

## IFRS 17 *Insurance Contracts* – Technical Issues

### Appendix 2: [Draft] Endorsement Criteria Assessment Skeleton

### [DRAFT] Endorsement Criteria Assessment: IFRS 17 Insurance Contracts

#### Executive Summary [Endorsement Opinion]

To provide summary of key points covering:

- IFRS 17 background, purpose and context
- Key endorsement considerations
  - (i) Long-term public good assessment
    - Improvement in financial reporting?
    - Assessment of costs and benefits
    - Impact on the economy
  - (ii) Technical topics – overall view, any areas of concern, areas to monitor/follow up
  - (iii) Overall true and fair view assessment
- Summary of [draft] endorsement opinion

## Endorsement Criteria Assessment

### I Introduction: legislative framework and our approach to the assessment

- 1.1 Purpose of [Draft] Endorsement Criteria Assessment (ECA)
- 1.2 Summary and explanation of legislative background to endorsement criteria
- 1.3 Detail of endorsement criteria (including text of criteria from SI 2019/685)
- 1.4 Description of how the [draft] ECA addresses the endorsement criteria:
  - a) Wholistic approach, considering IFRS 17 as a whole – fundamental question is whether and how IFRS 17 improves the quality of financial reporting in the UK
  - b) Outline of [draft] ECA structure and reporting approach – considered whole standard but reporting focused on exceptions/problematic areas

### 2 Description of IFRS 17

- 2.1 Background, context and objectives
  - a) Overview of IASB's project – key purpose and objectives:
  - b) High-level picture of current accounting in the UK under IFRS 4 [further detailed consideration included in Section 5 when considering whether IFRS 17 improves the quality of financial reporting]
- 2.2 Description of IFRS 17's main accounting requirements:
  - c) High-level description of the main principles
  - d) Overview of accounting models - General Measurement Model (GMM), Variable Fee Approach (VFA), Premium Allocation Approach (PAA) - and illustration of how the standard accounts for typical UK product types
  - e) Presentation requirements (what primary financial statements will look like)

### 3 Long term public good assessment

#### 3.1 Overview of long term public good assessment – purpose and approach

#### Will IFRS 17 improve the quality of financial reporting?

#### 3.2 Consideration of expected impact in context of the IASB's stated objectives for IFRS 17

#### 3.3 Comparison with current accounting for insurance contracts in the UK – analysis of extent to which IFRS 17 represents an improvement

(a) Performance reporting

(b) View of assets and liabilities

#### 3.4 Results of investor and other user outreach

#### Costs and benefits from applying the standard

#### 3.5 Overview of expected costs and benefits of IFRS 17 and explanation of approach to assessment

##### *Preparers*

f) Detailed costs for preparers, including implementation costs across people, processes, systems and data, identifying sunk costs

g) Benefits for preparers, both tangible and intangible

##### *Users*

h) Detailed costs for users

i) Benefits for users, both tangible and intangible

#### 3.6 Conclusion on costs and benefits

#### Likely effect on the economy of the UK

#### 3.7 Consideration of implications for transparency and the efficient and effective functioning of capital markets

#### 3.8 Consideration of international alignment – EU, Rest of World

#### 3.9 Consideration of the consequences of not adopting the standard

#### Overall conclusion on UK public good

#### 3.10 Summary of overall conclusion on UK public good

## 4 'Technical' criteria assessment

- 4.1 Description of endorsement criteria (relevance, reliability, comparability, understandability) and what is meant by each
- 4.2 Explain approach adopted: considered whole standard but reporting focused on exceptions/problematic areas
- 4.3 Summary of IFRS 17's key principles and consideration of whether they support the endorsement criteria

### Exceptions-based topic by topic assessment

*[For each topic we would expect the following to be covered:*

- *Introduction and description of issue*
- *IFRS 17 requirements*
- *Current accounting practice in the UK, only to the extent required for understanding*
- *Assessment against the endorsement criteria]*

#### **Priority issues [tentative assessment]**

Measurement

- Discount rates (area of significant entity-level judgement)
- CSM allocation (in particular for annuities and bulk purchase annuities)

Level of aggregation

- Groups of contracts and annual cohorts

#### **Other issues [tentative assessment]**

Measurement

- Risk adjustment
- With-profits business
- With-profits contracts with guaranteed annuity options (contracts which change their nature over time)
- Contracts acquired in their settlement period
- GMM: interest accretion on the CSM at the locked-in rate
- Reinsurance of onerous contracts
- VFA issues (eligibility criteria)

#### Presentation

- OCI option (disaggregation of insurance finance income and expense)

#### Transition

- Application of methods/options
- Risk mitigation option (prohibition on retrospective application)

## 5 True and fair view

- 5.1 Explain purpose: IFRS 17 may be adopted only if the standard is not contrary to the principle that an entity's accounts must give a true and fair view.
- 5.2 Explain approach: the true and fair view is assessed at the level of IFRS 17 as a whole, rather than at the level of each individual topic. (Specific requirements of IFRS 17 may be referred to in order to explain/evidence the overall assessment.)
- 5.3 Discussion:
  - a) Considered as a whole, do IFRS 17's requirements represent a coherent whole, designed with consistent principles?
  - b) Will IFRS 17 result in a faithful representation of the effects of insurance contracts on an entity's financial position and performance?