

# **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](mailto: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<sup>1</sup>].

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<sup>2</sup>.

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<sup>1</sup> 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.

<sup>2</sup> 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<sup>3</sup>.

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](mailto: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)<sup>4</sup>.

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.

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

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

## 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)?

Overall, we believe the endorsement criteria assessment is balanced and represents a fair analysis against the endorsement criteria. The process adopted by the Board was open and well-informed by users, preparers and audit firms. We support the 'holistic approach' taken to assessing the standard, which is intended to assess whether the standard, taken as a whole, meets the technical accounting criteria. In addition, we support the assertion that a meaningful assessment against the long term public good and true and fair view criteria require consideration of the impact of the standard as a whole.

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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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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?

No comments

### 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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation.

ICAEW's discussion group on IFRS 17 has discussed extensively how the principles of IFRS 17 should apply to the release of the CSM for annuities, particularly in relation to the approaches set out in para 3.47 of the endorsement criteria assessment. We note this topic is included on the agenda for the IASB's Interpretation Committee, so have not commented on it further here.

For a full analysis of this topic, please refer to our submission to the IASB, which forms the basis of the question to be considered by the Interpretation Committee. This can be found at <https://www.icaew.com/-/media/corporate/files/technical/financial-services/ifrs17-and-iasb/ifrs-17-letter-to-the-iasb.ashx?la=en>

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

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation.

We believe the requirements in IFRS 17 for the discount rate are appropriate. While there is significant judgment required in estimating the liquidity premium, we note that IFRS 17 permits entities to align discount rates with how the business is run. We note also there are significant disclosure requirements in relation to the discount rates used and how they are determined.

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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation.

Overall, we agree with the assessment of with-profits. Accounting for with-profits business under IFRS 17 is complex for several reasons. Some believe the requirements do not always reflect the most appropriate outcome. For example, profits may be reported under IFRS 17 many years before those profits are available for distribution. In addition, some consider that IFRS 17 is not suitable for mutual insurers with with-profits business. We believe this should be considered when FRS 102 is reviewed by the FRC.

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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation.

Click or tap here to enter text.

#### 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	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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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)?

Some consider that the benefits of IFRS 17 could have been realised at a lower cost. They point to the complexity caused by the requirements for annuity contracts that have vested from with-profits contracts and the inability under IFRS 17 to unbundle hybrid contracts (that is, contracts that contain a discretionary and non-discretionary savings component). We also note that cost is likely to be a factor for several insurance entities that have chosen to convert from IFRS to UK GAAP.

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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation.

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)?

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation.

Click or tap here to enter text.

### 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?

No comment

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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation.

Click or tap here to enter text.

### 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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation, identifying clearly to which significant technical issue your comments relate.

Click or tap here to enter text.

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)?

Please see our cover letter for comments on RITC.

**Overall [Draft] ECA**

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

No

**[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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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If not, please provide an explanation.

Click or tap here to enter text.

**Thank you for completing this Invitation to  
Comment**





3 February 2022

The UK Endorsement Board  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

Dear UK Endorsement Board

## **UKEB DRAFT ENDORSEMENT CRITERIA ASSESSMENT (DECA) FOR IFRS 17 'INSURANCE CONTRACTS'**

We are grateful to the UKEB for the opportunity to respond to the consultation on the endorsement of IFRS 17. The endorsement criteria assessment is balanced and represents a fair analysis against the endorsement criteria. We thank the UKEB for engaging with us on specific topics, including annuities and reinsurance-to-close; we have valued the time and insight of the UKEB staff in these discussions.

ICAEW is supportive of adopting IFRS 17 in the UK; it represents a significant improvement over IFRS 4 and overall, we expect it will improve the financial reporting for insurance contracts. While there are several aspects of the standard that some of our constituents believe could be improved, we do not consider these warrant non-endorsement of the standard.

ICAEW has consistently supported the IASB with its development of IFRS 17, including responding to its consultations on the 2010 and 2013 exposure drafts and the 2020 amendments. We have raised several issues specific to the UK insurance market with the IASB as part of these consultations where we considered IFRS 17 may not produce the most appropriate outcome. Those for which no substantive changes were made by the IASB include:

- Annuities that vest from with-profits contracts;
- Non-profit business held in a with-profits fund;
- The use of a locked-in rate to adjust the CSM under the general model.

In addition, we wrote to the IASB regarding reinsurance held that backs contracts under the variable fee approach. The IASB extended the risk mitigation option which partially addressed this issue. We also wrote regarding the CSM for deferred annuities, for which the IASB introduced the investment return service, which partially addressed some of the concerns we raised.

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### **ICAEW**

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While we do not believe these issues should prevent UK endorsement of IFRS 17, we believe the UKEB should use its influence to ensure these issues are considered as part of the post-implementation review of IFRS 17 by the IASB.

A key issue for several of our constituents relates to revenue recognition for annuities, which we expect will be considered by the IFRIC over the coming months. We note that the outcome of this issue may have a material effect on the profits for annuities over a very long period time. Some constituents believe that one of the alternative approaches does not reflect the economics of annuities, which may have implications for the usefulness and relevance of the financial statements. ICAEW has spent considerable time considering this issue, resulting in our submission on the topic to the IFRIC<sup>1</sup>.

We appreciate the time you have taken to discuss the accounting for reinsurance-to-close (RITC) under IFRS 17 with us. This is a topic specific to the Lloyd's market and is therefore of special relevance to UK insurers, although it is also of interest to other entities that participate, or are considering participating, in the Lloyd's market. RITC provides a mechanism for entities that wish to exit or to adjust the size of their participation in the market.

IFRS 17 increases the complexity of the accounting for RITC, which has implications for users and preparers. It requires development of additional systems and processes. As noted on page 124 of the ECA, the assuming members' financial reporting may result in the liability for the same insurance contract being recognised in two groups of insurance contracts under IFRS 17, one of which would be a liability for incurred claims and the other being liability for remaining coverage (with a CSM). This effect is observed in periods where the corporate member's share of the syndicate changes.

The ECA notes this affects only a small number of specialist insurers. We note there are several insurers impacted by the issue and it may also be an issue for other insurers who may consider joining the market in future. While we believe that this issue should not prevent the UKEB from endorsing the standard, we request you consider carefully the potential impact of this accounting on the UK longer-term public good and use the UKEB's influence on the IASB (as part of the post-implementation review to amend the standard).

We note the EU has endorsed a version of IFRS 17 that removes the requirement for annual cohorts for certain portfolios of insurance contracts. We do not think a similar amendment should be made to the IFRS 17 in the UK because:

- UK insurers are generally able to meet the annual cohorts requirements without undue effort or cost;
- Differences between UK-endorsed IFRSs and IFRSs as issued by the IASB should be minimised or eliminated where possible for the benefit of both users and preparers.

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<sup>1</sup> <https://www.icaew.com/-/media/corporate/files/technical/financial-services/ifrs17-and-iasb/ifrs-17-letter-to-the-iasb.ashx?la=en>

Yours faithfully

Director, Financial Services