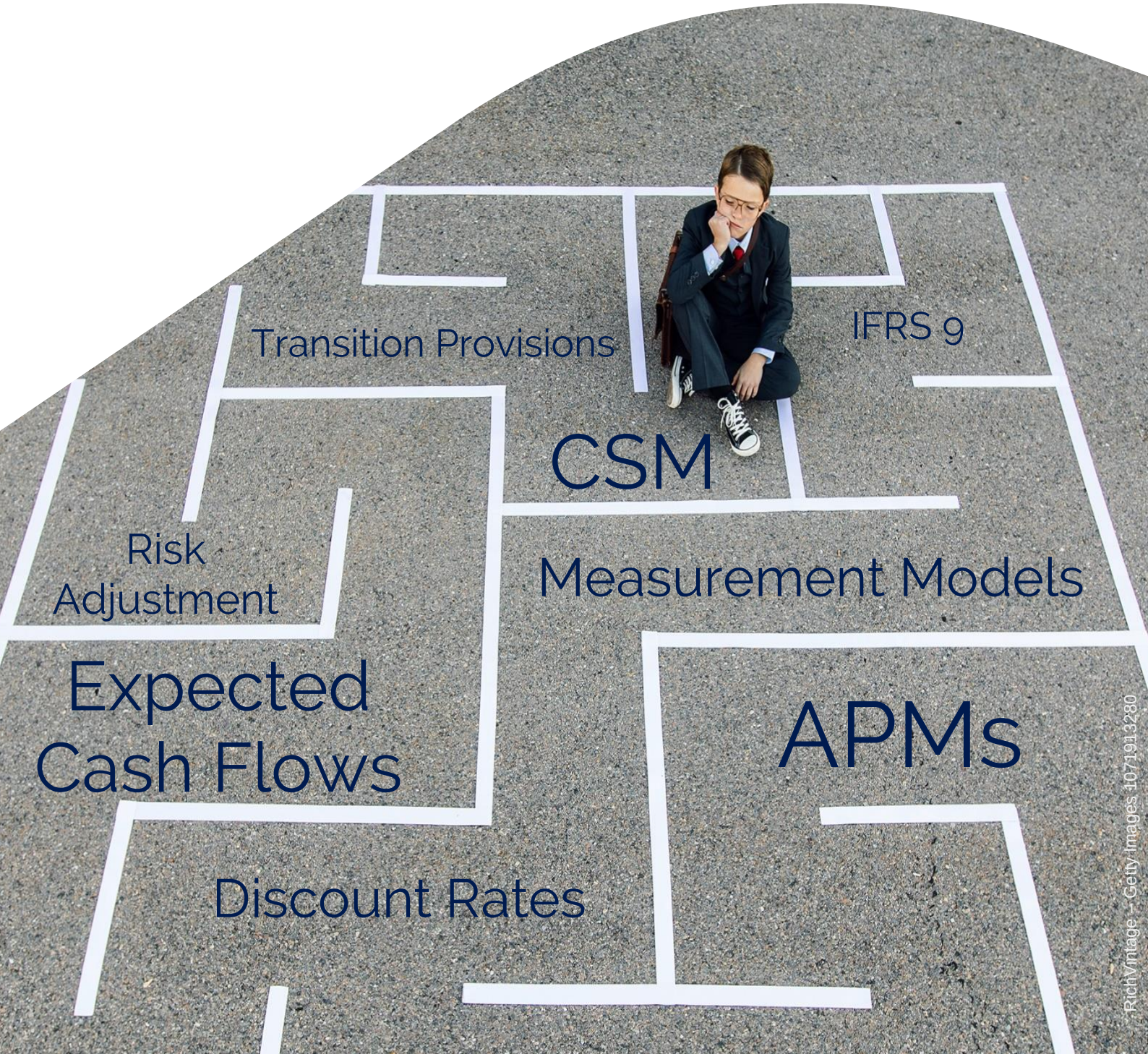
25 October 2024
ESMA32-1188985980-1046

From “black box” to “open book”?

Evidence from the first application of IFRS 17 *Insurance Contracts*



Disclaimer

This report has been compiled by ESMA in joint work with national enforcers. The descriptions and disclosure extracts in this report do not constitute guidelines, best practices, or illustrations of a single approach on how to provide disclosures required by IFRS 17 in IFRS financial statements. The report presents disclosure examples solely based on the extent to which the examples or parts thereof could be considered informative, understandable, and entity specific. Issuers are ultimately responsible for compliance with IFRS principles. The inclusion of these examples in the report does not prevent enforcers from performing examinations and, if necessary, taking enforcement actions with respect to the issuers whose disclosures (or extracts thereof) have been included in this report.

Given that, in most cases, enforcers did not carry out an interactive examination of the information included in the examples, these examples should not be taken as an indication of the compliance of the underlying information with IFRS. ESMA and enforcers neither provide a view nor do they endorse how the issuers from whom disclosure extracts have been included in the present report have applied IFRS standards in the financial statements with regards to recognition, measurement, and presentation requirements.

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Abbreviations & Acronyms

AFR	Annual Financial Report
APM	Alternative Performance Measure
CoC	Cost-of-Capital
CSM	Contractual Service Margin
DPF	Direct Participation Features
EEV	European Embedded Value
EIOPA	European Insurance and Occupational Pensions Authority
ESEF	European Single Electronic Format
ESMA	European Securities & Markets Authority
EU	European Union
FCF	Future Cash Flow
FRA	Full Retrospective Approach
FVA	Fair Value Approach
FVOCI	Fair value through other comprehensive income
GMM	General Measurement Model
IFRS	International Financial Reporting Standards
LIC	Liability for Incurred Claims
LRC	Liability for Remaining Coverage
MRA	Modified Retrospective Approach
OAM	Officially Appointed Mechanism
OCI	Other Comprehensive Income
P&C	Property & Casualty
P&L	Profit or Loss Account
PAA	Premium Allocation Approach
VaR	Value-at-Risk
VFA	Variable Fee Approach

Executive Summary

This Report provides an overview of the observations and recommendations of the European Securities and Markets Authority (ESMA) and national enforcers regarding the application of the IFRS 17 requirements in 2023 financial statements. The aim of the work performed is to capture a snapshot of the first-time application of the selected disclosure requirements of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* by a sample of European insurance companies. Moreover, the report includes an assessment of compliance of the alternative performance measures (APMs) presented in the management reports of insurance companies with the ESMA Guidelines on APMs. The report is based on a desktop review, performed by national enforcers in the respective jurisdictions, of the 2023 consolidated financial statements and management reports of a sample of 16 insurance companies.

ESMA's and enforcers' work addresses the following key topics:

- Impact of the application of IFRS 17 on the financial statements;
- Transition provisions;
- Accounting policies, judgements and estimates;
- APMs, and;
- IFRS 9 Financial Instruments (transition and impact).

Overall, the results show that the disclosure requirements have in many cases been well covered in the financial statements of the insurance companies in the sample. However, there is room for improvement in the level of granularity and transparency in the application of the requirements relating, in particular, to transition provisions and accounting policies, judgements and estimates. In general, ESMA notes the low level of entity-specific details in some areas.

Impact of the application of IFRS 17 on the financial statements

ESMA notes positively that, although explicitly not required by IFRS 17, all issuers in the sample disclosed the quantitative impact of the IFRS 17 application on the financial statements (all issuers disclosed the impact on the statement of financial position and 38% did so for the statement of profit or loss, P&L). ESMA highlights the importance of disclosures enabling users to assess the impact of IFRS 17 on the financial statements. Among the most useful disclosures are the reconciliations for the statement of financial position and statement of P&L with a separate presentation of IFRS 17- and IFRS 9-related effects, accompanied by an explanation of the main transition effects.

Transition provisions

Given that the choice of transition methods and specific simplifications allowed by IFRS 17 generally results in a lack of comparability of transition amounts, transition disclosures are expected to be particularly important for users of financial statements. ESMA has identified significant differences in the level of details in the explanations given when the application of full retrospective approach (FRA) was not practicable. 31% of issuers provided very limited explanations on the use of the modified retrospective approach (MRA). With regard to the application of the fair value approach (FVA), only 57% of issuers explained to some extent the key judgements, assumptions and valuation inputs used to determine fair values and only 21% of issuers disclosed sensitivities of fair values to assumptions.

A significant number of issuers in the sample did not provide some required disclosures or provided them only partly (e.g., disclosures of the CSM-reconciliation required by 101(c) of IFRS 17 and the amount of insurance revenue required by paragraph 103(a) of IFRS 17). Given that IFRS 17 requires various disclosures to be made in each reporting period until the contracts which exist at the transition date have expired or have been extinguished, ESMA encourages issuers that provided less detailed explanations of the applied modifications to improve these disclosures in the financial statements published in the following year.

Accounting policies, judgements and estimates

ESMA note that disclosures related to accounting policies, judgements and estimates were often not entity-specific or, in limited cases, missing.

Disclosures on significant judgements as to whether a contract transfers a significant insurance risk, contains direct participation features or distinct investment components were often boilerplate and/or repeated the requirements of the standard. 31% of issuers did not provide disclosures on significant judgements related to the determination of contract boundaries. When disclosures were provided, the level of disclosed details varied considerably amongst issuers.

Regarding the description of measurement methods including the accounting policy choices, about a third of issuers did not explain the entity-specific assumptions made in determining the estimates of fulfilment cash flows (31%) and discount rates (38%). For contracts without direct participation features, no entity-specific disclosure of inputs, assumptions and estimation techniques were provided to explain how issuers distinguished changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates. Slightly more than half of the issuers disclosed details on how the diversification benefit was reflected in the risk adjustment for non-financial risk.

In relation to the CSM allocation, only 38% of issuers provided some explanations of how coverage periods are determined per contract or contract type. Only about one-fifth of issuers disclosed how the relative weighting of the benefits provided by either insurance coverage and investment-return service or by insurance coverage and investment-related service was determined and specified how they considered the bow wave effect.

23% of issuers that disaggregated insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income did not explain the methods used to determine the insurance finance income or expense recognised in the P&L. In addition, the financial statements of the issuers in the sample lacked information on the methods used to allocate the acquisition cash flows to groups of insurance contracts.

ESMA urges issuers to increase the level of transparency in the above-mentioned areas.

ESMA also notes that a quarter of issuers presented disclosures about the nature and extent of risks that arise from insurance contracts outside of the financial statements (e.g., in a management commentary or risk report). Most of these issuers included cross-references to these disclosures in their financial statements. ESMA emphasises that this approach is not permitted under IFRS 17 and that all disclosures required under IFRS 17 are to be included in the notes to the financial statements.

Alternative Performance Measures (APMs)

While issuers that introduced new APMs as a result of the first-time application of IFRS 17 disclosed those mostly in a manner consistent with the ESMA Guidelines on APMs, ESMA emphasises the importance of providing a reconciliation of the APM to the most directly reconcilable line item and explaining (i) why management considers that an APM provides useful information regarding the financial position, cash flows or financial performance and (ii) why the changes to the APM definitions result in reliable and more relevant information.

IFRS 9 (transition and impact)

The broad majority of issuers in the sample first applied IFRS 9 and IFRS 17 at the same time and most of them applied the classification overlay. While IFRS 9 disclosures were not in focus, ESMA notes that issuers largely provided the required transitional disclosures on the application of the overlay and on the application of the IFRS 9 impairment requirements.

Next Steps

ESMA expects issuers, their auditors and audit committees to consider the findings of this report when preparing and auditing the financial statements. ESMA expects enforcers will take or have already taken appropriate enforcement actions whenever material misstatements are identified. ESMA and enforcers will monitor the progress of those actions.

1 Report Background & Objective

Background

- IFRS 17 replaced the requirements of IFRS 4 *Insurance Contracts*. IFRS 4 generally allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations in those requirements. IFRS 17 includes principles-based requirements that aim to improve the comparability of the measurement, presentation and disclosure 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, financial position and cash flows of the issuer. By increasing the level of transparency, IFRS 17 provides better insights into the issuers' business models. The effective date of application of IFRS 17 in the European Union (EU) was 1 January 2023.
- Many issuers in the insurance sector applied in the past the temporary exemption from the first-time application of IFRS 9 and continued to apply the predecessor standard IAS 39 *Financial Instruments: Recognition and Measurement*. Those issuers applied IFRS 9 for the first time in their 2023 financial statements concurrently with their initial application of IFRS 17.
- With the aim of promoting investor protection, ESMA and national enforcers have continuously emphasised the importance of appropriate implementation and application of the requirements of IFRS 17 and IFRS 9. In its statement on the transparency on implementation of IFRS 17 published in May 2022[1], ESMA highlighted the need for issuers to provide relevant and comparable information in their financial statements.
- In the ESMA *Public Statement on European common enforcement priorities for 2023 annual financial reports* published in October 2023[2], ESMA reiterated the call for transparency in the first year of application in the implementation of this standard emphasising disclosure requirements related to significant judgements, estimates and accounting policies with a particular focus on the transition impacts and information about the interactions between the implementation of IFRS 17 and IFRS 9.

Objective

This report aims at providing **an overview of the level of compliance with selected IFRS 17 and IFRS 9 disclosure requirements** (with a focus on IFRS 17) in the 2023 IFRS financial statements of a selected sample of issuers. The report:

- Comments on shortcomings noted in the review of the selected sample;
- Provides ESMA and national enforcers' recommendations for improvement, and;
- Includes practical examples of disclosures from the sample.

[1] ESMA32-339-208 Public Statement *Transparency on implementation of IFRS 17 Insurance Contracts*, 13 May 2022.
[2] ESMA32-193237008-1793 Public Statement *European common enforcement priorities for 2023 annual financial reports*, 25 October 2023.

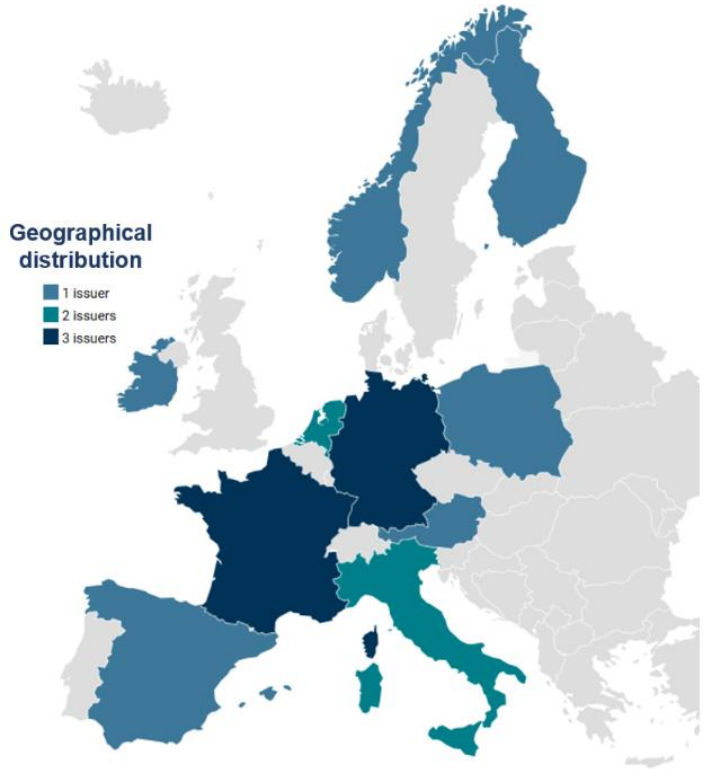
2 Scope & Selected Sample

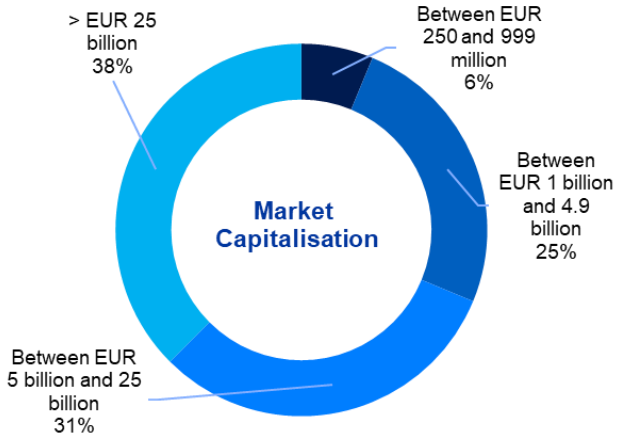
Areas covered

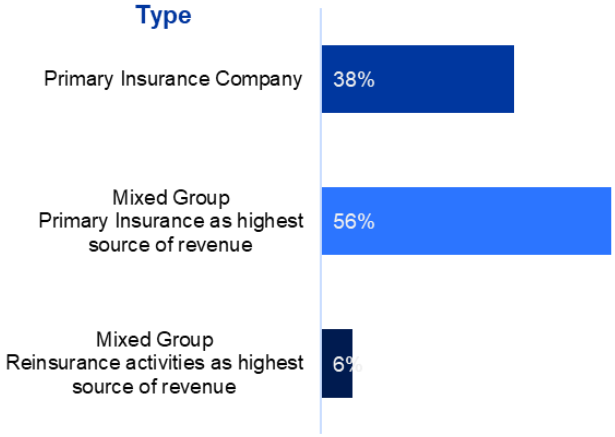
- Impact of the application of IFRS 17 on the financial statements
- Transition provisions
- Accounting policies, judgements and estimates
- Alternative Performance Measures (APMs) in management reports
- IFRS 9 (transition and impact)

Characteristics of the selected sample

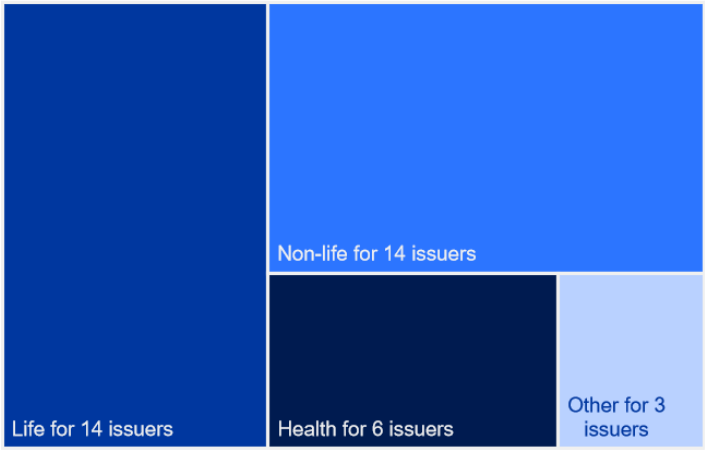
Enforcers looked at the 2023 IFRS financial statements of **sixteen issuers** (insurers and reinsurers whose securities are admitted to trading on European regulated markets) across the EEA. These issuers were selected to ensure a geographical balance and to include different types of insurance business lines (no risk-based approach was applied). The following charts offer a visual breakdown of the sample:







Principal lines of insurance business
(note: issuers had more than one principal line of insurance business)



Bancassurance
(financial conglomerate with significant banking activities)

3 Analysis of Selected Subtopics

The following three sub-sections provide a short description of the relevant accounting requirements on which ESMA's work focused, followed by an analysis of the findings (including real-life illustrations), together with conclusions and recommendations.[3]

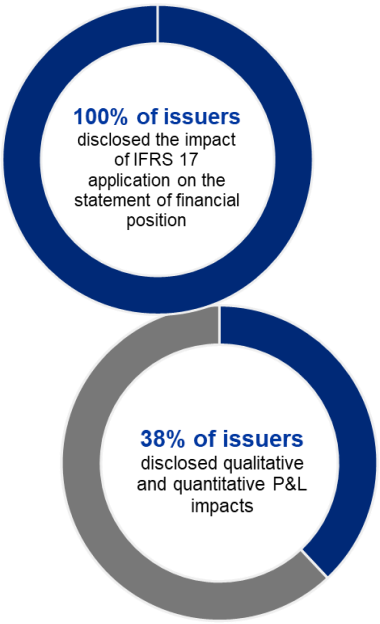
3.1 Impact of the application of IFRS 17 on the financial statements

Accounting requirements in focus

Paragraph 28 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, requires entities to provide certain disclosures when initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods.	*IAS 8.28*
Even though paragraph C3(a) of IFRS 17 provides an exemption from the requirements of paragraph 28(f) of IAS 8 to disclose the quantitative impact of transition on individual line items, an entity can still decide to provide additional quantitative disclosures to enable users of financial statements to understand the impact of the application of IFRS 17 on the entity's financial position, including on Other Comprehensive Income (OCI) and financial performance.	*IFRS 17.C3(a)* *IAS 8.28(f)*

In practice: How did selected issuers consider these requirements?

- The financial statements of **all issuers** included a **separate note** that explained the impacts of the transition to IFRS 17 on the financial statements.
- **All issuers** provided information about the impact of the application of IFRS 17 on the **statement of financial position** (including equity) disclosing not only quantitative, but also qualitative information. 81% of issuers provided information about the impact on the statement of financial position separately for IFRS 17. The remaining issuers provided the information on an aggregated basis (i.e., for IFRS 17 and IFRS 9).
- 44% of issuers provided quantitative information about the effect on the statement of financial position using a reconciliation of the opening balance sheet as of 1 January 2022 (for 31% these reconciliations included IFRS 17-effects separately, 12% presented reconciliations on an aggregated basis for IFRS 17 and IFRS 9, explaining some major IFRS 17-related effects). 12% of issuers disclosed only quantitative effects on equity. One issuer used (in addition to the reconciliation) a diagram to illustrate the composition of the impact on its assets and liabilities.
- **38% of issuers** disclosed the impact of the transition to IFRS on the **statement of profit or loss**. 25% of issuers provided a P&L reconciliation while 13% other issuers highlighted some quantitative effects. Some issuers that did not disclose the P&L-impact referred to their disclosures in the 2022 financial statements.



[3] The fact that some issuers did not provide certain disclosures required by IFRS 17 is not necessarily an indication of non-compliance with these requirements. In some cases, the lack of disclosures is due to reasons of materiality. As the work performed was based on desktop reviews of financial statements, enforcers were not always able to conclude on the materiality of certain disclosures in issuers' financial statements.

From the sample: example 1

Société Générale SA, 2023 AFR, pp. 431-433

This extract considers...

…A tabular reconciliation of the balance sheet as at 31 December 2021, presented taking into account the application of IFRS 4 and IAS 39, and the balance sheet as at 1 January 2022, presented taking into account the application of IFRS 17 and IFRS 9. The table also includes the balance sheet as at 31 December 2022 restated as a result of the application IFRS 17 and IFRS 9. The effects from the application of IFRS 17 are presented separately from the effect from the application of IFRS 9. In the financial statements, the tables were accompanied by a detailed description of the effects in columns A to M (not shown here).

Columns that include effects from application of IFRS 9

Columns that include effects from application of IFRS 17

(In EUR m)	Balances as at 31.12.2021	A IFRS 9 reclassifications of available for-sale financial assets	B IFRS 9 reclassifications of loans and receivables regarding their business model	C IFRS 9 reclassifications of non-SPPI loans and receivables	D Other reclassifications Others	Reclassified balances
Cash, due from central banks	179,969	-	-	-	-	179,969
Financial assets at fair value through profit or loss	342,714	15,879	-	2,085	85,826	446,504
Hedging derivatives	13,239	-	-	-	353	13,592
[…]						
Tangible and intangible fixed assets	31,968	-	-	-	538	32,506
Goodwill	3,741	-	-	-	-	3,741
TOTAL ASSETS	**1,464,449**	**-**	**-**	**-**	**-**	**1,464,449**

(In EUR m)	Reclassified balances	E Adjustment of book value related to investments Reclassification effects	E Adjustment of book value related to investments Impairment and provisions for credit risk	E Total	F Adjustment of book value related to insurance contracts IFRS 4 derecognition	G Adjustment of book value related to insurance contracts IFRS 17 insurance contracts accounting through reserves	G IFRS 17 insurance contracts accounting Through OCI	G Total	H Deferred taxes	Balances as at 01.01.2022 R	Balances as at 31.12.2022 R
Cash, due from central banks	179,969	-	-	-	-	-	-	-	-	179,969	207,013
Financial assets at fair value through profit or loss	446,504	213	-	213	-	-	-	-	-	446,717	427,151
Hedging derivatives	13,592									13,592	22,971
[…]											
Tangible and intangible fixed assets	32,506	356	-	356	(14)	-	-	-	-	32,848	33,958
Goodwill	3,741	-	-	-	-	-	-	-	-	3,741	3,781
TOTAL ASSETS	**1,464,449**	**510**	**(1)**	**509**	**(1,716)**	**371**	**25**	**396**	**(65)**	**1,463,573**	**1,484,900**

(In EUR m)	Balances at 31.12.2021	I Reclassifications(1)	J Adjustment of book value related to investments Reclassification effects	J Adjustment of book value related to investments Impairment and provisions for credit risk	J Total	K Adjustment of book value related to insurance contracts IFRS 4 derecognition	L Adjustment of book value related to insurance contracts IFRS 17 insurance contracts accounting through reserves	L IFRS 17 insurance contracts accounting through OCI	L Total	M Deferred taxes	Balances as at 01.01.2022 R	Balances as at 31.12.2022 R
Due to central banks	5,152	-	-	-	-	-	-	-	-	-	5,152	8,361
Financial liabilities at fair value through profit or loss	307,563	4,140	-	-	-	-	-	-	-	-	311,703	304,175
Hedging derivatives	10,425	-	-	-	-	-	-	-	-	-	10,425	46,164
[…]												
interests	5,796	-	2	(0)	2	666	(649)	(1)	(650)	(3)	5,811	6,356
TOTAL EQUITY	**70,863**	**-**	**510**	**(1)**	**509**	**149,792**	**(144,593)**	**(5,601)**	**(150,194)**	**(61)**	**70,909**	**73,326**
TOTAL	**1,464,449**	**-**	**510**	**(1)**	**509**	**(1,716)**	**371**	**25**	**396**	**(65)**	**1,463,573**	**1,484,900**

From the sample: example 2

Powszechny Zakład Ubezpieczeń SA, 2023 AFR, p. 40

This extract considers...

…A reconciliation table showing the effects of the reclassification, the measurement differences as well as of the recognition of the contractual service margin (CSM) and the adjustment due to non-financial risks. In addition, narrative explanations of the most significant effects are provided.

Assets at 1 January 2022	IFRS 4	Reclassifications	Differences in measurement of insurance and reinsurance contract assets and liabilities	CSM	RA	IFRS 17	
Goodwill	2,778	-	-	-	-	2,778	Goodwill
Intangible assets	3,403	-	-	-	-	3,403	Intangible assets
Deferred tax assets	3,058	-	20	-	-	3,078	Deferred tax assets
Other assets	633	(234)	(68)	-	-	331	Other assets
Property, plant and equipment	4,144	-	-	-	-	4,144	Property, plant and equipment
Investment property	2,773	-	-	-	-	2,773	Investment property
[…]							
Other receivables	9,195	(2,639)	-	-	-	6,556	Other receivables
Cash and cash equivalents	9,447	-	-	-	-	9,447	Cash and cash equivalents
Total assets	**402,129**	**(5,473)**	**21**	**(188)**	**179**	**396,668**	**Total assets**

Equity and liabilities at 1 January 2022	IFRS 4	Reclassifications	Differences in measurement of insurance and reinsurance contract assets and liabilities	CSM	RA	IFRS 17	
Equity							**Equity**
Equity attributable to the equity holders of the parent company	17,080	-	14,004	(7,980)	(1,032)	22,072	Equity attributable to the equity holders of the parent company
Share capital	86	-	-	-	-	86	Share capital
Other capital	14,343	-	(732)	-	-	13,611	Other capital
Retained earnings	2,651	-	14,736	(7,980)	(1,032)	8,375	Retained earnings
Non-controlling interest	22,914	-	-	-	-	22,914	Non-controlling interest
Total equity	**39,994**	**-**	**14,004**	**(7,980)**	**(1,032)**	**44,986**	**Total equity**
Liabilities							**Liabilities**
[…]							
as held for sale	28	-	-	-	-	28	sale
Total liabilities	**362,135**	**(5,473)**	**(13,983)**	**7,792**	**1,211**	**351,682**	**Total liabilities**
Total equity and liabilities	**402,129**	**(5,473)**	**21**	**(188)**	**179**	**396,668**	**Total equity and liabilities**

The following columns of the table reflecting the impact of the application of IFRS 17 on the consolidated statement of financial position as at 1 January 2022 include respectively:

- "Reclassification", i.e. balances measured in accordance with IFRS 4 carried from items that were recognized in the consolidated statement of financial position prepared in accordance with IFRS 4 to new items required under IFRS 17, i.e. "Assets under insurance contracts", "Assets under reinsurance contracts", "Liabilities under insurance contracts", "Liabilities under reinsurance contracts". Change in the total amount of equity and liabilities resulted from the fact that a part of balances (e.g. deferred acquisition expenses, prepayments or insurance receivables) were carried from assets to liabilities. The reclassifications do not influence the consolidated equity of the PZU Group;
- "Differences in measurement of insurance and reinsurance contract assets and liabilities" presents the effect of changed measurement of individual assets and liabilities as a result of the application of IFRS 17. The greatest part of the difference results from the application of the best estimate liability applying discounting based on current interest rates with regard to the approach applied to measure technical provisions in accordance with IFRS 4 - the difference in the valuation of assets and liabilities as at 1 January 2022 contributed to the growth of consolidated equity of the PZU Group by PLN 14,004 million;
- "CSM" presents the value of future profits from insurance contracts in accordance with GMM and VFA methods recognized as at 1 January 2022. The recognition of CSM reduced consolidated equity of the PZU Group by PLN 7,980 million;
- "RA" presents the adjustment due to non-financial risks resulting from the uncertainty of cash flows. The recognition of RA as at 1 January 2022 contributed to a decrease in consolidated equity of the PZU Group by PLN 1,032 million.

The impact of IFRS 17 on the PZU Group's consolidated equity as at 1 January 2022 was PLN 4,992 million. This resulted, in particular, from a change in the approach to the measurement of liabilities under insurance and reinsurance contracts in accordance with requirements of IFRS 17. The new standard allows for a part of the difference in the measurement of liabilities to be recognized as a reduction in the cumulative other comprehensive income by PLN 732 million. This is a result of declines in historical interest rates. The discount rates determined at the initial recognition (the so-called locked-in rates, which are rates from the period when the policy was issued or the period were the loss incurred) were mostly higher than the risk-free rates as at 1 January 2022.

As at 31 December 2022, the impact of the application of IFRS 17 on the equity in comparison to that at 1 January 2022 increased due to a significant increase in the risk-free interest rates in 2022.

Conclusions & recommendations

- ESMA welcomes the fact that all issuers in the sample disclosed the impact of the IFRS 17 application on the statement of financial position, however only 38% did so for the statement of P&L.
- ESMA highlights the importance of information that enables users to assess the impact of IFRS 17 on the financial statements and notes that the most useful disclosures included the reconciliations for the statement of financial position and statement of P&L with a separate presentation of IFRS 17- and IFRS 9-related effects, accompanied by an explanation of the main transition effects.

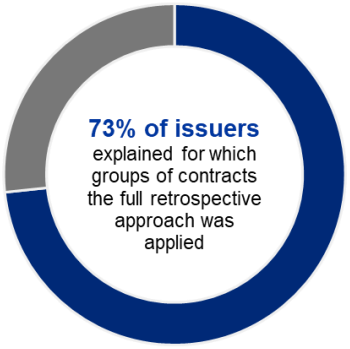
3.2 Transition provisions

3.2.1 Full retrospective approach (FRA)

Accounting requirements targeted	
The entity shall apply IFRS 17 retrospectively, unless it is impracticable, or the entity chooses to apply the fair value approach for a group of contracts with direct participation features when certain criteria are met.	*IFRS 17.C3, C5A*

In practice: How did selected issuers consider these requirements?

- **All issuers but one** applied the **full retrospective approach** (if not to all, at least to some contracts). Of those issuers, three quarters provided an indication for which groups of contracts the full retrospective approach was applied.
- The full retrospective approach was applied in relation to contracts that either (i) originated in a certain time period (i.e., for the most recent generations of contracts), (ii) had a certain coverage period (i.e., one year or less), or (iii) covered only certain business lines (e.g., property & casualty area, health).



3.2.2 Modified retrospective approach (MRA)

Accounting requirements in focus	
If it is impracticable for an entity to apply the full retrospective approach, the modified retrospective approach (MRA) or a fair value approach (FVA) should be applied instead. An entity should also apply MRA or FVA to measure an asset for insurance acquisition cash flows if it is impracticable to identify, recognise and measure any assets for insurance acquisition cash flows retrospectively.	*IFRS 17.C5, C5A, C5B*
The objective of MRA is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Applying MRA an entity uses reasonable and supportable information. If the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it shall apply the fair value approach.	*IFRS 17.C6*

Under MRA, entities are allowed to use certain modifications in the following areas:	
- Determination of certain matters (e.g., how to identify group contracts, whether a contract is considered a direct participating contract) using the information at the date of transition.	*IFRS 17.C9 – C10*
- Determining the contractual service margin (CSM) or loss component for groups of insurance contracts without direct participation features by estimating CSM/loss component on initial recognition and rolling it forward to determine the liability for remaining coverage at the date of transition.	*IFRS 17.C11 – C16C*
- Determining CSM/loss component for groups of insurance contracts with direct participation features using a proxy for the total CSM for all services provided under the contracts.	*IFRS 17.C17, C17A*
- Insurance finance income or expense (depending on whether, as a result of applying the MRA, groups of insurance contracts include contracts issued more than one year apart).	*IFRS 17.C18 – C19A*
An entity shall explain how it determined the measurement of insurance contracts to which the MRA was applied at the transition date.	*IFRS 17.115, 117(a)*
An entity shall disclose a reconciliation of the contractual service margin and the amount of insurance revenue separately for insurance contracts that existed at the transition date to which the entity has applied the MRA.	*IFRS 17.101(c), 103(a), 114*

In practice: How did selected issuers consider these requirements?

- **81% of issuers** disclosed the **application of MRA**. The approach was applied mostly for 'older' contracts issued before a certain date in certain areas (e.g., disability, unit-linked contracts, contracts under variable-fee approach, multiline-life contracts, long term life & savings contracts)
- Where issuers disclosed that modifications were applied in a particular area, most issuers provided explanations on (i) for which groups of contracts modifications were applied and (ii) simplifications applied. Simplifications most frequently used by issuers in the sample (where indicated) are related to the estimation of discount rates, cash flows, CSM and risk-adjustment of non-financial risk.
- ESMA notes that there were significant differences in the level of details in the explanations given. While **46% of issuers** that used MRA **provided detailed information** on the applied simplifications, 31% provided very limited explanations (e.g., the issuer 'used mainly the modifications for historical cash flows and the historical release of the risk adjustment', the issuer 'used the fair value of the underlying items as the basis from which to determine the CSM', or the issuer 'used an approach, which mainly consisted in calculating an approximate CSM by reusing past information coming from European Embedded Value 'EEV' or Solvency II'). 23% did not provide any useful explanations.

From the sample: example 3

Talanx AG, 2023 AFR, p. 159

This extract considers...

…Entity-specific details on modifications under MRA are disclosed and explained.

The following **simplifications** provided **under the MRA** were applied here:

- As with the FVA, contracts issued at intervals of more than one year were combined into groups of actuarial interest rate generations.
- Direct surplus participation features were identified on the basis of information as at 1 January 2022. Specifically it has been assumed, on the basis of our analyses, that the VFA could also have been applied to contracts with a surplus participation feature in the past.
- As with the FVA, no distinction was made between purchased insurance portfolios and direct business.
- A yield curve was used that, for at least three years immediately before the transition date to IFRS 17, approximates the estimated yield curve based on the general approach for calculating discount rates.
- The amount of the expected reversal of the non-financial risk adjustment as at 1 January 2022 was adjusted to account for expected reversals of the risk adjustment before 1 January 2022.
- IFRS 17.C17(e) permitted existing loss components to be adjusted to nil as at 1 January 2022 and the liability for remaining coverage to be increased by the same amount. Certain areas of the participating life insurance business were affected by this simplification.
- Determining other comprehensive income (OCI): OCI for the technical provisions in the VFA as at 1 January 2022 was determined by multiplying the OCI for investments accounted for in accordance with IFRS 9 by the share of investments used to cover obligations from insurance business measured using the VFA.
- Total OCI is the balance of the technical OCI items and the investment OCI and is largely attributable to investments that do not serve to cover insurance obligations. OCI for technical provisions in the GMM as at 1 January 2022 is the difference in the technical reserves discounted using the locked-in interest rate for the year in which the contracts were added and the current interest rate at the reporting date.
- The CSM (or loss component) as at 1 January 2022 was calculated as follows: the fair value of the underlying items as at 1 January 2022 less the fulfilment cash flows as at 1 January 2022, adjusted for:
  - amounts charged to policyholders (including costs deducted from the underlying items) before 1 January 2022
  - amounts paid before 1 January 2022 and amounts not affecting the basis of the underlying items
  - the reversal of the non-financial risk adjustment before 1 January 2022
  - insurance acquisition cash flows paid before the transition date that are allocated to the group of insurance contracts.

- **54% of issuers** that applied MRA disclosed the CSM-reconciliation applying paragraph 101(c) of IFRS 17 separately for insurance contracts that existed at the transition date, to which the issuer has applied the MRA.
- **69% of issuers** that applied MRA disclosed the amount of insurance revenue applying paragraph 103(a) of IFRS 17 separately for insurance contracts that existed at the transition date to which the entity has applied the MRA.

3.2.3 Fair value approach (FVA)

Accounting requirements in focus

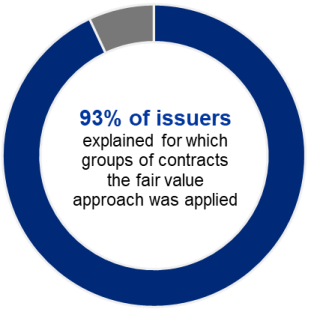
The FVA is used when full retrospective application for a group of contracts is impracticable (if the entity can obtain reasonable and supportable information for that group of contracts, MRA can be used alternatively). Moreover, the approach is permitted for a group of insurance contracts with direct participation features if (a) the entity chooses to apply the risk mitigation to the group of insurance contracts prospectively from the transition date; and (b) the entity has used derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts before the transition date.	*IFRS 17.C5, C5A, C6*
To apply the FVA, an entity shall determine the CSM or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date.	*IFRS 17.C20*

Applying the FVA, certain matters can be determined (similarly to the MRA) using the information at the date of transition.	*IFRS 17.C21, C22*
An entity shall explain how it determined the measurement of insurance contracts to which the FVA was applied at the transition date.	*IFRS 17.115, 117(a)*
An entity shall disclose a reconciliation of the contractual service margin and the amount of insurance revenue separately for insurance contracts that existed at the transition date to which the entity has applied the FVA.	*IFRS 17.101(c), 103(a), 114*

In practice: How did selected issuers consider these requirements?

14 issuers applied the FVA. Of these issuers:

- **93% of issuers** disclosed to which **groups of insurance contracts** the FVA was applied. However, in some cases the descriptions were very scarce (e.g., the approach was used for those non-life and life insurance contracts for which the retrospective approach is impracticable). The FVA had limited application, only for certain specific groups of contracts (such as non-life or life contracts where the full retrospective approach was not practically feasible, often due to limited access to historical information).



- **57% of issuers** explained to some extent the **key judgements, assumptions and valuation inputs** used to determine fair value. Disclosures on this front were largely of a qualitative nature and covered assumptions concerning mortality and morbidity, expenses and lapse, cancellation and surrender. More robust disclosures included information on the aggregation of contracts issued more than one year apart when there is no reasonable and supportive information allowing for the disaggregation of such contracts and details regarding the approach taken to measure the fair value of insurance contracts at the transition date (i.e., using the income approach or a market approach).
- **Only 21% of issuers** disclosed **sensitivities** to assumptions. One issuer provided a detailed sensitivity analysis to illustrate how CSM, net profit and equity would change based on changes in insurance risk factors. However, the analysis did not relate to the transition period specifically.
- **Half of the issuers** that applied FVA disclosed the **reconciliation of the CSM** applying paragraph 101(c) of IFRS 17 separately for insurance contracts that existed at the transition date, to which the entity has applied the FVA.
- **57% of the issuers** that applied FVA disclosed the amount of insurance revenue applying paragraph 103(a) of IFRS 17 separately for insurance contracts that existed at the transition date, to which the entity has applied the FVA.

3.2.4 Other transition disclosures

Accounting requirements in focus

An entity that chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (see Section 3.3.7) applies transitional approaches to determine the cumulative difference between the insurance finance income or expenses that would have been recognised in profit or loss and the total insurance finance income or expenses	*IFRS 17.116, C18(b), C19(b), C24(b) and C24(c)*

at the transition date for the groups of insurance contracts to which the disaggregation applies. For all periods in which amounts determined applying these approaches exist, the entity shall disclose a reconciliation from the opening to the closing balance of the cumulative amounts included in other comprehensive income (OCI) for financial assets measured at fair value through other comprehensive income (FVOCI) related to the groups of insurance contracts.

The reconciliation shall include, for example, gains or losses recognised in other comprehensive income in the period and gains or losses previously recognised in other comprehensive income in previous periods reclassified in the period to profit or loss.

In practice: How did selected issuers consider these requirements?

- **69% of issuers** chose to **disaggregate** insurance finance income or expenses between profit or loss and other comprehensive income. **Only 64% of those issuers** disclosed a **reconciliation** from the opening to the closing balance of the cumulative amounts included in OCI for financial assets measured at FVOCI related to the groups of insurance contracts (in one case immaterial).

Conclusions & recommendations

- ESMA notes that the choice of transition methods and specific simplifications allowed by IFRS 17 generally results in a lack of comparability of transition amounts[4]. For this reason, disclosures on methods used and judgements applied in determining the transition amounts, as well as disclosures on the contractual service margin and insurance revenue in future periods required by the standard are particularly important. In particular, these disclosures should include (i) explanations as to which groups of contracts simplifications were applied, (ii) judgement used to determine whether the information is available without undue cost or effort, (iii) clear explanations on what reasonable and supportable information was used when applying modifications. Issuers using the FVA should disclose information about the valuation techniques (i.e., income approach or market approach) and inputs used to determine fair values. ESMA notes that disclosures of the sensitivity of fair values to changes in significant unobservable inputs can help users of financial statements to understand the impact of the application of the FVA on issuers' financial statements.
- ESMA observed significant differences in the level of detail in the explanations given when the application of FRA was not practicable. While 46% of issuers that used MRA provided detailed information on the applied simplifications, 31% provided very limited explanations on the use of MRA. With regard to the application of FVA, only 57% of issuers that applied this approach explained to some extent the key judgements, assumptions and valuation inputs used to determine fair value and only 21% of issuers disclosed sensitivities of fair values to assumptions.
- A significant number of issuers in the sample did not provide some required disclosures or provided them only partly. This relates in particular to explanations on the modifications applied by issuers (often only very limited explanations) and lack of disclosures of the CSM-reconciliation required by 101(c) of IFRS 17 and the amount of insurance revenue required by paragraph 103(a) of IFRS 17.

[4] The IASB expected that there will be some differences in the measurement of insurance contracts when applying the different transition approaches permitted in IFRS 17. *[IFRS 17.BC399]*

➔ Given that IFRS 17 requires various disclosures to be made in each reporting period until the contracts which exist at transition have expired or been extinguished, ESMA encourages issuers that have provided less detailed explanations of the modifications used to improve these disclosures in the financial statements published in the following year.

3.3 Accounting policies, judgements and estimates

Accounting requirements in focus

IFRS 17 requires entities to disclose the significant judgements and changes in judgements made in applying the standard. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including: (a) the methods used to measure insurance contracts within the scope of IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs; (b) any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected; (c) to the extent not covered in (a), the approach used: (i) to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features; (ii) to determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result; (iii) to determine discount rates; (iv) to determine investment components; and (v) to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service.	*IFRS 17.117*
If an entity chooses to disaggregate insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income, the entity shall disclose an explanation of the methods used to determine the insurance finance income or expenses recognised in profit or loss.	*IFRS 17.118*
An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.	*IFRS 17.119*
An entity shall disclose the yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items. When an entity provides this disclosure in aggregate for a number of groups of insurance contracts, it shall provide such disclosures in the form of weighted averages, or relatively narrow ranges.	*IFRS 17.120*
IAS 1 requires entities to present their accounting policies in a manner that provides relevant, reliable, comparable and understandable information.	*IAS 1.17(b)*
Moreover, an entity shall disclose information that enables users of its financial statements to evaluate the nature, amount, timing and uncertainty of future cash flows that arise from contracts	*IFRS 17.121-132* *IFRS 17.128*

within the scope of IFRS 17. These disclosures focus on the insurance and financial risks that arise from insurance contracts and how they have been managed. In particular, information about sensitivities to changes in risk variables arising from contracts within the scope of IFRS 17 shall be disclosed.

In practice: How did selected issuers consider these requirements?

3.3.1 Classification of insurance, reinsurance and investment contracts

The following issuers provided disclosures on their assessment and judgements on whether a contract:

→ transfers significant insurance risk	• **Half of the issuers** provided disclosures on their assessment and judgements on whether a contract transfers significant insurance risk, with half of these providing detailed explanations of the assessment and judgements applied. Issuers based their assessments on risk transfer tests, whether a contract transfers considerable insurance risk, requiring an analysis of the cash flows related to a product in various scenarios and estimating the probability of such scenarios. One issuer included quantitative information on the level of insurance risk deemed significant in the contract.
→ contains direct participation features (DPF)	• While **69% of issuers** provided some disclosures on their assessment on whether a contract contains DPF, the disclosures mostly replicated the requirements of the standard. Only 12% of issuers provided entity-specific details on the applied judgements, such as quantitative criteria used to determine whether the share of the fair value returns and proportion of a change in the amounts to be paid to the policyholder are substantial (paragraph B101(b), (c) of IFRS 17).
→ contains distinct investment components	• Disclosures on whether contracts contain distinct investment components provided by issuers were mostly boilerplate and replicated the requirements of the standard. Some issuers disclosed the accounting treatment of contracts with distinct investment components but did not indicate whether they have such contracts.

From the sample: example 4

Powszechny Zakład Ubezpieczeń SA, 2023 AFR, p. 116

This extract considers...

…Disclosure of the entity-specific assumptions used to assess the significance of the insurance risk.

The assessment whether a contract transfers considerable insurance risk requires analysis of the cash flows related to a product in various scenarios and estimating the probability of such scenarios. Such an assessment includes an element of subjective judgment, which has significant influence on the accounting principles applied.

According to the assumptions made by the PZU Group, we are dealing with significant insurance risk when the occurrence of an insured event results in disbursement of a benefit that is at least 10% higher than the benefit that would be paid had the event not occurred. Based on this criterion, concluded contracts are recognized either according to IFRS 17 or according to IFRS 9.

3.3.2 Level of aggregation

- **All issuers** provided disclosures with respect to how they aggregated insurance contracts to groups to which the recognition and measurement requirements of IFRS 17 are applied. However, the level of detail varied, with **81% of issuers** providing sufficiently detailed information, and the rest providing incomplete or boilerplate information. More

robust disclosures included for example entity-specific factor to assess the nature of service provided, whether contracts are bearing similar risks, explanations on how the level of profitability was determined and how contracts in different currencies were treated.

From the sample: example 5

Société Générale SA, 2023 AFR, p. 529

This extract considers...

…Disclosure of specific factors used to define the level of aggregation of contract including the use of the annual cohort.

For their assessment, insurance contracts are grouped into homogeneous portfolios to take account of the pooling of risks specific to the insurance activity. These portfolios include insurance contracts that are exposed to similar risks and managed together.

Within each portfolio, three groups of contracts shall be distinguished on initial recognition of the later: onerous contracts, contracts with no significant possibility of becoming subsequently onerous, and other contracts.

Lastly, contracts issued more than one year apart cannot be included in the same group. Consequently, each group of contracts shall be subdivided into annual cohorts. However, while adopting IFRS 17, the European Union has provided European undertakings with an option not to implement this provision to contracts benefiting from an intergenerational mutualisation of returns on the underlying assets in countries where these undertakings market insurance contracts.

The Group uses this optional exemption on the life-insurance savings and retirement savings contracts issued (for instance, contracts invested in euro-denominated funds) as they include direct or discretionary profit-sharing items for which both risks and cashflows are shared between different generations of policyholders. These savings life-insurance contracts are also managed on an intergenerational basis in order to mitigate interest rate risk and longevity risk exposures.

The portfolios of contracts are determined by the Group, using (i) the product line to identify the insurance contracts exposed to similar risks and (ii) the country of issuance of the contract and/or the distribution entity.

When the materiality of the outstanding amounts of the contracts concerned is not significant in the context of the aggregates of the Group's consolidated balance sheet, some of these portfolios may be grouped together.

The major portfolios identified by the Group are as follows:

Scope of products	Product line
Savings	Life Insurance Savings with accumulation of capital paid out upon surrender or death (investments in euro funds, unit-linked funds, multivehicle contracts).
Retirement	Individual and group insurance contracts such as Retirement savings plans (French *Plan Épargne Retraite – PER*) with payout in annuities and/or capital (single or multiple unit-linked investments).
Protection – Provident	Borrower insurance; Individual protection; Group protection; Individual health insurance; Group health insurance; Funeral insurance; Nursing care insurance.
Protection – Non-life insurance (property and casualty)	Personal injury accident; Insurance of the Means of payment; Multi-risk home insurance; Land motor vehicle insurance; Miscellaneous Risk Insurance.

From the sample: example 6

Vienna Insurance Group AG, 2023 AFR, p. 151

This extract considers...

… Explanations regarding the level of application, including a list of the specific IFRS 17 portfolios defined by the issuer.

VIG has defined portfolios of insurance and reinsurance contracts issued based on the Solvency II structure for life, health and P&C insurances due to the fact that the products are subject to similar risks and managed together.

In determining groups of contracts, VIG has decided to group together those contracts that would fall into different groups only because law or regulation specifically constrains its practical ability to set a different price or level of benefits for policyholders with different characteristics.

The groups of contracts for which the fair value approach has been adopted on transition include contracts issued more than one year apart. Please refer to the transition approach applied by VIG in chapter Transition starting on page 79.

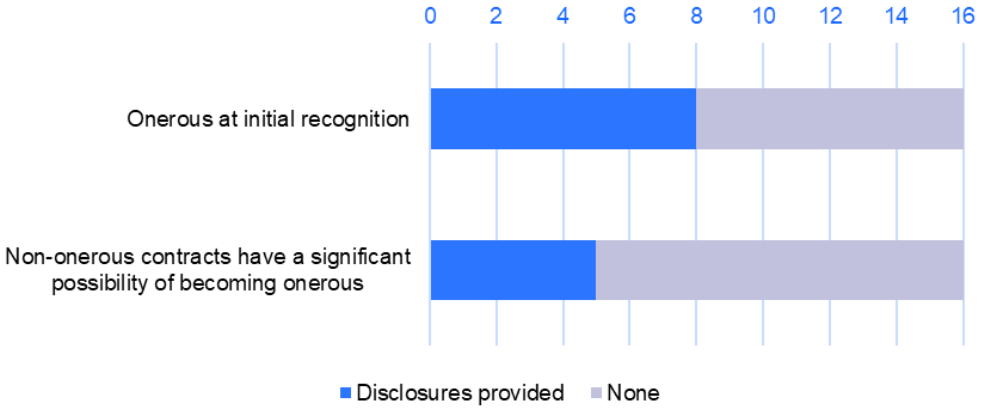
In most cases, the profitability of groups of contracts are assessed by actuarial cash flow models and profitability metrics that take into consideration existing and new business. For insurance contracts measured applying PAA, it is assumed that no contracts in the portfolio

- **Life insurance**:
  - With profit participation
  - Unit- and index-linked
  - Other
  - Issued and held Treaty reinsurance
  - Facultative issued reinsurance
  - Facultative held reinsurance
- **Health insurance:**
  - Long-term health insurance (similar to life)
  - Issued and held Treaty reinsurance
- **Property and casualty insurance:**
  - Medical expense insurance
  - Income protection insurance

are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, it has to be assessed, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. Please refer to chapter Onerous contracts starting on page 182 for further information on onerous contracts. Portfolios of reinsurance contracts held are divided applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. It is possible that a group of reinsurance contracts held comprises a single contract. For the consolidated insurance companies, the direct insurance and optional reinsurance were grouped into the following IFRS 17 portfolios for P&C, life and health insurance.	– Workers' compensation insurance – Motor vehicle liability insurance – Other motor insurance – Marine, aviation and transport insurance – Fire and other damage to property insurance – General liability insurance – Credit and suretyship insurance – Legal expenses insurance – Assistance – Miscellaneous financial losses – Issued and held Treaty reinsurance – Facultative issued reinsurance – Facultative held reinsurance

- **56% of issuers** disclosed their use of the **annual cohort exemption** and provided sufficient disclosures (i.e., specifying the insurance product lines for which they did not apply the grouping requirement for annual cohorts and contract types such as contracts with DPF measured using the variable fee approach, VFA), while 31% explicitly indicated that they did not use the exemption. For two issuers, the information was not provided.

- For each portfolio, the following breakdown of issuers provided information regarding the judgement made to determine the appropriate level at which reasonable and supportable information is available to assess whether contracts are:

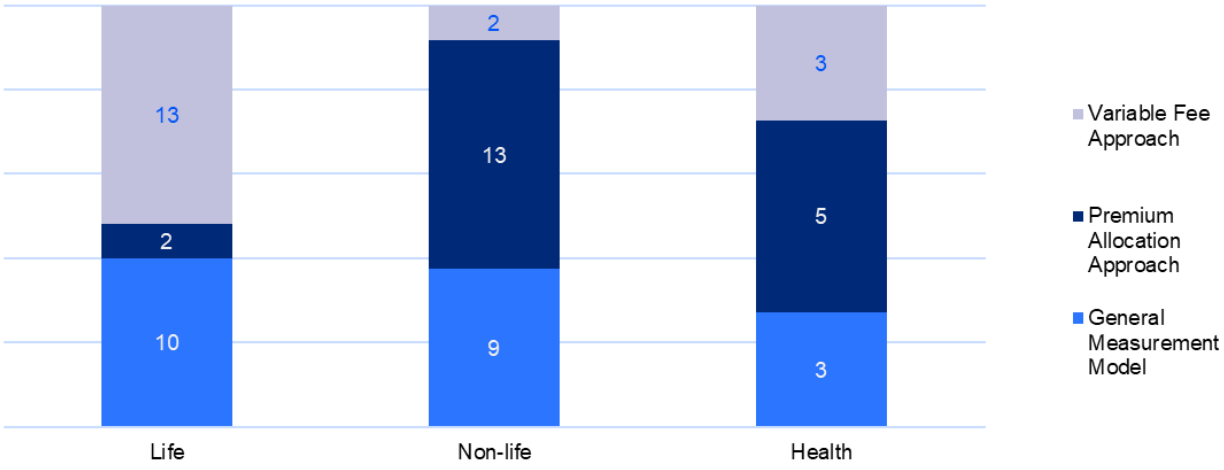


- For contracts that are onerous at initial recognition, disclosures included details around the issuers' determination of whether the expected current value of future inflows under a given contract, less the expected value of future outflows within the limits of the contract and taking into account the risk adjustment for non-financial risk, is a positive value. To determine onerous contracts, some issuers indicated that they took into account price information, results of similar contracts already recognised and external factors such as market or regulatory changes. However, in most cases disclosures were generic and did not include any entity-specific details. This was also the case for disclosures on the determination as to whether non-onerous contracts have a significant possibility of becoming onerous.

- **Ten issuers (63%)** had material **reinsurance contracts** held to groups to which the recognition and measurement requirements of IFRS 17 are applied. Of these, only 4 issuers provided some level of disclosure with respect to how they aggregated such contracts: into profitability groups, by management and exposure to similar risks, type of coverage as well as nature of the reinsurance contracts. The rest of issuers did not provide specific disclosures to this effect.

3.3.3 Measurement Models

The following chart provides an overview of the number of issuers that disclosed the type of measurement models applied (general measurement model, GMM; premium allocation approach, PAA; or variable fee approach, VFA) across three main product lines (life, non-life and health). Note that an issuer may have used more than one type of measurement model in a given main product line, based on the type of contract:



- All but one issuer applied all three measurement models. One issuer that offers non-life short-term insurance contracts used only the PAA measurement model.

3.3.4 Expected Cash Flows

- **69% of issuers** provided disclosures on judgements applied with respect to contract boundaries used to determine which future cash flows should be considered in the measurement of IFRS 17 contracts. The level of disclosed details varied considerably between the issuers. The disclosures comprised, for example, explanations on which specific cash flows are included or not included in the contract boundary, the treatment of cash flows that are first collected by intermediaries and transferred to the issuer at a later date, the treatment of cash flows related to reinsurance contracts, explanations on the differences to the approach applied under Solvency II.

From the sample: example 7

AXA SA, 2023 AFR, p. 328

This extract considers...

…Clear disclosures of which cash flows are included in the contract boundary, and which are not. Further details, such as the treatment of insurance premiums initially collected by intermediaries, are provided.

1.14.5.2 ESTIMATES OF FUTURE CASH FLOWS

The FCF notably include all the probability-weighted estimates of future cash flows within the boundary of each contract already recognized. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which AXA can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services.

claims for which AXA has a substantive obligation net of recoveries from claims), profit sharing to policyholders, as well as payments arising from the policyholders exercising options, expenses and commissions, costs related to investment activities performed for the benefit of policyholders (i.e. including investment-return services and investment-related services).

The following cash flows are not included in the contracts boundary: investment returns as they are recognized, measured and presented separately under other applicable IFRSs, costs of investment activities performed for the benefit of shareholders, payments or receipts that arise

A substantive obligation to provide services ends notably when AXA has the practical ability to reassess the risks of the policyholder and, as a result, can set a price or level of benefits that fully reflects those risks.

The unbiased estimate of the expected future cash flows within the boundary of insurance contracts, including the cost of options and guarantees, are based on a probability-weighted mean of the full range of possible outcomes to factor the uncertainty about the timing and amounts of the cash flows, determined from the perspective of the Group, provided that the estimates are consistent with observable market prices for market variables reflecting conditions existing at the measurement date.

The cash flows attributable to the group of insurance contracts include premiums from the policyholders, claim payments (including reported, incurred and all the future under reinsurance contracts held (as they are accounted for separately), those that may arise from future insurance contracts, overheads that do not provide any economic benefits to fulfilling insurance contracts, income tax payments and receipts AXA does not pay or receive in a fiduciary capacity, flows arising from components separated from the insurance contracts and accounted for using other applicable IFRSs.

If insurance premiums are first collected by an intermediary and then transferred to AXA at a later date, the premium receivables from the intermediary are accounted for as future cash flows within the boundary of insurance contracts included in the measurement of the corresponding group of insurance contracts applying IFRS 17.

- **69% of issuers** provided disclosures on the determination of **estimates of fulfilment cash flows**. The disclosures mostly included key inputs and estimation techniques used by the insurers (with various level of details). Disclosures provided by some issuers also included consistency of data with the Solvency II framework, sources of data used to estimate the expected frequency of claims, details on how the entity manages the risk of the adequacy of estimates of future cash flow.
- ESMA noted that issuers in the sample generally did not provide entity-specific disclosure of inputs, assumptions and estimation techniques used by issuers to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features. For example, one issuer only stated that, in order to determine how to identify changes in discretionary cash flows for insurance contracts with discretionary features, local entities specify the basis on which they expect to determine their commitment under the contract.

From the sample: example 8

Storebrand ASA, 2023 AFR, pp. 199-200

This extract considers...

…Detailed descriptions for the most significant inputs used in the measurement of insurance contracts, including the methods applied and entity-specific assumptions.

2-2 Methods and assumptions used to measure insurance contracts: Pension products with guarantees are modeled stochastically to estimate the customer's value of the guarantee and distribution of profits, while other products are modeled deterministically. The estimates of future cash flows reflect the Group's best estimates given the current conditions on the reporting date and take into account any relevant market variables in accordance with observable market data.

Costs
The estimated future costs that can be directly attributed to the existing insurance contracts are included in the reporting. The costs are estimated according to the Group's own cost analyses and are based on the current level of operating costs in recent periods, combined with assumptions about future inflation and salary development that reflect the Group's best estimate. Only immediate cost reductions are considered when estimating future costs. The cash flows within the contract limit include the allocation of both fixed and variable indirect costs directly attributable to the fulfilment of insurance contracts. To reflect such indirect costs, Storebrand uses systematic and rational allocation methods that reflect the products that drive the costs. The allocation method is used consistently for cost categories that share similar characteristics.

Biometric prerequisites
Contracts measured according to the general measurement model and the variable fee approach include biometric risks such as life expectancy, mortality and disability. This means that an important source of estimate uncertainty when calculating the future cash flows for the contracts is linked to assumptions and estimates about biometric risks. Storebrand uses widely recognized actuarial models when determining the best estimate assumptions related to biometric risks. When estimating biometric risks, the Group takes measures to reflect recent historical data and the characteristics of the underlying populations, including gender, age, disability and other relevant information related to the policies. The conditions for best estimate used under IFRS 17 are in accordance with those used under Solvency II. Unfavorable developments in biometric risks can lead to a reduction in the insurance service result or the contractual service margin. Storebrand's exposure to biometric risk is limited by the risk equalization fund, for products included in the risk equalization fund.

Lapse probabilities
Lapse probabilities are determined using statistical modeling based on the Group's own observations. They vary with product category and external market conditions. For large parts of the guaranteed pension segment, the lapse probabilities are assumed to be close to zero percent. This is due to an inactive transfer market for defined benefit contracts, including paid-up policies, in a low interest rate environment in recent years. Changes in the expected lapse probabilities mainly affect the contractual service margin.

Yield assumptions
Storebrand uses stochastic modeling to project the asset return for all contracts that are measured according to the variable fee approach or the general measurement model. In the modelling, the Group generates a number of potential financial scenarios based on a probability distribution that reflects the investment strategy and other relevant market variables. The random variations are therefore based on the volatility of each asset portfolio, in which the relevant insurance contracts are invested.

From the sample: example 9

Intesa Sanpaolo S.p.A., 2023 AFR, pp. 244-245

This extract considers...

…Detailed descriptions of the methods, inputs and assumptions, including the differences to the treatment under Solvency II.

Estimates of future cash flows for the performance of insurance contracts

Future cash flows represent future liabilities that the insurance company posts to cover its commitments regarding insurance business. These include cash flows to insured parties weighted by their probability of occurrence, including forward-looking returns on insurance products and expenses to be incurred to support the business in force.

Life business cash flows are calculated using the actuarial engine, based on future cash flow projection methods similar to those defined under Solvency II, with a higher level of granularity compared to the Unit of Account, in order to achieve an estimation level as close to reality as possible 200 scenarios were used for stochastic processing. Management of the assets belonging to separate management schemes, used for projection purposes and implemented in the actuarial engine, is defined as Future Management Measures (FMG). These include, inter alia: the target return of the separate management scheme, strategic asset allocation, reinvestment/disposal policies, risk mitigation strategies and commercial actions. With respect to the Non-Life business, the future cash flows relating to liability for incurred claims (LIC) are calculated without distinguishing between the different components included in the calculation (i.e., there is no need for a break down into the different components relating to claims, IBNR, external settlement costs, etc.).

With respect to the future cash flows relating to the liability for remaining coverage (LRC) measured using the General Model, the calculation is based on the definition of future cash flows under Solvency II, duly adjusted to reflect any differences with respect to the scope of the future cash flows to be considered (i.e., contract boundary) and the granularity required by IFRS 17.

The calculation of the liability for remaining coverage measured using the Premium Allocation Approach does not require future projections and is based on the simplified method envisaged by the standard.

To estimate the expected future cash flows within the scope of each group of contracts, the Group applies the following criteria:

- incorporating all available information obtained in a reasonable and justifiable manner, without superfluous costs or efforts, with regard to the amount, timing and uncertainty of the cash flows;
- maintaining consistency of the estimate of any market variables with the corresponding values observable on the market for those variables;
- reflecting the conditions existing at each measurement date, i.e. the estimate is based on current information, updated for each reporting period. Specifically, the standard defines non-financial variables (so-called operational assumptions) as all variables that cannot be observed or derived directly from markets. The operational assumptions mainly affect:
- the exercise by the insured parties of contractual options that modify the nature of the terms of the contract and the resulting cash flows (such as the conversion option);
- the frequency and amount of insured events (such as the operational mortality factor);
- the technical assumptions relating to non-life business (such as the definition of the loss ratio, the expense ratio, early termination rates with and without premium reimbursement, claim run-off rates).

Where cash flows contain financial guarantees and contractual options (which do not change symmetrically with market charges), the methodology adopted by the Intesa Sanpaolo Group provides for appropriate modelling of the impact of financial guarantees and contractual options, using stochastic financial scenarios within the actuarial platform. The companies belonging to the Insurance Division maintain and regularly update a list of all operational factors that may affect future liabilities.

For each operational factor selected and deemed material, the most appropriate, comprehensive and accurate data set (internal or external, or a combination of the two) is identified and will be used as an objective, stable and robust basis to define Best Estimate assumptions. For each of the selected operational factors, the most reliable, objective, appropriate and stable method is identified to derive Best Estimate assumptions, appropriately using the available information and possibly considering the impact of outliers and potential future trends. Finally, the validity is checked and the adequacy of the methods used to derive the Best Estimate assumptions is actively and regularly monitored.

With respect to the most significant operating assumptions, the companies belonging to the Insurance Division perform appropriate sensitivity analyses.

To identify the amount of expenses included in the scope of IFRS 17, reference is made to the expense captions, net of several expenses (e.g. training expenses, donations and fines etc…), in line with the provisions of the standard. Specifically, the expenses include those directly attributable to groups of contracts, including the allocation of fixed and variable general overhead costs. Moreover, under several methods used to measure claims incurred for Non-Life/Accident contracts, the estimate of future payments of claims are adjusted to take account of inflation. The Insurance Acquisition Cash Flows incurred in a lump-sum on issuing new contracts are not part of future cash flows, but are included in the measurement of the Contractual Service Margin of New Business, as a decrease thereto, by virtue of the fact that those costs were paid against the payment of the premium.

In defining projected cash flows, the Intesa Sanpaolo Group projects the real costs incurred to third parties, eliminating the intragroup costs incurred by the insurance companies.

With regard to the assumptions on mortality rates, the Italian national mortality tables published by ISTAT are considered. A survey on the Group's experience in the last ten years is conducted, and statistical methods are used to adjust the mortality tables in order to generate the expected mortality rates differentiated by macro-type of product (credit protection insurance, temporary life policies, savings/investment/pension) and by age and gender classes.

The other technical assumptions are also obtained starting with the historical data taken from ERP/management applications. Specifically, for redemption rates, a statistical analysis is conducted by claim duration of the historical frequencies recorded by the single insurance companies, suitably adjusted based on expert judgement, specifically regarding the claim durations not yet subject to observation.

To measure the future cash flows relating to the liability for incurred claims, the Group uses the most commonly used methods in the sector, also based on the availability of data and time series on claims. The estimate of liabilities for claims occurred includes the estimate of reimbursements and direct costs for claims occurred and reported, occurred but not yet reported, direct liquidation fees and management and liquidation fees allocated.

From the sample: example 10

Powszechny Zakład Ubezpieczeń SA, 2023 AFR, pp. 127-128

This extract considers...

…Detailed descriptions of key assumptions with indication of the numerical values used.

Key assumptions

For the purposes of estimating future cash flows for the measurement of the liability for remaining coverage, the PZU Group applies the following key assumptions:

- loss ratios – assumptions are based on historical observations as well as the PZU Group's own assessment of expected claims patterns for new insurance contracts;
- mortality – assumptions are based on life tables published by the Central Statistical Office, which are adjusted to reflect historical observations on mortality in the PZU Group's insurance contracts portfolio, taking into account expert judgment;
- morbidity – assumptions are based on historical observations in the PZU Group's insurance contracts portfolio, taking into account expert judgment;
- lapse rates – assumptions are based on historical lapse levels in the PZU Group's insurance contracts portfolio, taking into account expert judgment;
- expenses – assumptions are based on the PZU Group's own assessment of future expenses, adopted in the financial planning procedure for the following year. The projected level of future expenses includes the development of operations and cost inflation, which are the resultant of changes in the macroeconomic environment and the impact of inflation on the various areas of PZU Group operations. Long-term assumptions are based on the National Bank of Poland's inflation target.

For the purposes of estimating future cash flows for the measurement of the liability for incurred claims, PZU Group relies on historical data and standard actuarial methods for estimating the ultimate value of claims, such as the Chain-Ladder method or the Bornhuetter-Ferguson method. These methods assume that historical data can forecast accurately future expected claim development patterns. To assess the extent to which historical claim development patterns apply to the future, PZU Group uses a qualitative assessment that takes into account additional factors such as changes in the economic and legal environment, changes in the claims handling process, one-time events or changes in portfolio characteristics. Estimates are made at the level of homogeneous risk groups.

Cash flows for reported annuities are forecast individually based on the current annuity amount, the expected period of annuity payment and the expected growth rate. The annuity payment period is determined on the basis of age and gender of the annuity recipient, based on mortality determined at 100% of the Polish Life Expectancy Tables 2019 ("PLET 2019"), and in the case of temporary annuities, additionally based on the end of the annuity payment. The annuity growth forecast is made on the basis of historical annuity increases.

Claim inflation was taken into account in the calculation, and a level similar to 2023 was assumed for 2024 – 7%, while for 2025 – 3.5%.

The calculation of flows from potential compensation for harm to the next of kin of a victim who suffered severe and permanent injury was based on an estimate of the number of eligible persons and the average expected compensation.

Mortality assumptions for long-term products were made using the relative mortality method, based on the Polish Life Expectancy Tables 2018 ("PLET 2018") and experience in the implementation of these tables. In other cases, mainly for short-term products, the assumption was set as the frequency of deaths per 1,000 insured persons, based on the PZU Group's current experience for these products, however, for the main group insurance portfolio, the assumed mortality constitutes 83% of the average mortality determined on the Polish working-age population.

In the case of individually continued and traditional insurance, assumptions are set by age and gender, including other factors, and vary significantly by product and target client group. Traditional insurance has a lower relative mortality rate – for whole life products, the assumptions used are below 93% PLET 2018 for ages up to 80. Above the age of 80 there is an interpolation to 100% PLET 2018. In the case of life and endowment insurance and dowry insurance, assumptions are made in the range of 34% – 57% PLET 2018 for men and 48% – 71% PLET 2018 for women.

The mortality rate for individually continued insurance ranges from 86% PLET 2018 and does not exceed 100% PLET 2018 for most insured persons.

3.3.5 Discount Rates

- **31% of issuers** used currency specific discount rates determined **once across the issuer**. Other issuers determined product-, portfolio-, entity- or country-specific discount rates.
- **62% of issuers** provided information on the **judgements and assumptions** made in the determination of the discount rates. These disclosures included, for example, sources for the risk-free rates (e.g., swap rates, bond prices), the method used for deriving the risk-free curve (e.g., bootstrapping), details on the determination of illiquidity adjustments (e.g., reference asset portfolios used, method used for the determination of the reference portfolio weights), methods applied to determine the (expected and unexpected) credit risk adjustments, the length of the periods in which the market data is directly observable or extrapolated.
- Only a few issuers disclosed whether they used EIOPA prescribed rates under Solvency II as the risk-free rate and whether the EIOPA methodology was used to determine adjustments to risk-free rates.

From the sample: example 11

Talanx AG, 2023 AFR, pp. 293-294

This extract considers...

…Descriptions of how the discount rates were determined using the bottom-up approach and, in particular, how the risk-free return and the illiquidity premium were estimated with a comparison with the Solvency II requirements. The observability of inputs and the extrapolation methods used are explained. The discount rates applied by issuer are disclosed for each currency as at 31 December 2023 and 31 December 2022.

Discount rates

An insurance liability is considered illiquid over a specific period if the insurer can hold assets over this period with a very low risk of a forced sale. This depends on the timing and predictability of the cash flows associated with the liability, which in turn are affected by product characteristics such as repurchase options. Accordingly, an insurance contract's illiquidity features are directly related to the predictability of its cash flows. This means it can be fundamentally assumed that all characteristics of an insurance contract (or a group of insurance contracts) can be described and measured in full by the characteristics of their resulting cash flows. This is particularly true of the contract's liquidity features, which are consistent with the regulations of IFRS 17.B83 (a) and B84. This refers to the liquidity characteristics of the yield curve (illiquid risk-free yield curve) and uncertainty about the amount and timing of cash flows, without also focusing on the liquidity of the contract.

Double counting and omissions are to be avoided when measuring insurance contracts. This requirement is a central principle of IFRS (see IFRS 17.B74). If an entity considers different levels of predictability for the cash flows of different product types by including individual illiquidity premiums in the discount rates of the respective product types at the same time as including impairment losses for financial risks in the estimate of future cash flows, the uncertainty about the timing and amount of cash flows would be double-counted in the IFRS 17 measurement. Accordingly, all uncertainties for which impairment has already been recognised in the measurement of the liability must not be taken into account by way of a reduced illiquidity premium in the composition of the yield curve, as this would result in double counting.

In summary, Talanx has opted to reflect uncertainties in cash flows caused by fluctuations in the underlying financial parameters (i.e. financial risk) in the estimate of future cash flows instead of implicitly by reducing the illiquidity premium through the adjustment of the risk-free, fully illiquid yield curve. This means that Talanx applies the risk-free, fully illiquid yield curve referenced in IFRS 17.B84 to all business transactions in the same currency and thus accounts for all material uncertainties in the estimate of future cash flows or in the risk adjustment for non-financial risks.

The discount rate is based on the bottom-up approach, under which the discount rate is determined as the risk-free return, adjusted to account for differences in liquidity features between financial assets used to determine the risk-free return and cash flows of the liability in question (also referred to as the "illiquidity premium"). The riskfree return was determined using swap rates available on the market in the same currency as the product being measured. If no swap rates are available, highly liquid government bonds are used. The illiquidity premium is calculated using reference portfolios based on assets specific to the Talanx Group (applying the top-down approach) to ensure better matching with liabilities and stable results. Assessing the liquidity features of cash flows from liabilities requires making judgements.

The illiquidity premium was estimated based on observable market liquidity premiums for financial assets, which were adjusted to reflect the illiquidity characteristics of the cash flows from the liability 1. The method used to calculate the illiquidity premium is similar to the EIOPA method for calculating the volatility adjustment under Solvency 2. The illiquidity premium is calculated as the risk-adjusted return of a reference portfolio specific to the Talanx Group. The reference portfolio specific to the Talanx Group includes a mix of government and corporate bonds. The return on the reference portfolio was adjusted to eliminate the effects of expected and unexpected credit risks. These adjustments were estimated using information from observable historical loss rates and credit default swaps in connection with the bonds included in the reference portfolio.

Observable market information for a period of up to 50 years, depending on the currency in question, is available to calculate the discount rates. For the euro, for example, market data for a period of up to 50 years is used. For the non-observable period, state-of-the-art methods were used to interpolate the yield curve for a final rate. In this connection, we use an extrapolation method for the liquid portion of the yield curve that is similar to the method used in the latest Solvency 2 review. The final rate is comparable to the ultimate forward rate under Solvency 2. To calculate the illiquidity premium curve for the euro and the US dollar, we opted to use Smith-Wilson optimisation to develop a maturity-dependent curve that results in a final illiquidity premium similar to the ultimate forward rate and that is calculated as the stable long-term average of the illiquidity premium.

The following yield curves are used to discount estimated future cash flows:

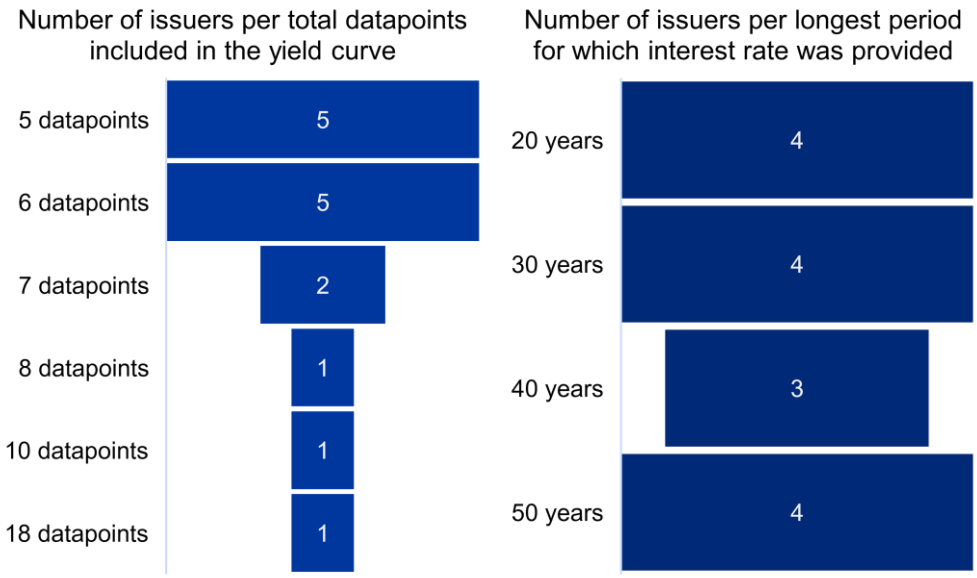
DISCOUNT RATES APPLIED

	EUR	USD	GBP	AUD	CAD	BRL
31.12.2023						
1 year	0.036075	0.050854	0.050997	0.046455	0.043537	0.101278
5 years	0.025919	0.041036	0.037194	0.042250	0.035620	0.099844
10 years	0.027342	0.046590	0.036483	0.045210	0.035363	0.104516
15 years	0.028315	0.047025	0.037619	0.046790	0.034728	0.101740
20 years	0.027677	0.046759	0.037971	0.046612	0.034411	0.094931
25 years	0.027066	0.045391	0.037536	0.045194	0.034221	0.088253
30 years	0.027269	0.044480	0.037246	0.043384	0.034094	0.082511
50 years	0.029525	0.037807	0.033063	0.040780	0.033666	0.067920
31.12.2022						
1 year	0.033967	0.053733	0.047950	0.039829	0.044182	0.131149
5 years	0.033724	0.044357	0.043974	0.041657	0.036196	0.126066
10 years	0.033977	0.047839	0.040454	0.045060	0.036268	0.127461
15 years	0.033491	0.047407	0.039538	0.045949	0.035746	0.121634
20 years	0.030931	0.046635	0.038709	0.045840	0.035485	0.111999
25 years	0.029330	0.044814	0.037631	0.045974	0.035329	0.103022
30 years	0.029261	0.042268	0.036912	0.045871	0.035224	0.095456
50 years	0.031461	0.038402	0.038718	0.043762	0.037056	0.076539

- While **81% of issuers used the bottom-up approach** to determine discount rates, 12% used the top-down approach. One issuer did not disclose the applied approach. None of the two issuers that applied the top-down approach explained how they identified a reference portfolio and how they account for the effect of

change in composition of assets in the reference portfolio. All but one issuer that applied the bottom-up approach explained how they determined the risk-free yield curve.

- **94% of issuers** disclosed the yield curve (or range of yield curves used). Disclosure of one of these issuers was incomplete (yield curves were disclosed only for selected products and regions).



- **25% of issuers separately disclosed liquidity premiums** applied (3 issuers disclosed premiums for the main currencies, one issuer disclosed them for all countries where the issuer operates).
- With respect to contacts accounted for under the PAA model, **38% of issuers** elected to not adjust the liability from remaining coverage to reflect the time value of money and effect of financial risk if, on initial recognition, the time between providing services and premium due date is no more than one year. **12% of issuers** have made use of this option. The other half of issuers did not provide any information.
- **19% of issuers** elected to not adjust the liability for incurred claims to reflect the time value of money and effect of financial risk if the cash flows are expected to be paid or received in one year or less from the date the claims are incurred. The other issuers either did not use this option or did not provide any information in this regard.

From the sample: example 12

AXA SA, 2023 AFR, p. 407

This extract considers...

…Separate disclosure of liquidity premiums per main currency.

As explained in the Note 1.14.5.3, discount rates are based on swaps for most currencies and government bonds for others, adjusted by adding a liquidity premium net of credit risk adjustment. For the main currencies, these adjustments are disclosed in the table below:

Liquidity Premium, net of credit risk adjustment, used at end December *(in bps)*

EUR		USD		GBP		JPY		CHF		HKD	
2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
25	22	65	55	49	46	(6)	(6)	-	-	10	8

From the sample: example 13

Vienna Insurance Group AG, 2023 AFR, p. 64

This extract considers...

…Separate disclosure of liquidity premiums per country.

Illiquidity adjustment in basis points	31/12/2023	31/12/2022
Albania	41	40
Bosnia-Herzegovina	56	43
Bulgaria	59	61
Germany	56	45
Estonia	41	37
Georgia	40	194
Kosovo	41	40
Croatia	28	11
Latvia	41	40
Liechtenstein	39	25
Lithuania	41	40
North Macedonia	41	40
Moldova	41	40
Austria	40	37
Poland	69	89
Romania	35	37
Serbia	200	200
Slovakia	40	34
Czech Republic	32	31
Türkiye	54	39
Ukraine	229	151
Hungary	52	73

3.3.6 Risk adjustment for non-financial risk

- **All issuers** provided a description of the **approach** used to derive the risk adjustment for non-financial risk. **56% of issuers** determined the risk adjustment using the **confidence level (value-at-risk)** technique. **37%** applied the **cost-of-capital** approach. One issuer used both methods depending on the nature of risk concerned.
- **All issuers** disclosed the **confidence level(s)** used to determine the risk adjustment for non-financial risk, often differentiating by business type.
- **56% of issuers** disclosed details on how the **diversification benefit** was reflected in the risk adjustment for non-financial risk. The level at which diversification benefits originated varied, from legal entity level to group level or even reinsurance sub-groups only or by product only.

From the sample: example 14

Talanx AG, 2023 AFR, p. 295

This extract considers...

… The different methods used to calculate the non-financial risk adjustment. In addition, a quantitative impact of changes in the confidence level is disclosed.

The non-financial risk adjustment is used to compensate for uncertainty regarding the amount and timing of cash flows in connection with the non-financial risk (e.g. insurance risk, cost risk, inflation risk and, in particular, policyholder behaviour risk). The Talanx Group uses two methods to calculate the non-financial risk adjustment, reflecting its different business models. Primary Insurance applies the confidence level method with a Group-wide confidence level of 75% (exception: 65% for HDI Global Specialty SE, Hannover). The risk adjustment is determined at entity level, but risk diversification between entities is not taken into account. We apply a pricing margin approach for our Reinsurance Division and our internal reinsurance business at Talanx AG. This approach is based on the fact that the need to compensate for uncertain cash flows is already addressed during premium calculation.

The surcharges determined there are applied to the cash flows and hence also form the risk adjustment under IFRS 17. Although this approach does not use the confidencelevel as an input, it is set at 83% for the Reinsurance Division and 88% for Talanx AG. Diversification at entity level is applied only for Hannover Rück SE. In the diversification between all Talanx Group entities, the risk adjustment shows that the Talanx Group's technical provisions are adequate with an approximate probability of 90%. A one percentage point decline in this probability translates into EUR –219 million while a corresponding increase in the probability translates into EUR 236 million. Changes in the risk adjustment are reported in insurance service expenses.

3.3.7 Allocation of insurance finance income or expenses

- **81% of issuers disaggregated insurance finance income or expenses** for the period between the P&L and other comprehensive income (OCI), while 19% of issuers included insurance finance income or expenses for the period in the P&L. Some issuers, however, did not explicitly mention this accounting policy choice within the description of the accounting policies.
- Among the issuers that disaggregated insurance finance income or expenses for the period into amounts presented in profit or loss and amounts presented in other comprehensive income, **77% of issuers** provided **explanations on the methods** used to determine the insurance finance income or expense recognised in the P&L. Disaggregation was often based on the discount rates at the time a claim was incurred or at initial recognition (locked-in rates). Several issuers used a disaggregation approach (predominantly for contracts measured under the VFA approach) that minimises accounting mismatches between the accounting for insurance assets and liabilities and corresponding financial assets.

From the sample: example 15

Allianz SE, 2023 AFR, p. 165

This extract considers...

…Disclosure of the details of the methods used to disaggregate the insurance finance income or expenses for the different types of contracts.

Net insurance finance expenses

[…] Generally, the Allianz Group chooses to disaggregate the insurance finance income or expenses other than those arising from the risk mitigation option between profit or loss and other comprehensive income (OCI) based on a systematic allocation. Furthermore, the Allianz Group chooses to disaggregate the change in risk adjustment for non-financial risk between a change related to non-financial risk and the effect of the time value of money and changes in the time value of money, which are included in net insurance finance expenses.

For groups of insurance contracts accounted for under the GMM, the systematic allocation for the finance income or expenses is determined using the discount rates by which estimated future cash flows have been discounted on initial recognition, i.e., the "locked-in" interest rate. For Life/Health entities, the Allianz Group applies a cash flow-weighted average of interest curves through the quarters. It means averaging each quarterly interest curve for each maturity over the cash flows with maturity over the quarters. For the indirect participating insurance contracts accounted for under the GMM, for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholder, the systematic allocation for the finance income or expenses arising from the future cash flows is determined by using the effective yield approach or expected crediting rate approach for contracts that use a crediting rate to determine amounts due to the policyholders. An expected crediting rate approach uses an allocation that is based on the amounts credited in the period and expected to be credited in future periods based on the crediting strategy of the operating entities and under the contractual features. For the finance income or expenses arising from the CSM, a systematic allocation is determined using the "locked-in rate".

For groups of insurance contracts with direct participation features accounted for under the VFA, the Allianz Group generally holds the underlying items. The insurance finance income or expense included in profit or loss is the amount that exactly matches the income or expenses included in profit or loss for the underlying items (i.e., the current period book yield of the underlying items), resulting in the net of the separately presented items being nil.

For groups of insurance contracts accounted for under the PAA, the systematic allocation for the finance income or expenses is determined using the discount rates at the date of the incurred claim, i.e., the "locked-in" interest rate based on accident year. For Property Casualty entities, the Allianz approach is the simple average of interest curves through the quarters weighted by ¼ each.

From the sample: example 16

AXA SA, 2023 AFR, p. 335

This extract considers...

…Disclosure of the details of the systematic allocation including the rationale for the applied approach.

1.21.2 Net finance income or expenses from insurance and reinsurance contracts held

[…] the option to disaggregate insurance (and reinsurance) financial income or expense between the consolidated statement of profit or loss and the Other Comprehensive Income ("OCI") is applied by AXA in order to limit the volatility in profit or loss (considering that many of the supporting financial assets are measured at fair value through OCI under IFRS 9).

Under this option, for contracts without direct participation features, the difference between the valuation of the liabilities at locked-in rates (used

- when the changes in financial risk assumptions do not have a substantial effect on amounts paid to the policyholders, the systematic allocation is determined using the discount rates at the date of initial recognition of the groups of contracts measured with the Building Block Approach and at the date of the incurred claims for groups of contracts applying the Premium Allocation Approach;
- when the changes in financial risk assumptions do have a substantial effect on amounts paid to the policyholder, the systematic allocation is determined by using a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of

for the unwind in the finance income or expenses) and their valuation at current rates is recognized by AXA in OCI. In the same way, when changes in liabilities arise from a contractual link (indexation) between inflation and the payments to policyholders, the changes due to inflation that relate to future services shall also be considered as resulting from a financial risk and therefore are recognized by AXA through OCI with a release over the duration of the payments to the policyholders. The amount included in the consolidated statement of profit or loss is determined by a systematic allocation of the expected total insurance (and reinsurance) finance income or expenses over the duration of the group of contracts. This systematic allocation is based on the characteristics of the contracts, depending on whether the changes in assumptions relating to financial risk have a substantial effect on the amount paid to the policyholder or not:	the group of contracts at a constant rate (i.e. the effective yield approach) or a crediting rate based on the amounts credited to the policyholders in the period and expected to be credited in future periods (i.e. the projected crediting approach). AXA also applies the OCI option for direct participating contracts. It consists in recognizing in finance income or expenses (with OCI as a balance) an amount that exactly matches the income or expenses included in profit or loss on the underlying items held, resulting in the net of the separately presented items being nil. However, a negative accounting mismatch in OCI structurally occurs as some underlying items, notably investments in real estate properties, are accounted for at amortized cost by AXA, with therefore no recognition of unrealized gains and losses in shareholders' equity while these unrealized gains and losses are included in the value of the contracts with a corresponding opposite effect in OCI.

3.3.8 Contractual service margin (CSM)

When allocating CSM for the release of the CSM to the P&L for current period services, the issuers provided information with respect to the determination of the:

→ coverage period	• **38% of issuers** provided some explanations of how coverage periods are determined per contract or contract type. For example, one issuer outlined that the determination of the coverage period took into account possible withdrawals, the occurrence of insured events and, for investment contracts, the date on which payment is due to the policyholder. However, most of the disclosures observed were not detailed and did not clearly outline the boundaries of the coverage period.
→ coverage units	• **75% of issuers** provided some explanations (with varying level of details) of how coverage units are determined per contract/contract type. Issuers specified, for example, that coverage units are identified using the measures such as sum at risk, (total) sum insured, insurance volume, insured capital or, for the Non-Life Business, earned premiums, noting that adjustment to reflect the specific characteristics of the (re)insurance business concerned may be required. An issuer explained that in case of saving contracts, the coverage units are generally defined as a function of the assets under management. Another issuer noted that it exercises judgement to define coverage units, considering both the level of coverage defined within the contract (e.g., a death benefit over a fixed term, the policyholders' account value, or a combination of guarantees) and the expected coverage duration of the contract. If multiple services are provided in one contract, hybrid approaches based on weightings were adopted by issuers.
→ the relative weighting of the benefits provided by either insurance coverage and investment-return service or by insurance coverage and investment-related service	• Only **19% of issuers** provided some explanations of how the relevant weighting of such benefits are determined. For example, one issuer explained that, when weighting different services, it generally considers the split of the present value of premium in risk and savings parts to weight the release components. However, in some cases there might also be the need to weight different insurance coverages when determining the number of coverage units, for which the present value of premiums of each insurance coverage is used. • The explanations were partly very short (e.g., an issuer only stated that weighting is defined at the local level).

- One issuer stated that it does not apply relative weights for groups of contracts providing insurance coverage and providing an investment-related service; the issuer adds up the unweighted coverage units resulting from both types of services.

- **Half of the issuers** detailed the expected CSM release by segment for both insurance contracts issued and reinsurance contracts held.
- **88% of issuers** detailed in their disclosures the expected CSM release for each individual year (2 issuers), or use different time bands (12 issuers):
    - **Short-term**: Most issuers disclosed time bands for each individual year up to year 5, some (4) also included time bands for less than one year.
    - **Mid-term**: Issuers presented mostly one mid-term time band ('5-10 years').
    - **Long-term**: Most issuers (8) included one long-term time band ('> 10 years'). 3 issuers used two time bands ('10-20 years' and '> 20 years'). 3 issuers did not include a separate long-term time band presenting the amounts in the time band '>5 years'.

For contracts measured under the VFA:

- **25% of issuers** elected to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of the time value of money and financial risk using risk mitigation, while 25% of issuers did not. The other half of issuers did not provide any disclosure to this effect. The issuers who used the accounting policy choice did not provide details on how they determined the eligible fulfilment cash flows in a group of contracts.
- The measurement of insurance contracts accounted for under the VFA approach under risk-neutral assumptions would normally trigger a temporary delay in profit recognition due to the disconnect between expected and real-world returns on the underlying items. This effect is referred to as **bow-wave effect** and it can be addressed by adjusting the coverage units. Only **19% of issuers** specified how they considered the bow wave effect[5], with two issuers disclosing that they use an investment return modification based on real world assumptions, and one issuer indicating that it used a "systematic" variance as an adjustment to the coverage units of the reporting period to avoid the deferral of the systematic economic variance and its concentration towards the end of the projection horizon.

From the sample: example 17

Storebrand ASA, 2023 AFR, pp. 201, 207

This extract considers...

… Detailed explanations of how the coverage units are determined for different types of contracts.

The coverage units are determined based on the expected duration associated with the group of insurance contracts. For the calculation of the coverage unit per group of insurance contracts, the policyholders' reserves are used as the basis for the assessment for Storebrand's insurance contracts, with the exception of the first year for collective disability pension where the premium is used as a basis. For SPP, the policyholder's funds including deferred capital contribution (LKT - latent capital contribution) are used as a basis for the assessment of coverage units […]

Amortization of the contractual service margin Storebrand applies judgement to identify the quantity of benefits provided in a group of

Non-participating contracts (GMM): For group disability insurance in Norway, Storebrand uses insurance premiums as a basis to determine the quantity of benefits during the first coverage year (accumulation phase), as opposed to the policyholder reserves during the pay-out phase. At the end of each reporting period, the total coverage units are reassessed to reflect the expected pattern of service, contract cancellations and lapse when applicable.

For contracts measured under the variable fee approach, Storebrand makes further adjustments to the coverage units to ensure that the contractual service margin release reflects the insurance services provided in the reporting period. These adjustments are made to account

[5] Some issuers may have described this effect under a different name.

insurance contracts and allocate the contractual service margin based on coverage units. The coverage units are determined based on the expected duration linked to the group of insurance contracts. For guaranteed pension contracts with an annual return guarantee, coverage units must reflect both insurance-related and investment-related service, both in the deferral and payment periods. Since the contractual service margin represent the discounted value of the owner's expected future earnings, the number of coverage units is also discounted. The annual share of the contractual service margin that is recognized as income is determined as the year's number of coverage units divided by the discounted value of coverage units over the life of the contract. This is used consistently over time and across contracts that share similar characteristics:

Contracts with direct participation (VFA): Storebrand Livsforsikring uses the policyholder's reserves as a basis for determining the level of benefits provided when calculating the coverage unit per group of insurance contracts measured under the variable fee approach. For SPP, policyholder funds, including the deferred capital contribution (DCC), are used as a basis for the assessment of coverage unit. This insures a relatively stable amortization and serves as a scaling factor for variable fee approach contracts providing both insurance coverage and investment-related services.

for the fact that the expected financial return on average exceeds the discount rate used to project future assets under IFRS 17. The adjustment does not affect the size of the contractual service margin, but prevents an artificial delay in income from expected excess returns. In stochastic scenarios where the risk-free interest rate is below the annual return guarantee, the expected risk premium (partially) covers the lack of return (and thus the expected loss for Storebrand), while in good scenarios where the risk-free interest rate is above the annual guarantee, the expected excess return is shared with the customer in the form of profit sharing. Prerequisites for returns in excess of the risk-free interest rate are determined by expected risk premiums for each asset class. These are updated quarterly and are based as much as possible on observable market data, both current data and historical data. Examples of this are credit spreads for various types of bonds and pricing data for relevant stock indices. For assets with less available market data and more company-specific expected returns, e.g. investment property, the risk premiums are also partly estimated based on data for Storebrand's actual investments. Alternative and simpler methods for calculating income from excess returns have been tested, including adjusting the discounting of coverage units, without sufficient precision being achieved.

From the sample: example 18

AXA SA, 2023 AFR, pp. 330, 407 (Bow Wave Effect)

This extract considers...

…Details of the consideration of the expected return of underlying items resulting from the Real World ("RW") deterministic assumptions. The numerical values of the key RW assumptions as disclosed in a table.

In order to allow an appropriate pattern of the CSM Release in the statement of profit or loss over the coverage period, consistently with the IFRS 17 definition of the investment-related service, the number of coverage units is determined on the basis of policyholders' mathematical reserves, which are adjusted by considering the expected return of underlying items resulting from Real World ("RW") deterministic assumptions. The main Real World assumptions used by AXA are summarized in Note 12.1.7 . RW assumptions are based on AXA Group's Chief Economist studies that rely on AXA IM's Research and Investment Strategy team for the short term and on academic literature, international organizations (e.g. IMF, World Bank) studies and dedicated structural models for the long term. Then, RW assumptions are reviewed and validated by the Group Economic Assumptions Committee, in charge of determining economic assumptions to be used for a variety of local and Group processes. This Committee is co-chaired by the Group Chief Financial Off icer and the Group Chief Risk Officer. […]

12.1.7 Real World assumptions

As described in Note 1.14.7, Real-World ("RW") assumptions are used for contracts measured using the VFA to allow an appropriate pattern of the CSM Release in the statement of profit or loss over the coverage period, consistently with the IFRS 17 definition of the investment-related service. The number of coverage units is determined on the basis of policyholders' mathematical reserves, which are adjusted by considering the expected return of underlying items resulting from RW assumptions. The main RW assumptions used as of December 31, 2023 and December 31, 2022 by main currencies are disclosed below.

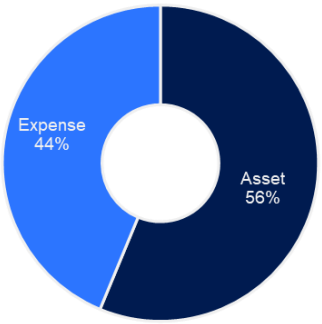
		December 31, 2023				
		RW Rates				
		EUR	USD	JPY	CHF	HKD
		Interest rates				
5y Government (par) rate	N+1	2.2%	4.0%	0.7%	1.0%	3.3%
	N+10	2.3%	3.3%	1.3%	1.3%	3.3%
10y Government (par) rate	N+1	2.2%	3.9%	1.0%	1.0%	3.3%
	N+10	2.5%	3.5%	1.5%	1.6%	3.5%
		Credit Spreads				
5y single-A credit spreads over Govies	N+1	1.4%	1.0%	0.0%	0.9%	1.2%
	N+10	0.9%	0.9%	0.8%	0.9%	0.7%
		Equity return (incl dividends)				
	N+1	7.9%	6.7%	8.3%	6.1%	6.2%
	N+10	6.3%	6.5%	4.3%	4.5%	6.4%

3.3.9 Acquisition cash flows

- An entity shall recognise as an asset insurance acquisition cash flows paid (or insurance acquisition cash flows for which a liability has been recognised applying another IFRS Standard) for each related group of insurance contracts before the related group of insurance contracts is recognised [IFRS 17.28B], unless the entity chooses to measure that group of contracts using the Premium Allocation Approach and is permitted to recognise these cash flows as an immediate expense. For all other contracts, once the insurance contracts are recognised as a liability, acquisition cash flows are derecognised as an asset and are included in the value of the insurance contract liability. For this purpose, insurance acquisition cash flows should be allocated to groups of insurance contracts using a systematic and rational method [IFRS 17.28A].
- Issuers in the sample did not provide details of the methods they chose to allocate acquisition cash flows to groups of contracts.

For portfolios measured under the PAA model:

- More than half of the issuers capitalised insurance acquisition cash flows, while the rest recognised as expenses directly.
- 25% of issuers that capitalised cash flows disclosed the amount of expected release per time band.



From the sample: example 19

Allianz SE, 2023 AFR, p. 194

This extract considers...

…Disclosures of when the issuer expects to derecognise assets for insurance acquisition cash flows and include them in the measurement of the group of the insurance contracts to which they are allocated. The amounts are presented by business segment and by time band (6 time bands).

Derecognition of assets for insurance acquisition cash flows
€ mn

As of 31 December	Up to 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years	Total
2023							
Property-Casualty	272	225	186	178	118	434	1,413
Life/Health	1	8	5	4	3	18	40
Total	**273**	**233**	**191**	**182**	**121**	**452**	**1,453**
2022							
Property-Casualty	236	224	182	149	118	350	1,258
Life/Health	1	7	5	4	3	16	36
Total	**236**	**230**	**187**	**153**	**121**	**366**	**1,294**

3.3.10 Nature and extent of risks that arise from insurance contracts

- **75% of issuers** disclosed information about the nature and extent of risks that arise from insurance contracts **in the financial statements**. **4 issuers (25%)** presented some or all risk disclosures required by IFRS 17 **outside of the financial statements** (e.g., in a management commentary or risk report). Three of these issuers incorporated these disclosures by cross-reference in the financial statements (one issuer has not included any references).

- IFRS 17 requires entities to disclose how profit or loss and equity (or other amounts used to manage risks arising from insurance contracts) would have been affected by changes in risk variables that were reasonably possible at the end of the reporting period [IFRS 17.128, 129]. **88% of issuers** disclosed in their financial statements the **quantitative effect** of changes in some risk variables, of which 43% presented the effect of these changes on profit or loss and equity. Other issuers disclosed instead the effect of changes on other measures, such as CSM or Solvency II-measures (Eligible Own Fund, Solvency Capital Required

or Solvency II-ratio). ESMA did not identify instances in which the changes used in the sensitivity analyses by issuers appeared to be not reasonably possible. The following table shows a breakdown of quantitative disclosures provided with respect to variables used in sensitivity analyses and measures whose changes were analysed as result of the variation of these variables. The last column of the table represents the number of issuers that included such variables in their disclosures across the financial statements:

Changes in..		
Area	Variable	Number of issuers
Insurance risk sensitivities (**75%** of issuers)	Expenses	8
	Lapse rate	7
	Mortality	6
	Ultimate loss rate	2
	Claim amount	2
	Other (e.g., disability, natural catastrophe)	5
Market risk sensitivities (**81%** of issuers)	Interest rates	12
	Equity market	10
	Credit spread (government and/or non-government bonds)	7
	Real estate prices	5

Impact on..		
Area	Variable	Number of issuers
Solvency II-measures (**38%** of issuers)	Eligible Own Funds	4
	Solvency II ratio	4
	Solvency Capital Required	2
Other non-IFRS measures (**6%** of issuers)	Economic Value of Equity	3
Market risk sensitivities (**81%** of issuers)	Net Income / Profit before Taxes	7
	Equity	6
	CSM	3
	Net interest income, Insurance liability, Investment Assets (FVOCI)	5

Conclusions & recommendations

➔ ESMA noted that disclosures related to accounting policies, judgements and estimates were often not entity-specific or, in limited cases, not provided at all. This relates in particular to the following areas:

- Disclosures on **significant judgements** as to whether a contract transfers a **significant insurance risk** or contains **DPF** or **distinct investment components** were often boilerplate and replicated the requirements of the standard. A significant proportion of issuers did not provide disclosures on significant judgements related to the determination of **contract boundaries** (31%). When disclosures were provided, the level of disclosed details varied considerably between issuers. ESMA highlights that issuers should focus their disclosures on the treatment of the specific features of an insurance contract that could have a significant impact on their financial statements and should also indicate the relevance of such insurance contracts. In cases where an issuer discloses that it does not use the annual cohort exemption, information on whether it has a significant number of contracts eligible for this exemption would also be useful to users. ESMA also emphasises that issuers should avoid a mere repetition of IFRS requirements, as this may obscure relevant information and impair the understandability of the financial statements. With regard to the determination of contract boundaries, ESMA draws attention to the IFRS Interpretation Committee's decision on the treatment of premiums received from an intermediary[6]. ESMA expects issuers to disclose whether they considered the premiums receivable from the intermediary as future cash flows within the boundary of an insurance contract and included in the measurement of insurance contracts applying IFRS 17, or whether they treated them as a separate financial asset applying IFRS 9.

- Regarding the description of **methods** used to measure insurance contracts including the **accounting policy choices**, a relatively low proportion of issuers explained the entity-specific assumptions made in determining the **estimates of fulfilment cash flows** (69%) and **discount rates** (62%). No entity-specific disclosure of inputs, assumptions and estimation techniques were provided to explain how issuers distinguished changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features. Only slightly more than half of the issuers disclosed details on how the **diversification benefit** was reflected in the risk **adjustment for non-financial risk** (e.g., by indicating which effect the diversification had on the confidence level). Regarding the disclosures on discount rates, ESMA notes that useful information provided by issuers in the sample included, for example, sources for the risk-free rates (e.g., swap rates, bond prices), the method used for deriving the risk-free curve (e.g., bootstrapping), details on the determination of illiquidity adjustments (e.g., reference asset portfolios used, the method used for the determination of the reference portfolio weights), methods applied to determine the (expected and unexpected) credit risk adjustments, and the length of the periods in which the market data is directly observable or extrapolated. Moreover, issuers should clarify whether they used EIOPA prescribed rates under Solvency II as the risk-free rate and whether the EIOPA methodology was used to determine adjustments to risk-free rates. ESMA also finds useful, when disclosed, that yield curves are accompanied by a separate disclosure of liquidity premiums applied. Finally, ESMA notes that the disclosure of the quantitative impact of reasonable possible changes in the confidence level used to determine the risk adjustment for non-financial risk (sensitivity analysis) can provide useful information to users of financial statements.

- In relation to the **CSM allocation**, only 38% of issuers provided some explanations of how coverage periods are determined per contract or contract type. An even smaller percentage of issuers (19%) disclosed how the **relative weighting of the benefits** provided by either insurance coverage and investment-return service or by insurance coverage and investment-related service was determined.

[6] Premiums Receivable from an Intermediary (IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments), October 2023.

ESMA notes that IFRS 17 does not contain specific guidance on how to determine the coverage units for investment-return or investment-related services and how these services are weighted. Issuers are expected to disclose details on significant judgement applied in determining coverage units for insurance contracts that include these types of services. Furthermore, given that only a low percentage of issuers specified how they considered the **bow wave effect**, ESMA emphasises the importance of disclosures on how the real-world assumptions were taken into account under the VFA approach, including disclosure of the key real-world assumptions.

- 23% of issuers that disaggregated insurance **finance income or expenses** for the period into amounts presented in P&L and amounts presented in OCI did not provide explanations on the methods used to determine the insurance finance income or expense recognised in the statement of P&L.
- Finally, the financial statements of the issuers in the sample lacked information on the methods used to allocate the **acquisition cash flows** to groups of insurance contracts.

➔ ESMA urges issuers to increase the level of transparency in the above-mentioned areas.

ESMA notes that a quarter of issuers presented disclosures about the **nature and extent of risks** that arise from insurance contracts outside of the financial statements (e.g., in a management commentary or risk report). Most of these issuers included cross-references to these disclosures in their financial statements. ESMA points out that this approach is not permitted under IFRS 17[7] and that all disclosures required under IFRS 17 are to be included in the notes to the financial statements. In addition, ESMA emphasises the importance of disclosing a quantitative sensitive analysis that demonstrates the impact of changes in risk variables that were significantly possible at the end of the reporting period.

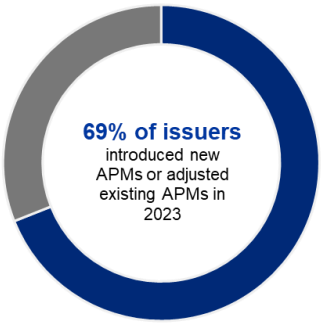
3.4 Alternative Performance Measures (APMs)

Requirements in focus	
ESMA has previously encouraged 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 APMs apply. Specifically, issuers should disclose the definitions of the APMs in a clear and readable way, assign meaningful labels given to the APMs disclosed which reflect their content and basis of calculation and provide a reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period. Additionally, when a specific APM is replaced by another one that better achieves the same objectives, issuers should explain why the new APM provides reliable and more relevant information compared to the previous APM used.	*ESMA Guidelines on Alternative Performance Measures*

[7] IFRS 7 *Financial Instruments: Disclosures* allows incorporation of certain information by cross-reference from the financial statements to other statements, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. However, IFRS 17 does not include a similar regulation.

In practice: How did selected issuers consider these requirements?

69% of issuers introduced new APMs (e.g., total business volume, Revenue of the Health Pillar / Area, undiscounted loss ratio, undiscounted combined operating ratio, and gross written premium) or adjusted existing APMs (e.g., adjusted loss ratio, expense ratio, combined operating ratio and underwriting result) in the 2023 management report. Of these issuers:



- Issuers generally disclosed the definitions of the new or adjusted APMs in a clear and readable way, along with meaningful labels given to the APMs to reflect their content and basis of calculation in order to avoid conveying misleading messages to users.
- In **82% of cases** a reconciliation was presented to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period, separately identifying and explaining the material reconciling items. Additionally, in **82% of cases** issuers explained the use of APMs to allow users to understand their relevance and reliability.
- **All new or adjusted APMs were accompanied by comparatives** for the corresponding previous periods, in most cases including explanations.
- For one issuer, APMs were displayed with more prominence, emphasis or authority than measures directly stemming from financial statements.
- Across the seven issuers that changed the definitions of APMs used in the past, **86% provided detailed information with respect to the changes** and the reasons why these changes result in reliable and more relevant information on the financial performance.

Conclusions & recommendations

➔ ESMA noted that issuers that introduced new APMs as result of the first-time application of IFRS 17 disclosed them mostly in a manner consistent with the ESMA Guidelines on APMs. ESMA emphasises the importance of providing a reconciliation of the APM to the most directly reconcilable line item and explaining (i) why management considers that an APM provides useful information regarding financial position, cash flows or financial performance and (ii) why the changes to the APM definitions result in reliable and more relevant information. ESMA also reminds issuers of the requirement not to disclose APMs with more prominence than information directly stemming from the financial statements.

3.5 IFRS 9

Accounting requirements in focus

IFRS 4 allowed entities whose activities were predominantly connected with insurance to use a temporary exemption from the application of IFRS 9 until the first accounting period in which IFRS 17 is applied (paragraphs 20A and 20B of IFRS 4). The entity that chose to apply IFRS 9 before the application of IFRS 17 were also allowed to use an optional overlay approach that permitted reclassification between P&L and OCI of an amount equal to the difference between the amount reported in the statement of P&L for designated financial assets applying IFRS 9 and the amount that would have been reported in the statement of P&L for those assets if the insurer had applied IAS 39.

3.5.1 Issuers who applied IFRS 9 before the initial application of IFRS 17

13% of issuers (2) applied IFRS 9 to annual reporting periods before the initial application of IFRS 17. Neither of these issuers redesignated any of their financial assets applying paragraphs C29 of IFRS 17, nor did they reassess the business model within which any of their financial assets were held in accordance with paragraph C29(a) of IFRS 17. In addition, neither of these issuers applied classification overlay for the purpose of presenting comparative information.

3.5.2 Issuers first applied IFRS 9 and IFRS 17 at the same time

The other **87% of issuers** applied IFRS 9 and IFRS 17 for the first time, at the same time. Of these issuers:

- 93% restated comparatives on initial application of IFRS 9.
- 71% of issuers applied the classification overlay for the purpose of presenting comparative information. Of these, **80% of issuers** disclosed qualitative information that enable users of financial statements to understand (i) the extent to which the classification overlay has been applied (for example, whether it has been applied to all financial assets derecognised in the comparative period) and (ii) whether and to what extent the impairment requirements in Section 5.5 of IFRS 9 have been applied.
- 71% of issuers disclosed significant material effects due to changes to classification and measurement requirements on financial statements resulting from the application of IFRS 9, while 36% of issuers disclosed significant material effects due to changes to impairment requirements.

Conclusions & recommendations

➔ ESMA notes that the large majority of issuers in the sample first applied IFRS 9 and IFRS 17 at the same time. Most of these issuers chose to restate comparatives on initial application of IFRS 9 and applied the classification overlay. These issuers largely provided the required transitional disclosures on the application of the overlay and on the application of the IFRS 9 impairment requirements.

List of issuers in the selected sample

The inclusion of the following issuers in the report does not constitute a form of validation, compliance check or quality control of the information reported by the issuer, either from ESMA's perspective or from that of enforcers. The extracts presented are therefore reproduced solely for illustrative and educational purposes.

The extracts of the disclosures included in this report were drawn from the English-language PDF versions of the 2023 AFRs publicly available on the issuers' website. Note that these versions are variants of the official versions compliant with the provisions of Commission Delegated Regulation (EU) 2019/815 (the ESEF Regulation – European Single Electronic Format), retrievable from the national databases (Officially Appointed Mechanisms, or "OAMs" - the national mechanisms for centrally storing Regulated Information under the Transparency Directive)[8]. Also note that in multiple instances, this English-language version of the AFR is an issuer's translation from the original language of the AFR. In the event of any discrepancy, the original language version prevails.

Efforts were made to provide accurate external links to the reports available on the issuers' public websites, prior to the publication of the report. Note that the external links provided in this table will not be updated and in time may no longer function. To this end, please refer to the official versions retrievable from the OAMs, as outlined above.

Country	Issuer Name	Link to 2023 AFR
Austria	Vienna Insurance Group AG	Link
Finland	Mandatum Oyj	Link
France	AXA SA	Link
	BNP Paribas SA	Link
	Société Générale SA	Link
Germany	Allianz SE	Link
	Münchener Rückversicherungs Gesellschaft AG	Link
	Talanx AG	Link
Ireland	FBD Holdings plc	Link
Italy	Intesa Sanpaolo S.p.A.	Link
	Assicurazioni Generali S.p.A.	Link
Netherlands	ASR Nederland N.V.	Link
	NN Group N.V.	Link
Norway	Storebrand ASA	Link
Poland	Powszechny Zakład Ubezpieczeń SA	Link
Spain	Mapfre S.A.	Link

[8] Hyperlinks to the OAMs are accessible from ESMA's "Databases and Registers" website page, Corporate reporting (Transparency Directive) header.