Invitation to Comment:

Call for comments on [Draft] Endorsement Criteria Assessment: IFRS 17 *Insurance Contracts*

Deadline for completion of this Invitation to Comment:

Close of business 3 February 2022

Please submit to: ifrs17@endorsement-board.uk

Part A: Introduction

The objective of this Invitation to Comment from the UK Endorsement Board (UKEB) is to obtain input from stakeholders on the UK endorsement and adoption of IFRS 17 *Insurance Contracts* issued by the International Accounting Standards Board (IASB) in May 2017 and subsequently amended in June 2020 [and December 2021[1]].

IFRS 17 is effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted but only for entities that apply IFRS 9 *Financial Instruments* on or before the date of initial application of IFRS 17.

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. It is intended to replace the current interim accounting standard on insurance contracts, IFRS 4 *Insurance Contracts*.

UK endorsement and adoption process

The requirements for UK endorsement and adoption are set out in the Statutory Instrument 2019/685[2].

1 In July 2021 the IASB published Exposure Draft ED/2021/8 *Initial application of IFRS 17 and IFRS 9 – Comparative Information (Proposed Amendment to IFRS 17)*. The IASB plans to complete any resulting amendment by the end of 2021.

2 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: https://www.legislation.gov.uk/uksi/2019/685/made

The delegation of powers to adopt international accounting standards for use in the UK was made to the UKEB in May 2021[3].

The information collected from this Invitation to Comment is intended to help with the endorsement assessment. This will form part of the work necessary to assess IFRS 17 for potential UK endorsement and adoption.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts of UK entities that issue insurance contracts and that apply IFRS.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and then return it along with the document 'Invitation to Comment - Your Details' to **ifrs17@endorsement-board.uk** by close of business on **3 February 2022.**

Responses providing views on individual questions as well as comprehensive responses to all questions are welcome.

Privacy and other policies

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and endorsing IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)[4].

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published on our website, please provide UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other document submitted; therefore, only information that you wish to be published should be submitted in such responses.

3 The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021: https://www.legislation.gov.uk/uksi/2021/609/contents/made

4 These policies can be accessed from the footer in the UKEB website here: **https://www.endorsement-board.uk**

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Part B: Assessment against endorsement criteria

Section 1 – Legislative framework and our approach to the assessment

1. Do you have any comments on our approach to the assessment presented in Section 1 of our [Draft] Endorsement Criteria Assessment (ECA)?

We believe that the approach to the assessment presented in Section 1 of the Draft ECA is appropriate.

2. 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)?

Yes	☒	**No**	☐

If not, please provide an explanation.

Click or tap here to enter text.

Section 2 – Description of IFRS 17

3. 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?

We believe that Section 2 of the Draft ECA appropriately summarises the requirements of IFRS 17.

Section 3 – Technical accounting criteria assessment

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

Yes	☒	**No**	☐

If not, please provide an explanation.

Click or tap here to enter text.

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

Yes	☐	**No**	☐

If not, please provide an explanation.

Click or tap here to enter text.

6. *Discount rates:* do you agree with the [tentative] assessment against the endorsement criteria (paragraphs 3.72 – 3.90)?

Yes	☒	**No**	☐

If not, please provide an explanation.

We would like to explain why we have answered yes to this question. We support the requirement of IFRS 17 that estimates of future cash flows should be discounted to reflect the time value of money, using a discount rate that is current and that reflects the characteristics of the insurance contracts. This results in information that is relevant for users. Consistency between the discount rate and observable market data enhances the reliability of the financial results.

Although the standard does not prescribe the approach to setting the discount rate and includes a degree of optionality (e.g. the choice between a bottom-up and top-down rate), any potential lack of comparability is mitigated by requirements for the discount rate to be consistent with observable market data and for the disclosure of both the discount rate and any material judgements used.

7. *Grouping insurance contracts – profitability buckets and annual cohorts*: do you agree with the [tentative] assessment against the endorsement criteria (paragraphs 3.101 – 3.116)?

Yes	☒	**No**	☐

If not, please provide an explanation.

Click or tap here to enter text.

8. *With-profits – inherited estates*: do you agree with the [tentative] assessment against the endorsement criteria (paragraphs 3.143 – 3.157)?

Yes	☐	**No**	☒

If not, please provide an explanation.

Consider, for example, the treatment of the inherited estate in a 90:10 with-profits fund that is open to new business and is not subject to any court scheme defining its

ownership. Whilst the fund remains open, the estate is fully utilised in supporting current and future new business and there are no plans to make a distribution from the estate.

In such a fund at least 90% of the estate will be paid to current and future generations of policyholders. Consequently, it is generally accepted that, in accordance with IFRS 17 paragraph B71, this portion of the estate is considered to be fulfilment cash flows.

The balance (shareholders' share) of the estate cannot constitute fulfilment cash flows as there is no requirement to pay this component to policyholders. It is also not considered CSM as there is no provision in IFRS 17 for there to be a CSM other than for groups of existing contracts. Therefore, the shareholders' share can only be a component of shareholder equity, with any change in this amount (e.g. due to investment returns) being taken directly to the income statement.

Although the shareholders share of the estate will be a component of equity and the change in this amount will be part of profit or loss, these amounts are not accessible to shareholders. We believe that this leads to a contradiction between:

(i) **treating the shareholders' share of the estate as equity (and the change in this amount as profit), which implies that services have already been provided in respect of these amounts and that these assets are fully attributed to shareholders; and**

(ii) **shareholders only being able to access a portion of the estate when there is a distribution to both policyholders and shareholders which establishes ownership of the estate, and which results in a transfer of services to policyholders.**

This contradiction impairs the relevance of the financial information and considerable additional explanation will be required to prevent misunderstanding.

9. 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)?

Yes	☒	No	☐

If not, please provide an explanation.

Whilst we support endorsement of IFRS17 (and hence have answered yes to this question), this is because it brings some consistency internationally and a considerable amount of implementation cost has already been incurred. However issues with the standard remain, as it is overly complex, which will impact understandability.

The tentative conclusion acknowledges that such issues remain and explains that management will need to consider the disclosures under IFRS17 and other standards to meet the above criteria. We believe that IFRS17 will not provide all of the information required for making economic decisions and assessing the stewardship of management, and as a consequence other non-GAAP reporting will remain.

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Section 4 – UK long term public good assessment

10. *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)?

Yes	☐	No	☒

If yes, please provide an explanation.

Click or tap here to enter text.

11. *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)?

We recognise that the cost-benefit assessment in the Draft ECA only considers costs and benefits affected by decisions still to be made and that "sunk cost" is excluded from this analysis. Nevertheless, several issues (e.g. the annual cohort requirement and the approach to transition) have resulted in significant complexity implementing IFRS 17, leading to the incurral of substantial costs.

There are also some areas of the standard that have caused cost and complexity where there may be benefit from future improvements, for example the assessment of eligibility for the Variable Fee Approach (VFA). In its Amendments to IFRS 17 issued in June 2020, the IASB made a change to paragraph B107(b)(i) such that the assessment of eligibility for the VFA is to be carried out at an individual contract level rather than at the level of the group of contracts that was required under the previous version of the standard. Such a contract level assessment is extremely complex in practice and this late change has been disruptive to our implementation programme. Furthermore, we believe that this amended requirement is not consistent with the level of aggregation requirements set out in paragraphs 14-24 of IFRS 17.

12. *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)?

Yes	☒	No	☐

If not, please provide an explanation.

Click or tap here to enter text.

13. 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)?

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Yes	☒	No	☐

If not, please provide an explanation.

We have answered Yes to this question as we support endorsement of IFRS17. Although we have raised concerns in relation to remaining issues, costs and benefits in our response to questions 8, 11 and 16, we believe that in aggregate moving to a consistent international standard for insurance contracts is likely to be conducive to the long term public good in the United Kingdom.

Section 5 – True and fair view assessment

14. Do you have any comments on our approach to the assessment against the true and fair view endorsement criterion?

We believe that the approach to the assessment against the true and fair view endorsement criterion is appropriate.

15. 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?

Yes	☒	No	☐

If not, please provide an explanation.

Although we have raised concerns in our responses to questions 8 and 16 respectively, we believe that in aggregate IFRS 17 is not contrary to the true and fair value principle.

Appendix B – Assessment of remaining significant issues

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

Yes	☐	No	☒

If not, please provide an explanation, identifying clearly to which significant technical issue your comments relate.

Appendix B describes the issue of interest accretion at the locked-in rate under the GMM and concludes that the requirement to use a locked-in rate enhances relevance and comparability of the financial statements and provides understandable information. The appendix further suggests that any impairments to relevance and understandability could potentially be mitigated by the use of OCI accounting and enhanced disclosures.

We do not agree with this conclusion for the following reasons. An accounting mismatch arises from the assets, best estimate liability, and risk adjustment being responsive to interest rate movements whilst the liability for the CSM is not. This results in volatility in both profit and shareholder equity. This volatility can arise from:

A. **Interest rate movements in the period when the CSM responds differently to other components of the balance sheet; and**

B. **Where there are changes in non-financial assumptions but no interest rate movements in the period. The CSM is adjusted for the impact of the change in assumptions measured at the locked-in rate, with the difference between this amount and the adjustment measured at the current rate forming part of IFIE.**

We believe that the resulting volatility in profit and shareholder equity will lead to information that is neither relevant nor understandable. While the use of OCI accounting might mitigate accounting volatility in profit, it cannot mitigate the volatility in equity. We do not believe that additional disclosures will sufficiently resolve the adverse impact of these outcomes on the understandability of the financial statements. Consequently, we believe that non-GAAP measures will be needed to explain performance to users.

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

We do not have any comments on this issue.

Overall [Draft] ECA

18. Do you have any additional feedback that the UKEB should consider?

We believe that is important for the endorsement of IFRS 17 in the UK to be completed in a timely manner to provide certainty to preparers in advance of the 1 January 2023 effective date of the standard.

[Tentative] Adoption decision

19. 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)?

Yes	☒	**No**	☐

If not, please provide an explanation.

Although we have highlighted several issues in our responses above, we agree with the overall conclusion that IFRS 17 meets the statutory endorsement criteria and should be adopted for use in the UK.

Thank you for completing this Invitation to Comment