UK Endorsement Board FEEDBACK STATEMENT

IFRS 17 *Insurance Contracts*
Endorsement Criteria Assessment (ECA)

May 2022

CONTENTS

Foreword

"The UK Endorsement Board is pleased to present a summary of the feedback received from UK stakeholders on the draft Endorsement Criteria Assessment (ECA) for IFRS 17 *Insurance Contracts.*

We are grateful for the constructive and insightful views from UK stakeholders at such a critical stage in this endorsement project.

Stakeholder views are summarised in this Feedback Statement and, where appropriate, have been addressed in the final ECA.

We look forward to continuing to engage with UK stakeholders during the implementation and initial application of the Standard."

Pauline Wallace,

Chair, UK Endorsement Board

The UK Endorsement Board (UKEB)

The UKEB is responsible for endorsement and adoption of IFRS for use in the UK and is therefore the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

The purpose of this Feedback Statement

This document presents the views of UK stakeholders received during the UKEB's public consultation on the draft ECA of IFRS 17 *Insurance Contracts* (IFRS 17) and explains how the UKEB has addressed those views in the final ECA.

Executive summary

UKEB

Principal objective of IFRS 17

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard.

The objective of the Standard, as set out by the IASB, is to ensure that an entity provides relevant information that faithfully represents those insurance contracts.

Such information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Summary of IFRS 17 principles

The key principles of IFRS 17 are that an entity:

i. Identifies its insurance contracts within the scope of the Standard (and separates non-insurance components which are accounted for under other relevant IFRS Standards).

ii. Divides the insurance contracts into groups and measures them at:
   - A current estimate of the future cash flows (including adjustments for the timing and risk of those cash flows); and
   - An amount representing the unearned profit relating to services still to be provided (the contractual service margin).

iii. Recognises the profit from a group of insurance contracts over the period the entity provides insurance contract services, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately.

iv. Presents separately insurance revenue, insurance service expenses and insurance finance income or expenses.

v. Discloses information that gives a basis for users of financial statements to assess the effects that insurance contracts have on the entity's financial position, financial performance and cash flows.

Summary of outreach prior to draft ECA

Preparers

Preparer webinar
100 registrations / 129 views
Joint webinar with IASB

Preparer survey
16 respondents
Qualitative and quantitative information gathered

Preparer interviews
23 one to one meetings
Follow-up to survey and technical analysis

Investors/other users

Investor webinar
159 registrations / 525 views
Joint webinar with IASB, analyst and ratings agency

User survey
21 respondents
Survey to gather qualitative responses

User roundtable
11 users participated
Joint discussion on key themes identified in User survey

User interviews
14 one to one meetings
Structured interviews to gather investor perspectives

Other elements

Economic Report
Data gathering and analysis by external consultants to assess the potential economic impact of IFRS 17 on the UK

Insurance Technical Advisory Group (TAG)
10 TAG meetings

Diverse group of insurance specialists providing specialist knowledge and technical advice

Other discussions
Periodic calls with other stakeholders including audit firms, regulators and an industry body (Association of British Insurers)

International liaison
Periodic liaison with the European Financial Reporting Advisory Group (EFRAG) and other National Standard Setters

UKEB

UKEB public consultation on the draft ECA

The UKEB's public consultation on its draft IFRS 17 ECA took place between 11 November 2021 and 3 February 2022.

All stakeholder comments received by the UKEB were considered in reaching the UKEB's final assessment of the Standard. Stakeholder submissions received were made public* on the UKEB website.

During the consultation period, the UKEB and its Secretariat promoted awareness of its draft IFRS 17 ECA and encouraged stakeholders to respond through News Alerts, speaking engagements, ongoing outreach to UK stakeholders and advertising through the usual channels.

Stakeholder type	Number of responses
Users of accounts *(including 3 representative bodies**)*	6
Preparers of accounts *(including 2 representative bodies**)*	7
Accounting firms	6
Professional bodies	2
Total	**21**

** Except for those from two respondents who requested that their comments were not shared publicly.*

*** Representative bodies represent the views of multiple members, often encompassing a variety of stakeholder types.*

UKEB

Our approach to the assessment

Do you have any comments on our approach to the assessment presented in Section 1 of our [Draft] Endorsement Criteria Assessment (ECA)? [Q.1]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
An exceptions-based approach to reporting the analysis against the technical accounting criteria was adopted. Consideration of whether IFRS 17 is likely to improve the quality of financial reporting was based on assessment of whether the standard was likely to meet the IASB's objectives in developing the standard, comparing IFRS 17 requirements with current UK accounting practice. When assessing the costs and benefits arising from the use of IFRS 17, the initial costs of implementation of IFRS 17 were considered together with the expected ongoing costs and benefits in future years, to allow a balanced assessment over the longer-term. In considering whether IFRS 17 is likely to have an adverse effect on the economy of the UK, the assessment considered the potential impact of the standard on the insurance sector, including on factors such as products, pricing and competition. It also assessed wider economic effects, including on the cost of capital for insurers, tax payments and financial stability. The true and fair view assessment considered whether IFRS 17 contains any requirement that would prevent accounts prepared using the Standard from fairly reflecting the economic substance of transactions and events and from giving a true and fair view. A holistic approach was taken, considering the impact of IFRS 17 taken as a whole, including its interaction with other UK-adopted international accounting standards.	The majority of respondents were supportive of the UKEB's approach to the endorsement criteria assessment. Most respondents did not comment on the approach to the true and fair view assessment but three expressed support for the UKEB's approach. One investor representative body considered that the UKEB's assessment did not address the true and fair test required by Regulation 7(1)(a) in SI 2019/685 because it replaced that test with '*something different, 'reflecting economic substance*'. In addition the assessment omitted to consider IFRS 17 against the criteria of prudence and placed undue reliance on disclosure. Another investor representative body disagreed with the process adopted in respect of the Technical Advisory Group (TAG). An industry representative body felt that the technical accounting criteria should distinguish between relevance and faithful representation and other enhancing characteristics A preparer commented on the UKEB's power to amend standards for use in the UK and would welcome consideration of this power in the ECA.	Final assessment generally consistent with the UKEB's tentative assessment. The UKEB's assessment of the requirements of its statutory obligations in relation to the true and fair view principle are reflected in the final ECA. Prudence is not one of the criteria set out in SI 2019/685. The UKEB's assessment is only against those criteria specified in the SI. The description of the approach to the true and fair view assessment has been revised to ensure it fully and accurately reflects the UKEB's assessment work. As the comment regarding the TAG was not related directly to a specific assessment in the DECA no changes were made in the final ECA. The technical accounting criteria assessment was completed in accordance with the criteria set out in SI 2019/685, which is separate from the IASB's Conceptual Framework and does not require or indicate a weighting between criteria. On this basis no amendment was made in the final ECA for this point. The UKEB considers it would be appropriate to address the power to amend standards for use in the UK in an ECA only in circumstances when such amendment was actively being considered. As that is not the case in respect of IFRS 17, no change was made in the final ECA.

Overall conclusions - Technical accounting criteria

Do you agree with our overall [tentative] conclusion that IFRS 17 meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management (paragraphs 3.158 – 3.161)? [Q.9]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
In assessing the priority and other significant issues the UKEB identified some risks to the technical accounting criteria and mitigating factors that it believes must be weighed against those risks. Such risks often arise from the balance that needs to be struck between competing objectives and do not necessarily imply that, on balance, for that particular set of IFRS 17's requirements the technical endorsement criteria are not met. IFRS 17 sets out clear principles that can be applied to insurance contracts typical in the UK and that will result in understandable, relevant, reliable and comparable information for users of the accounts. In some cases, it will be particularly important for management to provide appropriate disclosures as required both by IFRS 17 and more generally by IFRS Standards to achieve the objectives of understandability, relevance, reliability and comparability. Such disclosure requirements were taken into account in the assessment and in coming to the tentative conclusion. Overall, the tentative conclusion was that IFRS 17 meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.	14 responses received to this question in the DECA. 11 respondents agreed that the tentative conclusion met the criteria. One respondent advised that their agreement was subject to the satisfactory resolution of matters relating to revenue recognition for UK annuities. Three respondents disagreed, one due to the concerns described elsewhere in this document in respect of with-profits business and hybrid contracts, one due to concerns in respect of discount rates and CSM allocation for annuities, and one due solely to concerns in respect of CSM allocation for annuities.	Final conclusion consistent with UKEB's tentative conclusion. The UKEB's responses to the concerns expressed by the three respondents who disagreed with the overall conclusion are set out below: - with-profits business – slide 21 - hybrid contracts – slide 17 - discount rates – slide 19 - CSM allocation for annuities – slide 18

UKEB

Overall conclusions – UK long term public good

Do you agree with our [tentative] overall conclusion that IFRS 17 is likely to be conducive to the long term public good in the United Kingdom (paragraphs 4.276 – 4.299)? [Q.13]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
The draft ECA tentatively concluded that IFRS 17 would: • lead to an improvement in the quality of financial reporting compared with current accounting practices; • not result in significant additional net ongoing costs for stakeholders; • lead to benefits for users of insurance company accounts as a result of the expected enhanced transparency and comparability; and • not have an adverse effect on the economy of the UK, including on economic growth. Based on the above, the tentative overall conclusion was that IFRS 17 is likely to be conducive to the UK long term public good.	Five preparers responded to this question and all agreed with the overall conclusion. However, three caveated their response in relation to resolution of issues in respect of Contractual Service Margin (CSM) allocation for annuities and the accounting for Reinsurance to close (RITC) transactions. Two users and five members of the accounting profession also agreed with the overall conclusion that IFRS 17 was conducive to the long-term UK public good.	The UKEB has included additional analysis in the final ECA in respect of the impact of the accounting for RITC transactions under IFRS 17. The UKEB has also considered the impact of CSM allocation for annuities under IFRS 17 in the light of the consideration of the issue by the IFRS Interpretations Committee – see slide 18. Based on the further analysis and outreach undertaken, the long term public good assessment has been updated. However, we identified no specific grounds for amending the overall tentative conclusions. The final assessment is therefore consistent with the tentative assessment that IFRS 17 is likely to be conducive to the UK long term public good. The UKEB will monitor these issues during the IFRS 17 implementation phase and on initial application of the standard.

Overall conclusions – True and fair view

Do you agree with our [tentative] conclusion that IFRS 17 is not contrary to the true and fair principle set out in Regulation 7(1)(a) of SI 2019/685? [Q.15]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
The tentative conclusion of the draft ECA was that: • No requirement of IFRS 17 would prevent individual accounts prepared using the standard, including the disclosures it requires, from fairly reflecting the economic substance of insurance contracts. On this basis, no requirement of IFRS 17 would prevent those accounts from giving a true and fair view of the entity's assets, liabilities, financial position or profit or loss. • There is no reason why the IFRS 17 true and fair view assessment should conclude differently for consolidated accounts. This tentative conclusion was underpinned by the technical accounting criteria assessment and by the tentative conclusion that IFRS 17 is likely to improve the quality of financial reporting. The draft ECA therefore tentatively concluded that IFRS 17 is not contrary to the true and fair view principle set out in Regulation 7(1)(a) of SI 2019/685.	Of the 12 responses received to this question, 11 agreed with the UKEB's tentative conclusion. While agreeing with the overall true and fair view assessment, one preparer representative body highlighted the outstanding technical issues that in their view still needed to be resolved, in particular in relation to RITC contracts and CSM allocation for annuities. One preparer disagreed with the tentative conclusion on the basis of their concerns in respect of the CSM allocation issue. Other respondents were silent on this specific question.	Final conclusion consistent with UKEB's tentative conclusion. Wording of the assessment has been revised to ensure the description of the approach fully and accurately reflects the UKEB's assessment work. As set out below (slide 18), the standard's objective and principles are clear on the question of CSM allocation for annuities. In addressing whether the technical accounting criteria are met, including considering the disclosures required by IFRS 17, we have addressed the principal factors affecting whether in this particular respect IFRS 17 contains anything that would prevent accounts from meeting the legislative adoption criteria.

Overall conclusions – IFRS 17 adoption decision

Do you agree with our [tentative] overall conclusion that IFRS 17 meets the statutory endorsement criteria and should be adopted for use in the UK (see Section 6)? [Q.19]

UKEB tentative assessment	Stakeholder views	UKEB final assessment
On the basis of the • technical accounting criteria assessment; • UK long term public good assessment; and • true and fair view assessment the UKEB's tentative conclusion was that IFRS 17 meets the statutory endorsement criteria and should be adopted for use in the UK.	17 of the 21 respondents (81%) were supportive of the UKEB's tentative overall adoption decision. However, five respondents made this support conditional on a satisfactory resolution of the issue relating to CSM allocation for annuities. Two of these explicitly recommended delaying the adoption decision until the outcome from the IFRS Interpretation Committee's assessment of the issue was known. One preparer disagreed with the overall adoption decision on the basis that there needed to be consensus on the CSM allocation issue prior to endorsement. However, this respondent agreed that, overall, IFRS 17 met the technical accounting criteria, was likely to be conducive to the UK long term public good and was not contrary to the true and fair view principle. Three users did not comment explicitly on the overall adoption decision.	The UKEB noted that the majority of respondents were supportive of the tentative overall adoption decision. The UKEB recognised the importance of assessing the implications of the outcome from the IFRS Interpretations Committee's consideration of CSM allocation for annuities. Having now done so, and considering the expected overall impact of IFRS 17 on the UK insurance sector as a whole, the UKEB's overall adoption decision remains unchanged. The UKEB notes that, even following the Committee's tentative decision, no annuity provider has expressed the opinion to the UKEB that this matter should delay or prevent adoption of IFRS 17. The UKEB will monitor the implementation of IFRS 17 going forward and the initial application of the Standard, with particular focus on the CSM allocation issue.

Detailed assessments

UKEB

Detailed assessment – Description of IFRS 17

Do you have any comments on the summary of IFRS 17's requirements? Are there any other features of IFRS 17 that should be covered in this section? [Q.3]

UKEB draft summary	Stakeholder views	UKEB final summary
IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The standard defines insurance contracts and provides detailed scope exceptions and specified options. The draft ECA summarised IFRS 17's requirements for the separation of components from insurance contracts, the level of aggregation, recognition and measurement. It described IFRS 17's accounting models and set out the standard's requirements in respect of profit recognition. It also described the standard's approach to disclosures and transition and summarised the requirements for reinsurance contracts. Finally, the draft ECA set out the presentation requirements for the statements of financial position and financial performance.	Most respondents had no comments on the description of IFRS 17 set out in the draft ECA. Two respondents (one preparer and one accounting firm), while commenting that Section 2 of the draft ECA provides a good overview of the key features of IFRS 17, provided recommendations to enhance this section.	Consistent with UKEB's draft summary but updated to reflect stakeholder recommendations, primarily related to: • requirements on modification and derecognition; • background information on the Variable Fee Approach; and • the optional allocation of insurance acquisition cash flows when applying the Premium Allocation Approach.

Detailed assessment – Completeness of technical accounting issues

Do you agree that the assessment in Section 3, together with Appendix B, captures all the priority and significant technical accounting issues? [Q.4]

UKEB tentative assessment	Stakeholder views	UKEB final assessment

The draft ECA identified the following as priority issues:
- CSM allocation for annuities
- Discount rates
- Grouping insurance contracts: profitability buckets and annual cohorts
- With profits: inherited estates
 	
Other significant technical accounting issues addressed in Appendix B of the draft ECA related to:
- Risk adjustment for non-financial risk
- Interest accretion at the locked-in rate for CSM under the General Measurement Model (GMM)
- Recognition of income from reinsurance to match losses from onerous underlying contracts
- Contracts acquired in their settlement period
- Contracts that change nature over time
- Other comprehensive income option
- Transition requirements
- Other VFA issues:
    ○ Ineligibility of reinsurance contracts for VFA
    ○ Prohibition of retrospective application of the risk mitigation option
    ○ Eligibility for VFA when there are mutualised cash flows
    ○ Non-profit contracts written by a with-profits fund.
	11 respondents (four preparers, two users, three accounting firms and two professional bodies) agreed with the UKEB's assessment.
	
	Eight respondents did not comment on this question.
	
	One respondent (industry representative group) agreed with the UKEB's assessment but raised an additional issue relating to the accounting treatment of premium receivables from intermediaries.
	
	One respondent (preparer) did not agree that the draft ECA captured all priority and significant technical accounting issues, referring to issues arising from the application of IFRS 17 to 'hybrid' contracts.
		The technical accounting issues addressed in the ECA remain unchanged from those included in the draft assessment, except for one addition to Appendix B of the ECA to separately address 'Reinsurance to close transactions (RITC) in the Lloyd's market' (see also slide 26).
		
		No changes were made in respect of the additional issues raised by stakeholders:
		• Accounting treatment of premium receivables from intermediaries - The respondent acknowledged the issue to be an interpretation issue. Further, the UKEB understands that the concern is not widespread and that appropriate solutions may yet be found.
		• Accounting treatment of 'hybrid' contracts – This topic was assessed prior to the publication of the draft ECA, including by the Insurance Technical Advisory Group. While acknowledging the degree of judgement required and the risk of current diversity in practice remaining, it was concluded that this was primarily an interpretation issue.
		
		The ECA does not address questions of interpretation or implementation, but it is recognised that the distinction between such issues and endorsement issues is not always clear cut (ECA paragraph 3.10). The UKEB will engage further with industry and monitor these issues during the IFRS 17 implementation and initial application period.

Detailed assessment – CSM allocation for annuities

CSM allocation for annuities: do you agree with the [tentative] assessment against the endorsement criteria (paragraphs 3.40 – 3.53)? [Q.5]

UKEB tentative assessment	Stakeholder views	UKEB final assessment
IFRS 17 requires the CSM to be recognised in profit or loss over the coverage period of the group of insurance contracts, and in a pattern that reflects the provision of service. This will result in relevant information and will enhance understandability and the comparability of insurers' accounts with those of entities in other industries. Disclosures will provide useful information about the expected pattern of service provision and increase understandability. IFRS 17 does not prescribe how an entity should determine coverage units for annuity contracts and significant judgement will be required. However, risks to comparability and reliability are balanced by the objective of relevance. Over time, it is likely that a consensus for typical UK annuity products will develop: this should enhance comparability. Disclosures should also mitigate concerns over the degree of judgement required. The appropriate approach to determining coverage units is essentially a matter of interpretation. The standard's objective and principles are clear and difficulties in finding a consensus in the case of annuities do not necessarily indicate that the technical accounting criteria as a whole are not met.	Six respondents (one preparer, one user, three accounting firms and one professional body) agreed explicitly with the UKEB's tentative assessment. Eight respondents did not comment. One professional body agreed with the tentative assessment but recommended that the UKEB considered the views of the IFRS Interpretations Committee (IFRS IC) before confirming its endorsement decision. One industry representative body also agreed with the tentative assessment but only to the extent that the IFRS IC considered both interpretations presented to be acceptable. Another noted that until the IFRS IC process was complete it was not possible to conclude. Four respondents did not agree with the UKEB's tentative assessment. Three preparers believe that the UKEB should await the outcome of the IFRS IC before concluding and until then should consider that an endorsement issue does exist. One of these preparers believes that the UKEB should consider using its powers to make amendments to the standard for use in the UK. An investor representative body noted concerns that, depending on the interpretation of IFRS 17's requirements, the standard will not meet the technical accounting criteria (but did not provide explanatory detail or suggestions on how to address the issue). In addition, one preparer commented on detailed aspects of the draft analysis which in their view should be amended.	The UKEB considered the IFRS IC's tentative decision and conducted further outreach before finalising its assessment against the endorsement criteria. The UKEB notes that, if it is finalised without major changes, the IFRS IC's tentative decision removes one source of potential diversity in practice. In its final assessment, the UKEB concludes that an approach to CSM allocation in line with the IFRS IC's decision is one approach that would satisfy the technical accounting criteria. However, the need to use judgement remains when determining an appropriate approach to allocating CSM, in particular in relation to the split between different insurance contract services. In view of the extent of the continued concerns over the impact of the IFRS IC's tentative decision, the UKEB considers that the determination of the allocation of CSM should be a focus of a post-implementation review of the standard. Overall, however, the UKEB's final assessment remains largely unchanged from its tentative assessment.

UKEB

Detailed assessment – Discount rates

Discount rates: do you agree with the [tentative] assessment against the endorsement criteria (paragraphs 3.72 – 3.90)? [Q.6]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
Discounting future cash flows provides relevant and understandable information. The requirement to use current rates that reflect the characteristics of the insurance contracts, including liquidity, enhances the relevance and reliability of that information. The requirement that discount rates applied are consistent with observable current market prices, reflecting current market conditions from the perspective of a market participant, and maximise the use of observable inputs supports the provision of information that is reliable and comparable. Extensive disclosures support the relevance and understandability of the information. The extent of judgement required may present a challenge to reliability and/or comparability. However, IFRS 17's overall objective and principles in this area are clear and the standard's requirements and application guidance mitigate this risk. Together with the required disclosures, the requirements for insurers to use discount rates that are current and consistent with observable market prices, and to maximise observable inputs, serve to reduce concerns over comparability.	12 respondents (six preparers, one user, three accounting firms and two professional bodies) agreed with the UKEB's tentative assessment. Comments from them included: • Using current discount rates that reflect the characteristics of the insurance contracts results in relevant information; • Not possible to prescribe discount rates for all types of liabilities across different countries; • Potential lack of comparability mitigated by requirements for discount rates to be consistent with observable market data, and disclosure of discount rates and material judgements. Eight respondents did not comment on this issue. One investor representative body wholly disagreed with the UKEB's tentative assessment. In the view of this respondent: • It is not possible to analyse the asset spread (i.e. decompose the spread into illiquidity and credit risk). • Discount rates including an illiquidity premium do not promote a faithful representation of an insurer's economic position. • The illiquidity spread cannot be objectively supported (i.e. no observable market data).	The UKEB's final assessment remains largely unchanged from the tentative assessment. It was updated mainly to note the guidance from international actuarial associations which includes techniques for determining illiquidity premia. The principal concerns of the one respondent who expressed disagreement with the UKEB's tentative assessment were discussed by the Insurance Technical Accounting Group and considered when forming the UKEB's tentative assessment. The UKEB is not aware of similar concerns being expressed by any other stakeholders and was informed by IASB staff that no such concerns were raised during the development of IFRS 17. The ECA notes that determination of discount rates requires significant judgement. IFRS 17 requirements represent a balance between demands of relevance and reliability. Application of IFRS 17's requirements will be monitored post-implementation, in particular with regard to variability in approach and adequacy of disclosures.

UKEB

Detailed assessment – 'Profitability buckets' and annual cohorts

Grouping insurance contracts – 'profitability buckets' and annual cohorts: do you agree with the [tentative] assessment against the endorsement criteria (paragraphs 3.101 – 3.116)? [Q.7]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
Insurance business is one of risk pooling and risk sharing so defining IFRS 17's unit of account as a group of contracts provides relevant information. The requirement for 'profitability buckets' provides useful information about loss-making groups of contracts and supports the relevance of the financial statements. The annual cohorts requirement avoids the possibility of perpetually open portfolios and the associated loss of useful information, enhancing relevance, reliability and comparability across periods and entities. Disclosures should enhance understandability and comparability. Some stakeholders consider that identifying 'profitability buckets' requires significant judgement and may not always reflect the way an insurer manages its business. Others are concerned that annual cohorts do not provide useful information when insurance contracts share risks across generations of policyholders. However, profit-sharing between policyholder cohorts is captured by the measurement of fulfilment cash flows so annual cohorts provide relevant information about the **entity's** profitability. Overall, the standard strikes a balance that is likely to provide useful information in the great majority of cases.	12 respondents (seven preparers, three accounting firms and two professional bodies) commented on this question. They all agreed with the UKEB's tentative assessment. Comments received included: • If no annual cohort requirement, the IASB's objective to reflect profits and losses in appropriate periods would not be met. • The costs (although greater than under IFRS 4) are not disproportionate in the context of the relevance of information enabled by the granularity of the information. • Should not present an endorsement issue for the UK at this stage of implementation. • A carve-out (similar to that in the EU) is not necessary for the UK endorsement of IFRS 17. • While mindful of the potential competition and comparability issues for UK insurers arising from the EU carve-out, at this stage no material concerns. As implementation progresses, any issues should be raised in a post-implementation review.	Final assessment consistent with UKEB's tentative assessment.

UKEB

Detailed assessment – With-profits: inherited estates

With-profits – inherited estates: do you agree with the [tentative] assessment against the endorsement criteria (paragraphs 3.143 – 3.157)? [Q.8]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
Recognising the relative interests of policyholders and shareholders in the estate, as will be required by IFRS 17, should enable a faithful representation of the insurer's economic position and support relevance and reliability. Treating the policyholders' share as part of fulfilment cash flows will lead to relevant, understandable and comparable information. Recognition of the shareholders' interest in the estate reflects the fact that the amount represents surplus from past activities and is in excess of the fulfilment cash flow liability. This treatment provides relevant and understandable information because it is based on the underlying contractual arrangements and the constitution of the company, and so is consistent with shareholders' reasonable expectations. The required disclosures will support the understandability of the impact of inherited estates on the entity's financial position and performance. Some stakeholders are concerned that profits will be recognised before shareholders are unconditionally entitled to it. However, treatment as equity would be consistent with the IASB's Conceptual Framework and does not mean that the profit is immediately accessible. Disclosures will enhance relevance and mitigate risks to comparability. IFRS 17 will require entities to develop relevant and understandable accounting treatments.	11 respondents (five preparers, one user, three accounting firms and two professional bodies) commented on this question. Eight respondents (three preparers, three accounting firms and two professional bodies) agreed with the UKEB's tentative assessment while two preparers expressly disagreed. The remaining respondent (user), neither agreed nor disagreed but noted it is a complex issue not resolved by the standard. Four of the respondents expressing support acknowledged the complexities of this issue. Comments from two respondents that expressed disagreement: • The UKEB's assessment sets out some balanced arguments. However, application of IFRS 17 is complex, particularly certain aspects of the accounting for open and closed with-profits funds and the cash flows with the inherited estate. • Although the shareholders' share of the estate will be a component of equity (with changes in profit or loss), these amounts are not accessible to shareholders until there is a distribution which establishes ownership of the estate. This contradiction impairs relevance and considerable additional explanation will be required.	Consistent with UKEB's tentative assessment but analysis enhanced to reflect stakeholder feedback, primarily noting differences in the analysis of the effects on CSM and equity classification.

Detailed assessment – Remaining significant issues

Do you agree with the [tentative] assessment against the endorsement criteria for each of the remaining significant issues presented in Appendix B? [Q.16]

UKEB tentative assessment	Stakeholder views	UKEB final assessment
The factors relevant to assessing the other significant issues presented in Appendix B of the DECA are the same as those set out in respect of the overall assessment against the technical accounting criteria – see slide 11. Overall, IFRS 17 meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.	Nine respondents (four preparers, three accounting firms and two professional bodies) agreed with the UKEB's tentative assessment. Ten respondents did not comment on this section. The remaining two respondents (one preparer and one industry representative body) agreed on most topics but did not agree with the UKEB's tentative assessment on the following: • Interest accretion at the locked-in rate for CSM under the GMM; • Contracts acquired in their settlement period; • Other VFA issues – Prohibition of retrospective application of the risk mitigation option.	Final assessment consistent with UKEB's tentative assessment. Analysis enhanced to reflect stakeholder feedback on the following: • Interest accretion at the locked-in rate for CSM under the GMM – Addition to note that using locked-in rather than current rates is expected to increase operational complexity. • Contracts acquired in their settlement period – clarification related to (i) understandability and comparability with other areas of accounting and with other IFRS reporters and (ii) enhancing transparency of financial information. • Other VFA issues: Prohibition of retrospective application of the risk mitigation option – clarification in relation to the reduction of the risk of bias and promoting reliable financial information. In addition, the information on RITC contracts is now presented as a separate topic.

Detailed assessment – Improvements from IFRS 17

Improvements introduced by IFRS 17: are there other aspects of the changes expected under IFRS 17 that need to be featured (paragraphs 4.30 – 4.59)? [Q.10]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
IFRS 17 specifies a comprehensive set of recognition, measurement, presentation and disclosure requirements for insurance contracts for the first time. This will lead to financial reporting that is more useful to investors and other users of accounts, providing information that is consistent and comparable and that faithfully reflects the economic substance of the contracts in scope. Key aspects of IFRS 17 that are expected to lead to improvements in financial reporting include the following: • Improved scope; • More transparent liability measurement; • Consistent profit recognition; • More consistent and clearer presentation of items in the primary financial statements; and • Extensive specified disclosures. Transition to the new standard may be complex in some cases. However, our assessment demonstrates that the longer-term benefits are expected to outweigh these complexities.	10 respondents commented on this section. Nine agreed with the UKEB's tentative assessment. One industry representative body also agreed with the UKEB's description of the improvements introduced by IFRS 17 but caveated the response on the basis that successful resolution of the CSM allocation issue would significantly improve the quality of financial reporting in the UK.	Final assessment consistent with the UKEB's tentative assessment.

UKEB

Detailed assessment – Costs and benefits

Costs and benefits: do you have any comments on the [tentative] assessment of the key costs and benefits for each of the main stakeholder groups (paragraphs 4.67 – 4.135), including the approach taken to sunk costs (paragraphs 4.91 – 4.99)? [Q.11]

UKEB tentative assessment	Stakeholder views	UKEB final assessment
Aggregate one-off IFRS 17 implementation costs for all UK insurance companies adopting IFRS 17 are estimated at approximately £1.18 billion. While significant, these costs represent 1% or less of the relevant companies' average annual Gross Written Premiums and a significant proportion can be treated as sunk. Most users of insurance company accounts were optimistic that the changes introduced by IFRS 17 would improve comparability between insurance companies and increase transparency in insurance company accounts. Although not quantified, some insurance companies also expect to realise ongoing indirect benefits from improvements in systems, data and processes. As the standard aims to enhance transparency and comparability in financial reporting, the implementation of IFRS 17 should also be beneficial for auditors and regulators. Overall, the application of IFRS 17 is not expected to result in significant additional net ongoing costs for stakeholders in the UK insurance sector.	Six respondents provided comments on this question. Preparers recognised that the assessment was in the context of decisions still to be made, that 'sunk costs' had been excluded and that while there were some significant benefits from IFRS 17, that these had come at a considerable cost. Respondents expressed the view that the benefits could have been achieved at lower cost: in particular, more thorough field testing and fewer amendments to the standard could have reduced complexity and therefore overall implementation cost. Two respondents also observed that RITC accounting under IFRS 17 may require the implementation of additional systems and processes for participants in the Lloyd's market. A user noted that overall cost of implementation was small in the context the industry's balance sheet.	Final assessment consistent with UKEB's tentative assessment. Minor enhancements made to the analysis to reflect stakeholder feedback. An assessment of the impact of RITC accounting has been included in the final ECA.

Detailed assessment – Effect on the economy

Effect on the economy: does the [tentative] assessment fairly capture the principal expected impacts of the standard on the insurance industry and wider UK economy (paragraphs 4.136 – 4.275)? [Q.12]

UKEB tentative assessment	Stakeholder views	UKEB final assessment
Any changes to insurance product offerings or pricing strategies are not anticipated to be of substantial detriment to the UK economy. The draft ECA tentatively concluded that IFRS 17 is not likely to have an adverse effect on: • competition among insurers, nationally or internationally; the proposed EU carve-out may provide an advantage for UK companies in the competition for capital if they apply IFRS 17 as issued by the IASB; • the governance or investment and hedging strategies of insurance companies; • cost of capital or credit ratings; • tax revenues, economic growth or financial stability. IFRS 17 is expected to: • promote the efficient allocation of capital and the ability of investors to hold management to account • provide new information useful for supervisory monitoring and allow users of accounts to better evaluate the financial position of insurance companies, leading to greater market confidence A counterfactual analysis supports this tentative conclusion.	Seven respondents agreed with the UKEB's tentative assessment, one disagreed and the remainder were silent on this specific question. Two respondents provided comments on the economic impact section of the draft ECA. The respondent who disagreed (a preparer) called for more analysis of the economic impact of CSM allocation for annuities, expressing the view that IFRS 17 may present a barrier to entry, stifling future competition. The other respondent who explicitly commented generally agreed with the analysis but added that more consideration should be given to the economic impact of CSM allocation for annuities and the accounting for RITC contracts in the Lloyd's market. They raised concerns that IFRS 17 may depress investment in annuity providers and bulk purchase annuity business. Comments relevant to this section were also made in responses relating to other sections of the draft ECA: • One respondent called for more analysis of the economic impact of the accounting for RITC contracts, while another raised concerns that it may stifle competition in the Lloyd's market. • One preparer argued that the assessment should focus more on the economic impact of CSM allocation for annuities and the accounting for with-profits contracts.	An assessment of the potential impact of accounting for RITC contracts under IFRS 17 has been included in the final ECA. The assessment of the potential impact of accounting for annuities under IFRS 17 has been updated to reflect the IFRS IC's tentative decision and the further outreach conducted. In its final assessment, the UKEB concludes that, assuming the IFRS IC's tentative decision is finalised without major changes, the accounting for annuities under IFRS 17 is on balance unlikely to have a significant adverse impact on the UK annuity market or wider UK economy. Overall, the final assessment is consistent with the draft assessment.

Detailed assessment – Reinsurance to close

Do you have any comments on the application of IFRS 17 to Reinsurance-to-close (RITC) transactions (see comments towards the end of the assessment in respect of Contracts acquired in their settlement period – page 142)? [Q.17]

UKEB tentative assessment	Stakeholder views	UKEB final assessment
The application of IFRS 17 to RITC transactions could create an operational burden and stakeholders have questioned whether the accounting treatment would be understandable. However, this is likely to affect only a small number of specialist insurers and is likely to be a significant issue only when the corporate member's level of participation changes. Disclosures should also mitigate risks to understandability.	Six respondents provided comments on this issue. Three respondents stated explicitly that they do not consider that IFRS 17 should be modified for this issue. Other respondents were silent or ambiguous on this specific point. Respondents generally acknowledged the increased complexity in accounting likely to arise under IFRS 17. Comments included: • Any modification to IFRS 17 might create comparability and operational issues for those in advanced stages of IFRS 17 implementation. • Non-UK entities participate in Lloyd's syndicates. A UK-only modification may result in reduced comparability and usefulness of the financial information and create additional complexity. • The UKEB should influence the IASB to amend IFRS 17 as part of a post-implementation review. • The issue is a matter of interpretation. • Accounting should reflect the economic substance of the transaction (which in their view transfers substantially all risks and rewards of the RITC business). While recognising this impacts only a subset of preparers, the Lloyd's market is significant and the UKEB should ensure this issue is suitably resolved.	Separate analysis included in Appendix B to the final ECA, on the assumption that RITC contracts are accounted for as reinsurance. Where a member's participation increases, the accounting under IFRS 17 reflects the fact that the additional portion is a reinsurance liability by nature, 'acquired' from third parties at a different time and potentially at a different price from the original liability. Where relevant, the application of the GMM would reflect the fact that the uncertain obligation relates to the settlement of incurred claims rather than to whether a claim would arise in the first place. When a member's participation has declined, the expected accounting reflects the fact that the member retains the ultimate legal liability for the underlying insurance contracts but has received (and paid for) reinsurance coverage from third parties. In both scenarios, the expected accounting under IFRS 17 fairly reflects the underlying contractual substance, enabling a more complete understanding and enhancing reliability. The expected accounting is consistent with that for reinsurance more generally and for financial liabilities under IFRS 9, enhancing comparability and, ultimately, broader understandability. Overall, any initial risks to understandability need to be balanced against the objectives of enhanced reliability and comparability.

Detailed assessment – 2021 Amendment

Do you agree that the finalisation of the amendment to IFRS 17 proposed in the IASB's Exposure Draft ED/2021/8 Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed Amendment to IFRS 17) is not likely to give rise to any issues that are significant for the purposes of our IFRS 17 ECA or adoption decision (paragraph 1.2 of [Draft] ECA)? [Q.2]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
The draft ECA concluded that the amendment is not expected to be widely used in the UK and is not expected to give rise to any significant issues for the purposes of the IFRS 17 adoption decision.	All respondents who commented on this aspect were in agreement with the UKEB's tentative assessment that the 2021 amendment to IFRS 17 relating to comparative information was not likely to give rise to any significant endorsement issues.	The ECA has been updated to reflect the fact that the Amendment to IFRS 17 was finalised by the IASB in December 2021. Otherwise, the final assessment is consistent with the draft assessment.

UKEB

Detailed assessment – Other feedback

Do you have any additional feedback that the UKEB should consider? [Q.18]		
UKEB tentative assessment	**Stakeholder views**	**UKEB final assessment**
N/A	Four respondents (three preparers and one accounting firm) provided additional feedback. Respondents: • Highlighted the importance of timely UK endorsement of IFRS 17 to provide certainty to preparers in advance of the effective date of the standard (1 January 2023). • Appreciated the robust process the UKEB has conducted in the short period of time it has been in existence. • Recommended that the UKEB uses its influence to support interpretations that align to the principles in IFRS 17 and a holistic assessment of true and fair. • Emphasised the importance of the UKEB taking a proactive role in the development of future standards to ensure that UK specific issues are fully considered and addressed. • Expressed the view that the smooth functioning of UK capital markets is best served by the adoption of a single set of international accounting standards, strongly supporting the tentative conclusion to endorse IFRS 17 as issued.	No change to overall adoption decision. The UKEB notes in the ECA the importance of monitoring the implementation and initial application of IFRS 17, in particular in respect of the key matters considered during its endorsement assessment.

UKEB

Disclaimer

This feedback statement has been produced in order to set out how the UKEB has addressed responses received from UK stakeholders to the UKEB's draft Endorsement Criteria Assessment of IFRS 17 *Insurance Contracts* and should not be relied upon for any other purpose.

The views expressed in this feedback statement are those of the UKEB at the point of publication.

Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

Contact Us

UK Endorsement Board

1 Victoria Street | London |
SW1H 0ET | United Kingdom

ifrs17@endorsement-board.uk

Web: www.endorsement-board.uk