

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 2021¹].

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 2019/685².

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/ukxi/2019/685/made>

The delegation of powers to adopt international accounting standards for use in the UK was made to the UKEB in May 2021³.

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/ukxi/2021/609/contents/made>

⁴ 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)?

We understand that the UK Endorsement Board have the power to make amendments to IFRS standards as part of the endorsement process such that preparers apply modified UK endorsed IFRS. The DECA identifies several accounting problems within IFRS 17 which, in themselves may not warrant non-endorsement, but could be significantly relieved by carve out. We would welcome consideration of how the UKEB evaluates the application of these powers generally and specifically to IFRS 17 within the ECA.

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 comment

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.

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

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

We believe that the primary purpose of IFRS 17 is to fairly represent the economics of insurance contracts in the income statement. The approach outlined in s3.47(a) does not facilitate this. If this is the outcome of the standard it undermines the usefulness of IFRS 17 and, for annuity writers, fails the endorsement assessment criteria.

As the Endorsement Board are aware, the IFRIC are expected to consider the application of coverage units to annuity contracts in March and we believe that the UKEB should await this discussion before completing its endorsement assessment. We expect that the discussions of IFRIC will indicate whether view 3.47(a) and/or 3.47(b) are permitted under the standard and therefore confirm whether or not there is an issue with the standard or whether it is simply a matter of interpretation. Without this confirmation, we believe the UKEB should consider that an endorsement issue does exist and should consider using its powers to make amendments to the standard for application in the UK.

We would also note the following areas where we do not agree with the detailed analysis:

- (1) The analysis presented does not assess whether IFRS 17 has appropriately identified when insurance or investment return services are present in an annuity contract and we believe that this is the fundamental reason why different insurers would apply different judgements – economically, there is both an insurance and investment return service throughout the life of all annuity contracts. As IFRS 17 restricts when they are present, identifying an approach which reflects the economics is not possible and specific contract terms can trigger significant differences in result. We note that the ability to withdraw funds is not present in all deferred annuities and in such cases, approach 3.47(a) is further misaligned to the economics.**
- (2) We would note that the application of coverage units at transition will impact on the amounts of future CSM earned in the income statement irrespective of future changes in spreading judgements. We therefore consider that it is important the issues are resolved prior to adoption and disagree with elements of 3.50.**
- (3) We believe that the selection of 3.47(a) or 3.47(b) would impact on whether it is considered that there is insurance service in the deferred phase of a annuity. The analysis presented in 3.37 is therefore based on the application of 3.47(a) rather than reflecting that it may be judgemental.**

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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 are supportive of the discount rate approach mandated by IFRS 17.

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.

Whilst we do not fully support the application of annual cohorts within IFRS 17 and believe that simpler, more meaningful grouping rules could have been developed with significantly lower implementation costs, we do not believe that these issues present an endorsement issue for the UK at this stage of implementation.

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

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

No comment

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

As discussed in our response to Question 5, we believe that the uncertainty in application of the CSM amortisation rules in IFRS 17 to annuity contracts prevents a conclusion on this question.

We believe that application of 3.47(a) would materially misrepresent the balance sheet and income statement for one of the most material insurance product lines in the UK market.

At this late stage in the finalisation of IFRS 17, we support a timely endorsement of IFRS 17 but would ask the UKEB to consider application of their carve out powers if 3.47(a) were considered by IFRIC to be the only allowed interpretation.

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)?

No comment

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

No comment

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 comments

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

We refer to our response to Question 5.

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)?

No comment

Overall [Draft] ECA

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

No comment

[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.

We do believe that IFRS 17 should be endorsed for use in the UK. However, we believe the UKEB should consider a carve out in relation to annuity CSM amortisation depending on the conclusions of IFRIC.

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