

# 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>.

---

<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/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 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.

---

<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, it is apparent from the detail in the UKEB’s documentation that a rigorous approach has been taken when assessing the draft new standard, and in general we agree with the approach taken.

The one area that we are not in agreement with is the UKEB’s response to the priority issue in respect of CSM allocation for annuities as outlined in paragraph 3.50. In our view it is not appropriate to proceed with the endorsement of a standard whilst such material differing interpretations continue to persist and to expect a consensus to emerge over time once the standard has become effective. This approach, if pursued, would potentially result in significant variations in approaches taken by accounts preparers leading to confusion amongst users of accounts in the critical initial period following introduction of the new standard, potential need to restate IFRS 17 transition balance sheets, and significant additional costs as systems would need to be further developed to align with the approach arrived at by consensus.

Furthermore, we consider it imperative that interpretation of the standard may be aligned with the view expressed in paragraph 3.47(b). This aligns with our view that policyholders benefit from the peace of mind provided by our products from the day on which they become policyholders with us.

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"/>
-----	-------------------------------------	----	--------------------------

If not, please provide an explanation.

### 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

### 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"/>
-----	-------------------------------------	----	--------------------------

If not, please provide an explanation.

--

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"/>
-----	--------------------------	----	-------------------------------------

If not, please provide an explanation.

We have two key points to raise in respect of the document's contents:

Firstly, the ICAEW wrote to the IASB in November 2021 seeking to understand its interpretation of IFRS 17 in respect of coverage units for annuities. This followed extensive discussions between accounts preparers and external auditors which failed to achieve agreement. We are of the view that endorsement of IFRS 17 within the UK should not occur prior to resolution of this matter.

In para 3.50 the DECA states "Over time, and potentially before the first sets of accounts prepared using IFRS 17 are published, it is also likely that a consensus to determining coverage units and hence to CSM allocation for typical UK annuity products will develop."

For a matter so fundamental to measurement of profit or loss under IFRS 17, we believe there needs to be consensus prior to endorsement. It should also be noted that the resolution of this issue is likely to require system and process developments and the ability for firms to implement the standard on time will depend on the timely resolution of coverage unit methodology requirements.

Secondly, we are of the view that failure to land on an agreed interpretation that the view outlined in paragraph 3.47(b) is permissible would call into question the appropriateness of the standard in this respect. Based on the transfer of risk from pension fund trustees and the volume of enquiries from deferred members regarding their future benefit payments, it is clear that there are 'peace of mind' services regarding

the contractual guarantee being provided to deferred members throughout the life of contracts.

We are therefore of the view that coverage units for annuities should be based on both annuity payments in the period as well as the continued access to receive a continuous stream of future payments for as long as the policyholder survives, in accordance with contract terms.

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"/>
-----	-------------------------------------	----	--------------------------

If not, please provide an explanation.

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"/>
-----	-------------------------------------	----	--------------------------

If not, please provide an explanation.

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"/>
-----	-------------------------------------	----	--------------------------

If not, please provide an explanation.

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"/>
-----	-------------------------------------	----	--------------------------

If not, please provide an explanation.

---



---

**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"/>
-----	--------------------------	----	-------------------------------------

If yes, please provide an explanation.

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

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 checked="" type="checkbox"/>
-----	--------------------------	----	-------------------------------------

If not, please provide an explanation.

One impact of the standard that is not mentioned is that it risks closing the UK annuity market to new entrants. Well established, mature insurers will benefit from profit release from their back books which will not be available to newer entrants, thereby creating significant barriers to entry for new annuity writers.

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"/>
-----	-------------------------------------	----	--------------------------

If not, please provide an explanation.

---

**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

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"/>
-----	-------------------------------------	----	--------------------------

If not, please provide an explanation.

**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"/>
-----	-------------------------------------	----	--------------------------

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

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

**Overall [Draft] ECA**

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

Click or tap here to enter text.

**[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 type="checkbox"/>	No	<input checked="" type="checkbox"/>
-----	--------------------------	----	-------------------------------------

If not, please provide an explanation.

**Reference is made to our comments on questions 1 and 5**

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