quantitative information can be expressed in different forms, including percentage changes, ranges of values and point estimates. Furthermore, ESMA stresses that the purpose of these requirements is to enable users of the financial statements to understand the impacts that the future application of the new Standard will have on the financial position and performance of the issuer. This is particularly relevant for an accounting standard such as IFRS 17 which, amongst other aspects, introduces a new measurement and presentation model. This places more emphasis on the need for issuers to help users map the impacts of the new requirements to the key areas of the financial statements prepared under the current requirements.

² [ESMA32-61-438](#) - ESMA's response to the consultation on EFRAG's Draft Letter to the European Commission Regarding Endorsement of IFRS 17 Insurance Contracts as amended in June 2020.

³ See also EIOPA's analysis of IFRS 17 *Insurance Contracts*, available [here](#).

⁴ If an issuer voluntarily presents restated comparative information for any earlier periods, the transition date is the beginning of the earliest restated comparative period presented.

⁵ [2016/ESMA/1653](#) Public Statement – *Issues for consideration in implementing IFRS 9: Financial Instruments*, 10 November 2016.

10. ESMA acknowledges that, as with all major accounting standards, the application of IFRS 17 may give rise to implementation and interpretation questions, both during the transition phase and subsequently. Consequently, issuers may continue to adjust and calibrate their internal accounting models throughout 2022 for the measurement aspects of the Standard and its interplay with IFRS 9. ESMA notes that the IASB established a IFRS Transition Resource Group for IFRS 17 (TRG) which was active between 2017 and 2019 to provide a forum to identify and discuss over 120 IFRS 17 implementation issues. While the discussions of the TRG did not provide authoritative guidance, they highlight specific elements of the Standard to be considered to address issues raised. Consequently, ESMA encourages issuers to consider the outcomes of the TRG meetings when implementing IFRS 17⁶. ESMA also reminds issuers that some matters related to the application of IFRS 17 have been⁷ or will be submitted to the IFRS Interpretations Committee (IFRS IC). Issuers that are affected by these matters are encouraged to follow the discussions at the IFRS IC to apply the clarifications provided⁸.
11. Such implementation and interpretation topics may result in some uncertainty in the choices and judgements to be made by issuers prior to the initial application, including on the election of one or more of the options available in the Standard. ESMA emphasises that such uncertainty does not preclude disclosures under IAS 8 of a reasonable estimate of the possible impacts. Rather, ESMA recommends that the factors giving rise to such uncertainty should be reported in a transparent manner as part of the information on the “known or reasonably estimable” possible impacts of the application of IFRS 17 and, where applicable, IFRS 9.
12. ESMA expects that, in the six months preceding the initial application of IFRS 17, issuers should have a detailed understanding of the new requirements and of the changes they are likely to present compared to the current standard IFRS 4. Such an understanding might be subject to on-going refinements in the course of 2022 and 2023. In this respect ESMA notes that, in order to corroborate their assessment over the *reasonableness* of the information available to fulfil the requirements of paragraphs 30 and 31 of IAS 8, issuers may also consider relying on the information arising from what are usually referred to as “*parallel runs*” (i.e. the concurrent application for internal testing purposes of the two sets of standards, IFRS 17 and IFRS 4, in the year prior to the initial application of the new requirements). While these parallel runs may not be fully aligned in terms of timing, they may still contribute to preparing reasonable estimates of the expected impacts.
13. The impact in the period of initial application of IFRS 17 will be affected by the issuer’s specific business and economic conditions at that date, the composition of its portfolios and circumstances which cannot be fully anticipated prior to the effective date. However, in several cases the estimated quantitative information for the opening balance sheet date of the comparative period is expected to be available at the time of preparation of the 2022 interim financial statements and it should therefore be disclosed. More in general, if reasonably estimable quantitative information on the impact of the application of IFRS 17 exists, based on all information available as of a reporting date prior to the date of initial application, this should be disclosed. This is the case even in instances where the actual

⁶ <https://www.ifrs.org/groups/transition-resource-group-for-insurance-contracts/#meetings>

⁷ <https://www.ifrs.org/projects/work-plan/profit-recognition-for-annuity-contracts-ifs-17/>

⁸ <https://www.ifrs.org/projects/work-plan/#application-questions>

figures in the 2023 financial statements might be different owing to changes in the composition of the portfolios during 2022 or different economic conditions.

14. Where the impact is expected to be significant, ESMA expects issuers to:
 - a. provide information about the significant accounting policy choices to be taken upon initial application of IFRS 17 such as methods to calculate the discount rate, how the level of aggregation requirements will be applied;
 - b. disaggregate the expected impact in a way that is useful to users of financial statements; and
 - c. explain the nature of the impacts (on recognition, measurement and presentation) so that users of the financial statements can understand the changes and their key drivers when compared to the accounting principles on classification applied under IFRS 4.
15. ESMA encourages issuers to explain the impact, if any, of the application of IFRS 17 on alternative performance measures (APMs) that the issuer may use in any regulated information (financial communication of the issuer and/or in other parts of the annual financial report) to which the ESMA Guidelines on APMs⁹ apply.
16. ESMA highlights the need to verify that IFRS 17 is understood and implemented consistently within a group of entities that prepare IFRS consolidated financial statements. While acknowledging different economic conditions in different economic environments, ESMA emphasises the importance of consistent implementation of IFRS 17 within groups in order to apply uniform accounting policies as required by paragraph B87 of IFRS 10 *Consolidated Financial Statements*.
17. Finally, ESMA emphasises that any disclosures in accordance with paragraphs 30 and 31 of IAS 8 do not replace the obligation of issuers under other EU legislation, such as the Market Abuse Regulation, with regard to inside information.

Good disclosure practices on expected impacts

18. The following paragraphs illustrate good disclosure practices to consider in case an issuer expects the application of IFRS 17 to have a significant impact on its financial statements. Accordingly, this illustrative list is not exhaustive, and each issuer should consider materiality and its individual circumstances to provide relevant and transparent financial information to users of its financial statements. This section shall be read in conjunction with paragraphs 23-29 which set out an illustrative timeline for the expected impacts disclosures.
19. Taking into account the complexity and the significant judgements required under IFRS 17, ESMA is of the view that relevant disclosures on significant judgements, estimates and accounting policies should be provided to enable users of the financial statements to assess the effects that insurance contracts will have on the financial position, financial performance and cash flows of the issuer. The effects of the selected options allowed by IFRS 17 should also be provided.

⁹ [ESMA Guidelines on Alternative Performance Measures, 30 June 2015, ESMA/2015/1057](#)

20. ESMA notes that IFRS 17 requirements differ from prudential reporting requirements (Solvency II). However, in the periods prior to the initial application of IFRS 17, users of financial statements may largely rely on the prudential reporting metrics and assumptions as a reference point to understand the changes introduced by IFRS 17 in the representation of insurance contracts compared to current practice. Where relevant to enable users of financial statements to make an assessment of the possible impacts of the initial application of IFRS 17, ESMA highlights the need for proper consideration and explanation of those differences. Particularly for issuers that are financial conglomerates, information about any expected impact of the application of IFRS 17 on prudential metrics should be provided.
21. The expected impact disclosures should avoid *boilerplate* language and should help users map as far as practicable the information disclosed on the basis of IFRS 4 to the main presentation items under IFRS 17. The disclosures should provide explanations of how the accounting currently reported on different types of insurance contracts are likely to differ under IFRS 17. Such explanations are most useful when they provide information on the expected impacts relating to:
- key items in the statement of financial position, such as insurance liabilities, insurance assets and equity;
 - key items of the statement of comprehensive income, including insurance revenue; and
 - any changes in the expected profitability patterns of portfolios of insurance contracts.
22. In particular, as mentioned in paragraph 9, in order to enable users of the financial statements to understand the impacts that the future application of the new Standard on the financial statements, issuers are encouraged to disclose detailed information on the implementation of the following aspects of IFRS 17 and the expected impacts compared to current accounting in relation to:
- any scope exceptions that an issuer intends to apply;
 - the application of the level of aggregation requirements, including the intention to adopt the optional exemption from the application of the annual cohort requirement provided for in the EU-endorsed version of IFRS 17;
 - when the issuer intends to apply the optional exemption from the annual cohort requirement, disclosure should be provided on the portfolios of contracts to which this exemption is expected to apply;
 - the methodology used when determining discount rates¹⁰, including determination of discount rate for long-term contracts and for cases in which there is no active market;
 - the criteria and the methodology from which the risk adjustments for non-financial risks is derived;
 - explanations on (i) the scope of the application of the premium allocation approach and the variable fee approach, (ii) the approach taken for the identification of coverage

¹⁰ Paragraph B78 of IFRS 17 requires that in applying an estimation technique for discount rates, an entity shall maximise the use of observable inputs.

units and the related expected patterns of release of the contractual service margin (CSM), (iii) the determination of contract boundary and investment components, and (iv) the recognition and measurement of insurance finance income or expenses. Where relevant and appropriate, issuers should highlight the differences to current approaches;

- explanations on expected use of the transition reliefs (modified retrospective and fair value approaches) including a description of the modifications used where the modified retrospective approach is applied and disclosures regarding judgements made around the practicability of retrospective application and how that assessment has been made.
- if known or reasonably estimable, reliable quantification of the possible impact of application of IFRS 17 or its magnitude on the financial position, financial performance and equity, including disaggregation of disclosures that is useful to identify the drivers of the expected impact (e.g. by operating segment).¹¹;
- information about the interactions in the implementation of IFRS 17 and IFRS 9, including the use of the accounting policy choices to avoid accounting mismatches in application of both standards, including information on the application of the policy choice for the presentation of changes in discount rates in the statement of Other Comprehensive Income or in the statement of Profit or Loss.
- where relevant, the effect of discontinuing the practice of shadow accounting provided for under IFRS 4;
- in the case of initial application of IFRS 9 in 2023, explanations on whether or not the issuer will restate comparative information and (in the case of restatement) apply the classification overlay approach with the amendment to the transition requirements in IFRS 17 issued by the IASB at the end of 2021;
- for issuers applying IFRS 9 before 2023, transparency on the changes to their previously applied classification and designation of financial assets, as these changes are permitted and, in some cases, required;
- when the quantitative information is not disclosed because it is unknown or not reasonably estimable, additional qualitative information enabling users to understand the magnitude of the expected impact on the financial position including the main drivers.

Illustrative timeline

23. ESMA expects that, as the implementation of IFRS 17 progresses and information about its impact becomes more reasonably estimable, issuers will provide progressively more entity-specific qualitative and quantitative information about the application of IFRS 17 in their financial statements.

2022 IFRS interim financial statements:

¹¹ Depending on the particular circumstances, the complexity of implementation and expected impact, disclosure about different drivers of the impact of IFRS 17 could be provided with a different level of granularity and at a different time.

24. While IAS 34 *Interim Financial Reporting* does not require specific disclosures relating to updates of information provided in the latest annual financial statements when a new IFRS has been issued but is not yet effective, ESMA is of the view that, where significant, issuers should consider providing an update of information on implementation and effects of IFRS17 as disclosed in the 2021 annual IFRS financial statements.¹²
25. ESMA expects that, for most issuers, reasonably estimable information relevant to assessing the possible impact of the application of IFRS 17 will be available at the time of preparation of their 2022 half-year financial statements and with increasing level of detail as the end of the 2022 annual reporting period approaches. Consequently, ESMA is of the view that for those issuers it would be appropriate to provide disclosures about the changes in the accounting policies and their impacts on the financial statements (or magnitude of the impacts) prior to their 2022 annual financial reports. The quantitative information may include (but is not limited to) the expected impact on issuer's equity and the size of the CSM at the transition date of 1 January 2022.
26. In providing this updated information, ESMA recommends that issuers take into account the considerations highlighted in paragraphs 18-22 of this Public Statement, highlighting the areas where quantitative information are not yet reasonably available, the uncertainties still outstanding on the election of certain options and the indicative timing for these uncertainties to be resolved.
27. Issuers should consider that the interim reporting could well serve as a basis to further familiarise the users of financial statements with the changes and impacts resulting from the application of IFRS 17. As such, issuers should not unduly defer, until later in 2022 or at the beginning of 2023, information on expected impacts which are reasonably available for interim reporting, especially when implementation projects are well underway and management and supervisory bodies of the concerned issuers have been informed about key decisions and their expected impacts.

2022 IFRS annual financial statements:

28. ESMA notes that the annual financial statements for 2022 will be published after IFRS 17 becomes effective. Consequently, ESMA expects that the 2022 annual financial statements provide the quantitative impact of the application of IFRS 17 and explain the changes compared to the amounts reported under IFRS 4, disaggregated as appropriate. The quantification of the impacts may include (but is not limited to) the expected impact on issuer's equity and the size of the CSM at the transition date of 1 January 2022 and at the initial application date of 1 January 2023 as well as profit or loss for the comparative period 2022.
29. For the purpose of the 2022 annual financial statements, ESMA recommends that issuers incorporate the considerations in paragraphs 18-22 of this Public Statement. Moreover, ESMA expects that the information already provided in the 2022 interim financial statements will be further developed and elaborated on, considering the actual implementation of IFRS 17.

¹² Such information might need to be disclosed in advance of publication of the annual financial statements based on the provisions of the Market Abuse Regulation if considered to be inside information.

Next steps

30. ESMA notes that once IFRS 17 is applied, i.e. in the 2023 interim and annual financial statements, disclosures required by paragraphs 114 to 116 of IFRS 17 relating to the initial application of the Standard should be provided. These disclosures enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date when applying the modified retrospective approach or the fair value approach on the CSM and insurance revenue in subsequent periods.