Resolution on International Financial Reporting Standards: IFRS 17 Insurance Contracts

2018/2689(RSP) - 03/10/2018 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution tabled the Committee on Economic and Monetary Affairs on International Financial Reporting Standards: IFRS 17 Insurance Contracts.

It recalled that on 18 May 2017, the International Accounting Standards Board (IASB) issued a new standard on insurance contracts, International Financial Reporting Standard (IFRS) 17, which, if endorsed by the EU, will become effective in the EU on 1 January 2021. The standard is designed to bring a **harmonisation of the accounting rules for insurance contracts** across different constituencies and is intended to provide a more realistic description and better comparability of financial statements within the insurance sector.

Members considered that the benefits of more consistency and transparency come at the price of a **fundamental accounting change**, entailing considerable and significant efforts and costs, not least for SMEs working in insurance.

Whilst noting that the IASB is providing implementation support, in particular by setting up a Transition Resource Group (TRG) for IFRS 17, Parliament called on the European Financial Reporting Advisory Group (EFRAG), in developing its **endorsement advice**, and on the Commission, when developing its **final endorsement**, to:

- examine the potential effects on **competitiveness,** and insurance markets, for insurance SMEs in particular, and the need for a cost-benefit analysis;
- examine the impact of new standards on **financial stability** and **long-term investment** in the EU, and also the risks entailed by the propensity of accounting provisions to cause **pro-cyclical effects** and/or higher volatility, particularly as IFRS 17 will shift the focus from historical cost to current values; in this connection, bear in mind Parliament's recommendations outlined in its resolution of 7 June 2016 on IAS evaluation and its resolution 6 October 2016 on IFRS 9 for the endorsement of IFRS 17;
- consider the expansion of the **'public good' criterion**, namely that accounting standards should neither jeopardise the EU's financial stability nor hinder its economic development;
- specifically examine whether the practice of some Member States of basing distribution of profits on IFRS accounts without applying any filters to unrealised gains is compliant with the Capital Maintenance Directive;
- consider broader tests, including field tests, to assess these effects and interactions;
- assess whether IFRS 17 meets the endorsement criterion of **understandability**;
- consider the concerns put forward by the ESMA, inter alia, 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;
- examine the **concerns put forward by the EBA** on IFRS 17 which permits an insurance entity to determine a discount rate using either a top-down or a bottom-up approach and whether this option might significantly increase the scope for judgement and inconsistency in application potentially leading to reduced comparability of financial information and subjective earnings' management;
- assess the potential interaction and any **mismatches** between IFRS 9 and IFRS 17;
- examine the achievability of the current **implementation timeline** of IFRS 17, and to consider potential interaction with implementation dates in other jurisdictions;

Lastly, Parliament called on the Commission, together with the European Supervisory Authorities and the EFRAG, to closely monitor, in the event that it is endorsed, the implementation of IFRS 17 in the EU, to prepare an ex-post impact assessment no later than June 2024, and act in line with Parliament's views thereon.