IFRS 17 *Insurance Contracts*:
Summary of public consultation feedback on [Draft] Endorsement Criteria Assessment

Executive Summary

Project Type	Endorsement
Project Scope	Significant
Purpose of the paper	
This paper presents a summary of the feedback received from the public consultation on the [Draft] Endorsement Criteria Assessment (DECA) for IFRS 17.	
Summary of the Issue	
The public consultation on the IFRS 17 DECA closed on 3 February. In total 21 responses were received. This paper presents a summary of the feedback received and, where appropriate, includes proposals of how that feedback might be addressed.	
Decisions for the Board	
No decisions are required at this meeting. The Board is asked to consider its response to the feedback received on the DECA.	
Recommendation	
N/A	
Appendices	
Appendix 1 – Further details of feedback received	

Introduction

1. The IFRS 17 [Draft] Endorsement Criteria Assessment (DECA) was issued for public consultation on 11 November 2021. The public consultation period closed on 3 February. This paper provides a summary of the feedback received and, where appropriate, includes proposals for how that feedback might be addressed.

2. The principal points of feedback are covered in the body of this paper, organised broadly in line with the structure of the DECA and Invitation to Comment questions. Feedback in respect of non-priority issues is set out in the Appendix.

Overview of respondents

3. In total 21 stakeholders provided responses to the public consultation on the IFRS 17 DECA. In accordance with the UKEB's usual policy, responses have been posted to the UKEB website (here). Two respondents (one user of accounts and one preparer) requested that their responses should not be made public. While the responses from these two stakeholders are therefore not available on the website, they have been taken into account in the summary presented in this paper.

4. There were six responses from users of accounts (analysts, asset managers and investor representative bodies), seven responses from preparers (insurance companies and industry representative bodies) and eight responses from accounting firms and professional bodies (accounting and actuarial).

Overall adoption decision

5. Section 6 of the DECA presented the UKEB's tentative overall adoption decision. The UKEB tentatively concluded that IFRS 17 met the statutory endorsement criteria and that the UKEB would adopt IFRS 17 for use in the UK.

6. 17 of the 21 respondents (81%) were supportive of this tentative overall adoption decision. However, five respondents (three preparers, one industry representative body and one professional body) made this support conditional on a satisfactory resolution of the issue relating to CSM allocation for annuities. Two of these respondents explicitly recommended delaying the adoption decision until the outcome from the IFRS Interpretation Committee's assessment of the issue was known.

7. 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 preparer 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.

8. Three users did not comment explicitly on the overall adoption decision.

9. All the respondents from the accounting profession were supportive of the tentative overall adoption decision.

Section 1 - Legislative framework and our approach

Legislative framework and UKEB approach to the assessment

10. The majority of respondents were supportive of the UKEB's approach to the endorsement criteria assessment. Several respondents commented that they agreed with the 'holistic approach' adopted (DECA paragraph 1.25). One preparer strongly commended the formation of a technical advisory group to support the assessment.

11. Overall comments on the UKEB's assessment and approach include:

    - *"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*." [Professional body]

    - *Overall, it is apparent from the detail in the UKEB's documentation that a rigorous approach has been taken …. and in general we agree with the approach taken."* [Preparer]

    - "*The assessment is thorough and detailed*, …" [Industry representative body]

    - "*[The organisation] commends the substantial effort including investor outreach that has been put into the preparation of the endorsement criteria assessment for IFRS 17."* [Investor representative body]

12. Two investor representative bodies disagreed with specific aspects of the approach taken by the UKEB:

    - One disagreed with the approach taken to the assessment against the true and fair principle as set out in Regulation 7 (1) of SI 2019/685 (see further below).

    - One commented on the process adopted in respect of the Insurance Technical Advisory Group (Insurance TAG), stating that it was "*not designed to produce an independent and objective outcome*." One of the signatories to this response was a former member of the Insurance TAG, who had previously raised the issue which was separately addressed. No other stakeholder, including Insurance TAG members, raised any concerns about the TAG process.

13. An industry representative body commented that the UKEB's analysis against the technical accounting criteria did not distinguish between those characteristics that the current IASB *Conceptual Framework for Financial Reporting* describes as fundamental (relevance and faithful representation) and those which are enhancing (comparability, verifiability, timeliness and understandability). The respondent comments that the UKEB's analysis places equal weighting on the characteristics assessed. We note that our assessment is in accordance with criteria set out in SI 2019/685, which is separate from the IASB's *Conceptual Framework* and does not require or indicate a weighting. On this basis we do not propose to amend the IFRS 17 ECA for this point.

14. One preparer commented on the UKEB's power to amend standards for use in the UK and would welcome consideration in the ECA of how the UKEB evaluates the application of these powers specifically in the case of IFRS 17.

15. SI 2019/685 regulation 6 permits the adoption of a standard in part only and/or to extend an option available as part of a standard. The regulation states that this may occur "in exceptional circumstances". Regulation 6 (3) (b) indicates that a standard amended in this way would be required to meet the endorsement criteria set out in regulation 7. In other words, the amended standard – or the part to be adopted – would need to be considered to ensure that all the endorsement criteria were met. We note also that, following the adoption of an amended or part standard, the name '*UK-Adopted International Accounting Standards*' would have to change as the current license agreed by BEIS with the International Financial Reporting Standards Foundation would prohibit any reference to IFRS or IAS or similar terms in the name. On the basis of these considerations, and given the context and primary objectives of adoption set out in SI 2019/685, the Board has previously indicated that 'in exceptional circumstances' represents a very high hurdle.

Questions for the Board
16. Does the Board consider that this point should be addressed in the final IFRS 17 ECA, e.g. by including wording based on paragraph 15 above?

Narrow scope amendment on comparative information

17. Twelve respondents (six preparers, one user, three accounting firms and two professional bodies) agreed with the UKEB's tentative assessment that the amendment to IFRS 17 relating to comparative information[1] was 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 the DECA). The remaining nine respondents did not comment on this topic.

18. We propose to update the ECA as appropriate but otherwise propose no further work on this matter.

Section 2 - Description of IFRS 17

19. Most respondents had no comments on the description of IFRS 17 set out in the DECA. Two respondents (one preparer and one accounting firm), while commenting that in general Section 2 provides a good overview of the key features of IFRS 17, provided recommendations to enhance this section. Further detail is set out in the Appendix to this paper. We propose to update the ECA to reflect stakeholder recommendations.

[1] Amendment 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)*; finalised in December 2021

Questions for the Board	
20.	Does the Board have any other comments or questions on the feedback in respect of the UKEB's approach to the assessment, the description of IFRS 17 or on the proposals for addressing the feedback on Sections 1 and 2?

Section 3 - Technical accounting criteria assessment

Does the TAC assessment capture all of the significant issues?

21. 11 respondents (four preparers, two users, three accounting firms and two professional bodies) agreed that the UKEB's assessment in Section 3, together with Appendix B, captures all the priority and significant technical accounting issues. Eight respondents did not comment on this question.

22. 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. However, although the respondent considers it a significant issue in terms of potential impact, the respondent acknowledged the issue to be an IFRS 17 "interpretation/implementation issue". Although in general the DECA did not address questions of interpretation or implementation, it was recognised that the distinction between such issues and endorsement issues was not always clear cut (see DECA paragraph 3.9). We understand from the respondent that the concern is not widespread and that appropriate solutions to the interpretation question may yet be found. We therefore propose to do no further work on this issue for the purposes of finalising the ECA but will continue to monitor this issue during the implementation period. Further information is included in the Appendix.

23. One preparer did not agree that the DECA captured all priority and significant technical accounting issues, referring to issues relating to the application of IFRS 17 to 'hybrid' contracts. This topic was discussed at the September 2020 Insurance TAG meeting. While acknowledging the degree of judgement required in the treatment of such contracts and the risk of the current diversity in practice remaining, the Insurance TAG concluded that this was primarily an interpretation issue. Stakeholders did not otherwise raise this as a significant endorsement issue during our outreach prior to the publication of the DECA. We therefore propose to do no further work on this issue for the purposes of finalising the ECA but propose to engage further with industry on this issue during the implementation period. Further information is included in the Appendix.

Questions for the Board	
24.	Does the Board have any comments or questions on the feedback in respect of the completeness of the UKEB's assessment of significant technical accounting issues, or on the proposals for addressing the feedback?

CSM allocation for annuities

25. Six respondents (one preparer, one user, three accounting firms and one professional body) agreed explicitly with the UKEB's tentative assessment against the endorsement criteria in relation to the CSM allocation for annuities issue, while eight respondents did not comment specifically on this issue.

26. One professional body agreed with the UKEB's 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 agreed with the UKEB's assessment but only to the extent that both interpretations presented to the IFRS IC were considered by the IFRS IC to be acceptable, while another expressed the view that until the IFRS IC process was complete it was not possible to conclude.

27. Four respondents (three preparers and one investor representative body) do not agree with the UKEB's tentative assessment. The three preparers believe that the UKEB should await the outcome of the IFRS IC process before concluding and believe that until then the UKEB 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. The investor representative body noted concerns that, depending on the interpretation of IFRS 17's requirements, the standard will not meet the technical accounting criteria. However, this respondent did not provide explanatory detail or suggest how the issue should be addressed.

28. In addition, one of the preparers commented on certain detailed aspects of the analysis in the DECA which in their view should be amended.

Potential outcome of IFRS IC process

29. This issue was presented to the IFRS IC in an education session on 1 February 2022 and is expected to be discussed at its next meeting on 15/16 March 2022. The two broad options open to the IFRS IC can be summarised as follows:

    - A – decide that IFRS 17 provides an adequate basis for determining the required accounting, or
    - B – decide that IFRS 17 does NOT provide an adequate basis for determining the required accounting.

30. If the Committee's decision is A, a Tentative Agenda Decision (TAD) would be issued, usually together with explanatory material, setting out the basis for the decision. In this particular case, the TAD and explanatory material might be expected to clarify whether:

    - more than one CSM allocation method could be acceptable, including both methods described in the ICAEW submission; or
    - only one particular method is acceptable, which could be either of the methods in the submission or a different one.

31. While a TAD might be available relatively quickly (a decision is possible at the March meeting), it would be subject to public consultation and to ratification by the IASB.

32. If the Committee's decision is B, it could:

- Issue an Interpretation; or
- Pass the issue to the IASB for deliberation.

33. Given the fact that companies are in the late stages of the implementation phase, either of these routes may appear less attractive to the Committee.

Potential next steps

34. The staff papers for the IFRS IC meeting on 15/16 March, which generally include recommendations from the staff, are expected to be available by 4 March. This means that the Committee's likely – but not definite – approach to the questions set out in the submission will probably be known before the UKEB holds its meeting on 18 March.

35. On the basis of the consultation feedback received, it would seem appropriate to wait for the outcome of the IFRS IC's meeting in March before concluding on the implications for the UKEB's overall endorsement decision. The precise options for the UKEB at that point cannot be predicted with certainty but could include:

- If the IFRS IC's decision addresses UK stakeholders' principal concerns, then the UKEB might be in a position to confirm its tentative endorsement decision;
- If UK stakeholder concerns are not addressed, then the UKEB may decide to redeliberate the issue, engaging with insurers, auditors and investors to determine whether to:
  - (i) Treat the issue as essentially one of interpretation for the industry to solve and adopt IFRS 17 without modification; or
  - (ii) Seek a UK-specific endorsement solution.

36. Under the terms of SI 2019/685, an accounting standard that resulted from a UK-specific endorsement solution (whether a 'carve-out' or 'carve-in') would require a full assessment against the endorsement criteria [Reg 6 (3) (b)], including consultation with stakeholders.[2]

37. In determining the best way forward, the Board would need to follow a number of steps, starting with a consideration of whether a carve-out or carve-in is actually possible without undermining the objectives of the standard and creating additional unintended consequences.

38. In addition, the Board would also need to balance the industry's need for clarity and certainty with the standard's effective date of 1 January 2023. Stakeholders have previously informed us that a solution is required before the date of initial application due to the impact on transition.

[2] Only one concrete suggestion for an amendment to the standard has been communicated to us during our assessment work so far; this was from an insurance company, on an informal basis, and as far as we know has not been considered more widely.

39. Finally, given the global nature of the standard and the UK insurance industry, the Board may also wish to consider the approach taken by other jurisdictions to understand the implications of a unilateral decision taken for the purposes of the standard's UK adoption. We are not aware of similar concerns with these requirements of the standard being raised in any other jurisdictions.

Questions for the Board
40. Does the Board agree with the proposal to wait for the outcome of the IFRS IC's meeting in March 2022 before concluding on the implications for the UKEB's overall endorsement decision?

Discount rates

41. 12 respondents (six preparers, one user, three accounting firms and two professional bodies) agreed with the UKEB's tentative assessment against the endorsement criteria on discount rates. Comments from these respondents included the views that:

- using a discount rate that is current and that reflects the characteristics of the insurance contracts results in information that is relevant for users;
- it is not possible to prescribe appropriate discount rates for all the various types of liabilities across different jurisdictions;
- any potential lack of comparability resulting from the standard not prescribing a specific approach 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.

42. One of these respondents (an accounting firm) recommended that the UKEB's assessment be expanded to consider further the implications for comparability.

43. Eight respondents did not comment on this issue.

44. One investor representative body wholly disagrees with the UKEB's tentative assessment. This respondent expresses the view that it is not possible to analyse the asset spread in a way that faithfully reflects the decomposition of the spread into illiquidity and credit risk. In their view, the use of discount rates which purport to take account of illiquidity does not promote a faithful representation of an insurer's economic position. They express concerns that the illiquidity spread can only be calculated by making assumptions which cannot be objectively supported (i.e. there is no observable market data).

45. IFRS 17's requirements in respect of discount rates, including specifically regarding illiquidity premia, were discussed at the Board's July 2021 meeting and at two Insurance TAG meetings. The principal concerns referred to in the previous paragraph were discussed by the Insurance TAG. We are not aware of similar concerns being expressed by any other stakeholders and were informed by the IASB staff that no such concerns were raised during the development of the standard. We note that guidance

from international actuarial associations includes information on techniques to determine illiquidity premia.[3] For these reasons we do not propose to amend the ECA in this respect.

46. Nevertheless, as explained in the DECA, the determination of discount rates under IFRS 17 requires significant judgement and the requirements represent a balance between the demands of relevance and reliability. We propose that the application in practice of IFRS 17's requirements be monitored post-implementation, and that variability in approach and the adequacy of disclosures should be considered in any future post-implementation review.

Questions for the Board
47. Does the Board have any comments or questions concerning feedback on discount rates or on our proposed response?

Grouping insurance contracts: profitability buckets and annual cohorts

48. 12 respondents (seven preparers, three accounting firms and two professional bodies) commented on this question. They all agree with the UKEB's tentative assessment on grouping insurance contracts: profitability buckets and annual cohorts.

49. One accounting firm noted that if there were no annual cohort requirement, the IASB's objective to reflect profits and losses in appropriate periods would not be met. Another accounting firm pointed out some aspects that may reduce comparability and recommended that the UKEB's assessment be expanded to also consider the implications on comparability.

50. One preparer expressed the view that the costs resulting from the profitability grouping and annual cohort requirements – although greater than those required under IFRS 4 – are not disproportionate in the context of the relevance of information enabled by the granularity of the information. Another preparer noted that whilst they do not fully support the application of annual cohorts within IFRS 17 they do not believe this would present an endorsement issue for the UK at this stage of implementation.

51. Two industry representative bodies noted the EU 'carve-out' from the annual cohort requirement for certain contracts. One stated they did not believe such a carve-out was necessary for the UK endorsement of the standard. The other, while mindful of the potential competition and comparability issues this could pose for UK insurers, at this stage has no material concerns: as implementation of the standard progresses, they propose to raise any issues that may arise in the post-implementation review period.

[3] See for example the International Actuarial Association IAN 100
https://www.actuaries.org/IAA/Documents/Publications/IANs/IAA_IAN100_31August2021.pdf
See also guidance from the Australian Actuaries Institute
https://actuaries.asn.au/Library/Standards/MultiPractice/2021/INVersion3point02021.pdf

52. On the basis of the feedback received, we do not propose to make any amendments to the ECA.

Questions for the Board
53. Does the Board have any comments or questions concerning feedback on the standard's grouping requirements or on our proposed response?

With-profits: inherited estates

54. 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, a user, neither agreed nor disagreed with the UKEB's tentative assessment but commented that this is a complex issue which has not been resolved by the standard.

55. Four of the respondents expressing support for the UKEB's tentative assessment acknowledged the complexities of this issue, commenting:

    - that the UKEB should consider potential inconsistencies and the risk of reduced comparability between companies;
    - that additional interpretation or clarification of principles may prove useful to the market;
    - that the complexities of the issue and potential accounting mismatches will raise investor communication challenges for UK insurers;
    - that additional disclosure (and perhaps alternative performance metrics) will be required to allow users of the accounts to understand the restrictions over certain elements of equity and the related profits or losses arising in the reporting period.

56. One of the respondents that disagreed with the UKEB's assessment noted that 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 until there is a distribution which establishes ownership of the estate. In the respondent's view, this contradiction impairs the relevance of the financial information and considerable additional explanation will be required to prevent misunderstanding.

57. The other respondent that disagreed with the UKEB's assessment noted that the UKEB's tentative assessment sets out some balanced arguments. However, the respondent commented that application of IFRS 17 to UK with-profits contracts is particularly complex and drew the UKEB's attention to certain aspects of the accounting for open and closed with-profits funds and the cash flows with the inherited estate.

58. The DECA acknowledges these complexities, noting that there may be several implementation or interpretation challenges when applying IFRS 17 to UK with-profits

business (DECA paragraph 3.149). It concludes that IFRS 17 will need to be interpreted and practical approaches and appropriate disclosures developed which reflect the underlying economics and are in line with the standard's principal objectives (paragraph 3.157). In our view the feedback on this topic does not introduce fundamentally new considerations or change our assessment of the potential impact of the standard (paragraph 4.166 – 4.176). For these reasons we do not propose to amend the ECA other than to enhance the analysis where appropriate to reflect the latest feedback received.

Questions for the Board
59. Does the Board have any comments or questions concerning feedback on the application of the standard's requirements to with-profits inherited estates or on our proposed response?

Other technical issues

Reinsurance to close transactions

60. Stakeholders were asked whether they had any comments on the application of IFRS 17 to reinsurance to close transactions in the Lloyd's market. Six respondents provided comments on this issue.

61. No respondent to the DECA has explicitly called for IFRS 17 to be modified in respect of RITC contracts before it can be adopted for use in the UK. Of the respondents who comment specifically on the issue, three state explicitly that they do not consider that the standard should be modified for this issue. Other responses are silent or ambiguous on this specific question.

62. Respondents generally acknowledged the increased complexity in accounting likely to arise under IFRS 17. However, one accounting firm recognised that any modification to IFRS 17 might "*create comparability issues as well as operational implementation issues particularly for those that are in advanced stages of IFRS 17 implementation*".

63. An accounting firm noted that non-UK entities participate in Lloyd's syndicates and commented that "*a UK-adopted modification may consequently result in reduced comparability and usefulness of the financial information reported by entities that participate in Lloyd's syndicates and may create additional complexity for some preparers and users. Therefore, we do not believe IFRS 17 should be modified in this regard.*"

64. One professional body recommended using the UKEB's influence on the IASB as part of a post-implementation review to amend the standard. Another professional body viewed the issue to be a matter of interpretation and stated: "*we expect the industry to consider and assess alternative interpretations which reflect the substance of the RITC transaction and avoid… the potentially significant operational changes to the Lloyd's market*".

65. By contrast, an industry representative body commented that the accounting treatment "*should reflect the economic substance of the transaction which transfers substantially all risks and rewards of the RITC business*." The central concern relates to "*the incorrect treatment of the RITC as a reinsurance arrangement*." While recognising that the issue impacts only a subset of preparers, this respondent emphasised the significance of the Lloyd's market and potential implications for market efficiency and the competitiveness of UK listed Lloyd's insurers, urging the UKEB to ensure that this issue is "*suitably resolved*".

66. The accounting for RITC transactions is addressed in more detail in paper 4 to this meeting.

Technical accounting criteria: overall conclusion

67. Respondents were asked whether they agreed with the UKEB's tentative overall conclusion that IFRS 17 met the technical accounting criteria.

68. All bar three respondents that answered this question either agreed or agreed subject to resolution of the CSM allocation issue. Three respondents disagreed, due to concerns described above in respect of with-profits business, hybrid contracts, discount rates and CSM allocation for annuities.

Questions for the Board
69. Does the Board have any comments or questions concerning feedback on the technical accounting criteria overall conclusion, including with regard to the non-priority issues covered in the Appendix to this paper?

Section 4 – UK long term public good assessment

Additional aspects to the improvements identified in the DECA

70. Of the 10 respondents who provided a response to this question in the Invitation to Comment document, nine noted that they agreed with the DECA assessment of the improvements.

71. One industry representative body 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"*.

Costs and benefits and approach to sunk costs

72. Six of the 21 respondents provided comments on this question. The three preparers who responded all 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.

73. One preparer noted that the annual cohort requirement and the approach to transition had resulted in significant complexity which had led to substantial implementation costs. They also commented that the late change announced in June 2020, regarding eligibility for the Variable Fee Approach, had been very disruptive to their implementation programme.

74. An industry representative body noted the criticality of resolving the outstanding issues to ensure that investments to date were not wasted. The same respondent observed that RITC accounting under IFRS 17 may require the implementation of additional systems and processes across the Lloyd's market.

75. The third preparer observed that "*the majority of benefits could have been achieved at a significantly lower cost if the proposals of the standard had been properly field tested*".

76. However, the user that responded to this question noted that the "*overall cost of implementation is small in the context of the balance sheet of the insurance industry and should have been amortised over the long glidepath into endorsement*".

77. Two professional bodies also responded to this question. One commented that the benefits of IFRS 17 could have been realised at a lower cost. They specifically noted "*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".* They also commented that implementation cost was likely to be a factor for 'several' insurance entities who had chosen to convert from IFRS to UK GAAP.

78. The other professional body also noted that RITC accounting under IFRS 17 could "*increase the complexity of the financial statements for relevant Lloyd's Members and was likely to require the implementation of additional systems and processes*".

Effect on the economy

79. Seven respondents agreed with the UKEB's tentative assessment of IFRS 17's expected effect on the economy, one respondent disagreed and the remainder were silent on this specific question. Only two respondents provided comments on this section of the DECA.

80. The one respondent (a preparer) that disagreed with the contents of the economic analysis raised concerns that the CSM allocation for annuities under IFRS 17 may represent a barrier to entry, thus stifling future competition, and called for further analysis.

81. The other respondent that provided comments (an industry representative body) did not disagree with the contents of the economic assessment but suggested adding additional analysis on the topic of CSM allocation for annuities. They raised concerns that IFRS 17 accounting may depress investment in annuity providers and bulk purchase annuities (BPA) business. They also expressed a view that the application of IFRS 17 to RITC transactions might alter competition in the Lloyd's market and add costs to its IFRS-adopting members.

82. Comments relevant to this section were also made in other responses relating to the technical accounting criteria and costs and benefits.

83. Two respondents referred to the potential impact of RITC accounting under IFRS 17: one suggested the UKEB should consider its effect on the UK long-term public good while another noted that this issue may alter competition in the Lloyd's market and add costs to its IFRS-adopting members.

84. One preparer commented that the UK long term public good assessment did not give enough consideration to the impact of IFRS 17 on annuity and BPA business or on with-profits business. The preparer argued that these issues affected the costs and benefits analysis, with a potential longer-term impact on customer choices.

85. We propose to consider whether the assessment of the impact of the CSM allocation issue should be enhanced in the light of stakeholder feedback. Otherwise, on the basis that no fundamental new matters have been raised, we propose no changes to the ECA.

UK long term public good: overall conclusion

86. Five preparers responded to this question. All agreed with the overall conclusion but three caveated their responses in respect of the CSM allocation and RITC accounting issues.

87. Two users and five members of the accounting profession also responded. All agreed with the overall conclusion that IFRS 17 was in the UK long term public good.

Questions for the Board
88. Does the Board have any comments or questions concerning feedback on the UK long term public good assessment, or with regard to our proposed response?

Section 5 – True and fair view assessment

Comments on the approach to the true and fair view assessment

89. Most respondents did not comment on the approach to the true and fair view assessment. Three expressed support for the UKEB's approach, two specifically referring to the holistic approach taken.

90. One respondent 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 respondent considered the assessment omitted *"to assess IFRS 17 against the criteria of prudence"* and placed undue reliance on disclosure.

91. Prudence is not one of the endorsement criteria set out in SI 2019/685. Our assessment is against only those criteria specified in the SI. In response to this feedback the relevant paragraphs will be reviewed to ensure they fully and accurately reflect the UKEB's assessment work. No other changes to the ECA are proposed in respect of the true and fair view assessment.

Tentative conclusion on true and fair view

92. 11 respondents agreed with the UKEB's tentative conclusion that IFRS 17 was not contrary to the true and fair view principle set out in Regulation 7(1)(a) of SI 2019/685.

93. One preparer disagreed with the tentative conclusion on the basis of their concerns in respect of the CSM allocation issue.

94. All other responses were silent on this specific question. However, since four respondents expressed strong support for the adoption of IFRS 17, it may be inferred that they agree with the UKEB's conclusion on the true and fair view assessment.

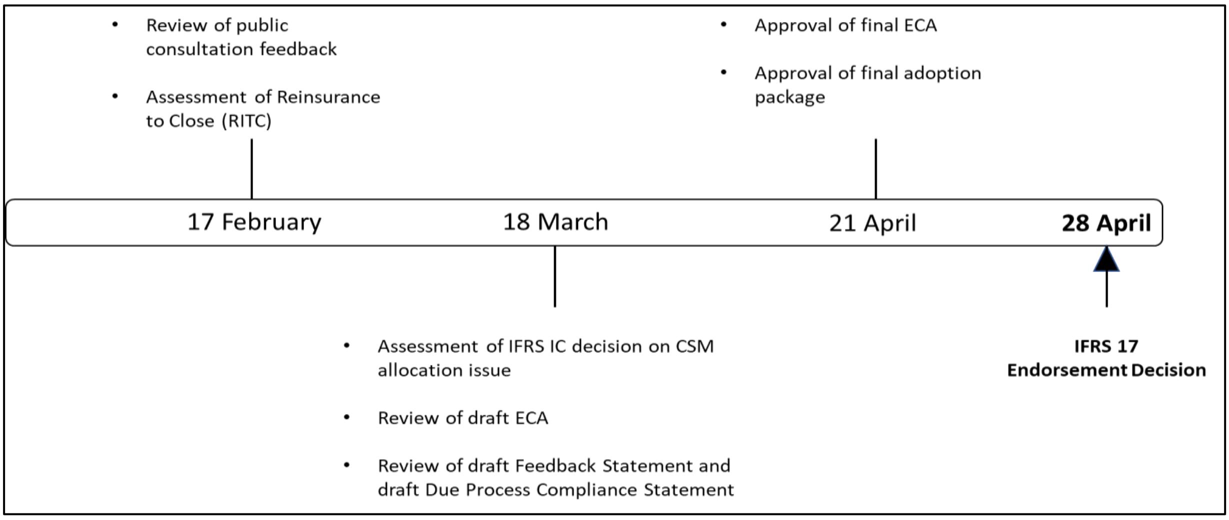
Questions for the Board
95. Does the Board have any comments or questions concerning feedback on the UK long term public good assessment, or with regard to our proposed response?

DECA Appendix B – Assessment of remaining significant issues

96. Comments from respondents in respect of the remaining significant technical accounting issues are set out in Appendix 1 to this paper.

Next steps

97. On the basis of the feedback we received we have revised our project timeline. The remaining IFRS 17 project plan can be summarised as set out below. The timing of project completion is subject to the outcome of the IFRS IC consideration of the CSM allocation issue.


• Review of public consultation feedback
• Assessment of Reinsurance to Close (RITC)
• Approval of final ECA
• Approval of final adoption package
17 February
18 March
21 April
28 April
• Assessment of IFRS IC decision on CSM allocation issue
• Review of draft ECA
• Review of draft Feedback Statement and draft Due Process Compliance Statement
IFRS 17 Endorsement Decision

Appendix 1 – Further details of feedback received

DECA section 2 - Description of IFRS 17

1. The following table presents the recommendations received to enhance the description of IFRS 17 set out in Section 2 of the DECA.

Recommendation type	**Detailed recommendation [source of recommendation]**

Suggested additions	• Information on contract modification or derecognition [accounting firm]
	
	• A summary of how the measurement approach has been designed to reflect the strong links between insurance liabilities and the assets held to support these liabilities. In particular:
	    • The VFA was developed to deal with the interaction between the liabilities and a specified pool of underlying assets.
	    • For GMM the top-down approach to setting the discount rate was developed to accommodate the strong linkage between insurance liabilities and associated assets
	
	[preparer]

Suggested clarifications	• Paragraph 2.26 comments on volatility and notes that IFRS 17 provides an option for volatility arising from changes in discount rates to be reported in OCI. Given the majority of UK life insurers are expected to continue to use Fair Value through Profit or Loss it would be helpful to explain that an alternative approach to explaining this volatility is through additional disclosure of a non-GAAP operating profit metric which shows operating profit using expected discount rates and expected returns and shows separately the volatility arising from changes in discount rates and short-term market fluctuations form the expected rate. This approach, which is expected to be applied across UK life insurance entities, enhances understandability and enables the interaction between asset and liability movements to be better understood. [preparer] • Paragraph 2.44 (c) it would be helpful to include duration as an example of factors that influence observable market prices but do not affect the future cash flows of the insurance contracts. [preparer] • Paragraph 2.73 (c) could be clarified to note that while IFRS 17 permits acquisition costs to be expensed immediately, this is an accounting policy choice and an equally valid alternative is to capitalise and allocate to the measurement cash flows when the associated group of insurance contracts is recognised. [preparer]

DECA Appendix B – Assessment of remaining significant issues

2. Nine respondents (four preparers, three accounting firms and two professional bodies) agree with the UKEB's tentative assessment of remaining significant issues presented in Appendix B. Ten respondents did not comment on this section. The remaining two respondents (one preparer and one industry representative body) agree on certain topics but do not agree with the UKEB's tentative assessment on the following:

    a) Contracts acquired in their settlement period;

    b) Interest accretion at the locked-in rate for CSM under the GMM;

    c) Other VFA issues – Prohibition of retrospective application of the risk mitigation option.

3. The following bullet points summarise feedback received. Their inclusion here does not necessarily imply that the corresponding text in the final ECA will be amended.

Contracts acquired in their settlement period

- The treatment as a liability for remaining coverage after the acquisition would reduce comparability with other pre-existing portfolios of issued insurance contracts as well as comparability with other insurers.
- Consistency with IFRS 3 will not enhance understandability and comparability with other IFRS reporters as they have no such business.
- In most cases where there is a long settlement period the premium allocation approach may not be available even though the coverage period for the original contract was 1 year or less.
- Insurance revenue would be recognised over the period that no insurance service is provided.
- Revenue recognition will not be aligned with users' expectations.
- Not good to rely on disclosures to offset poor classification, measurement and/or presentation requirements.
- Operational complexities particularly for run-off consolidators.

Interest accretion at the locked-in rate for CSM under the GMM

- An accounting mismatch arises from the assets, best estimate liability, and risk adjustment being responsive to interest rate movements whilst the CSM is not.
- Such accounting mismatch results in volatility in both profit and shareholder equity, leading to information that is neither relevant nor understandable.
- The use of the OCI option does not mitigate volatility in equity.
- The relevance for users of accounts of a historic rate is questionable.
- Additional disclosures will not resolve the adverse impact on understandability and non-GAAP measures will be needed.
- The benefit from the insurance service result being unaffected by changes in interest rates is only to the extent it relates to the expected cash flows and not to the CSM.
- There is little basis for comparability between IFRS 17 and IFRS 15 as the latter does not acknowledge the concept of a CSM.
- Will result in significant extra costs and complex calculations for insurers.

Other VFA Issues – Prohibition of retrospective application of the risk mitigation option

- Agree that the prohibition is likely to decrease understandability and relevance.
- However, disagree that it would reduce reliability to the extent that does not occur in other areas also requiring the exercise of judgment – including the calculation of fair values at transition – and cannot be mitigated to a significant degree through good disclosure.

Technical accounting issues raised in feedback but not addressed in DECA

Premium receivables from intermediaries

4. This issue was raised by an industry representative group (see paragraph 22 of agenda paper 3 for this meeting). The key points made are summarised in the following bullet points.

- The issue arises when intermediaries acting on behalf of an insurer (such as brokers) have received premiums from policyholders but not yet remitted them to the insurer.
- Some stakeholders consider that an insurer applies IFRS 17 to such amounts while others consider that IFRS 9 applies. This affects the data that needs to be gathered and the way an insurer's accounting systems need to be designed.
- As premiums and commissions are often net-settled the issue also affects commissions payable; it could potentially also affect claims payments made via intermediaries.
- If IFRS 17 is applied in all scenarios, the insurance obligation would be determined applying IFRS 17 and premiums receivable would be netted off against any other fulfilment cash flows.
- If IFRS 9 is applied, then the premium receivables are not included in the measurement of fulfilment cash flows but recognised as a separate asset under IFRS 9 (i.e. a 'gross up' approach).
- The respondent considers that both approaches could be deemed valid and that a narrow interpretation of IFRS 17 requirements would lead to "*material costs that far outweigh the benefits*".

'Hybrid' contracts

5. This issue was raised by a preparer (see paragraph 23 of agenda paper 3 for this meeting). The key points made are summarised in the following bullet points.

- Hybrid contracts are those where the policyholder has the option to invest in both unit-linked and with-profits.
- Contracts containing no significant insurance risk would be classified as investment contracts, so hybrid contracts invested 100% in unit-linked funds would be classified as investment contracts under IFRS 9.
- Hybrid contracts invested 100% in with-profits funds would be classified as investment contracts with discretionary participation features and fall within the scope of IFRS 17.
- For contracts lying between these extremes judgement needs to be applied: this could lead to arbitrary classification divisions resulting in impaired comparability.

- IFRS 17 requires 'distinct investment components' to be separated from the host contract and accounted for under IFRS 9; however, some stakeholders have concluded that the IFRS 17 definition of 'distinct' does not permit investments in unit-linked funds to be separated from investments in with-profits funds.
- The respondent considers that the inability to account separately for with-profits and unit-linked business will result in information that does not meet the technical accounting criteria.
- The respondent also considers that separate accounting for with-profits and shareholder-owned unit-linked business would be consistent with IFRS 17's general 'philosophy' that value to users is enhanced by increased granularity of measurement.