

IFRS 17 – Response to IFRS Interpretations Committee’s Tentative Agenda Decision

Executive Summary

Project Type	Influencing
Project Scope	Narrow scope
Purpose of the paper	
This paper presents a draft response to the IFRS Interpretations Committee’s Tentative Agenda Decision - <i>Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)</i> - for the Board's approval.	
Summary of the issue	
The IFRS Interpretations Committee (IC) considered a submission from some UK stakeholders that identified two different ways of interpreting IFRS 17’s requirements relating to insurance coverage for annuities. On 23 March 2022, the IC issued a Tentative Agenda Decision (TAD) that only one of those interpretations was compliant with IFRS 17’s requirements. At its April 2022 meeting, the Board agreed to respond to the IC’s TAD, and a draft response is attached as Appendix 1 for the Board’s approval.	
Decisions for the Board	
The Board is asked to approve the draft response to the IC’s TAD.	
Recommendation	
We recommend that the Board approves the draft response to the IC’s TAD.	
Appendices	
Appendix 1	Draft response to the IC’s TAD

Introduction

1. The interpretation of IFRS 17's requirements for determining coverage units that appropriately reflect the insurance contract services provided by annuities, including bulk purchase annuities, is an important issue for the UK insurance industry. UK annuity liabilities are estimated to amount to more than £350bn and insurers have informed us that the bulk purchase annuity market represents the main growth area in the UK insurance market. The approach to recognising the contractual service margin (CSM) in profit or loss is fundamental to revenue recognition for these contracts.
2. Following extensive debate, UK annuity providers and auditors were unable to find a consensus on the interpretation of IFRS 17's principles in this area. The UKEB therefore supported the UK insurance industry engaging with the IASB to seek clarification of the standard's requirements.
3. The IFRS Interpretations Committee (IC) considered a submission from some UK stakeholders that identified two different ways of interpreting IFRS 17's requirements relating to insurance coverage for annuities. On 23 March 2022, the IC issued a Tentative Agenda Decision (TAD) that only one of those interpretations was compliant with IFRS 17's requirements.
4. At its April 2022 meeting, the Board agreed to respond to the IC's TAD. Board members indicated that the response should not express views on the technical content of the TAD but suggested that the response should instead:
 - a) highlight the importance of the issue to the UK insurance industry;
 - b) encourage the IC to address the issue; and
 - c) recommend that the IASB conducts a broader review of IFRS 17's requirements in respect of revenue recognition, at the latest as part of a post-implementation review.
5. A draft response from the UKEB to the IC's TAD is set out at Appendix 1.

Questions for the Board	
6.	Do Board members have any comments or questions on the draft response at Appendix 1?
7.	Subject to any amendments identified, do Board members approve the draft response to the IC?

Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

20 May 2022

Dear Mr Mackenzie

Invitation to comment: Tentative Agenda Decision - *Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)*

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS Standards¹. In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option².

The UK Endorsement Board (UKEB) welcomes the opportunity to provide comment on the IFRS Interpretation Committee's Tentative Agenda Decision (TAD) *Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)*.

The interpretation of IFRS 17's requirements for determining coverage units that appropriately reflect the insurance contract services provided by annuities, including bulk purchase annuities, is an important issue for the UK insurance industry. UK annuity liabilities are estimated to amount to more than £350bn and, as set out in the submission to the Committee from the ICAEW, the bulk purchase annuity market represents the main growth area in the UK insurance market. The approach to recognising the contractual service margin (CSM) in profit or loss is fundamental to revenue recognition for these contracts.

¹ UKEB calculation based on LSEG and Eikon data. This calculation includes companies listed on the Alternative Investment Market (AIM) as well as on the Main market.

² UKEB estimate based on FAME, Companies Watch and other proprietary data.

Given the importance of this issue in the UK, the UKEB considered it at length as part of our process to endorse IFRS 17 for use in the UK. We are grateful to the Committee for considering the issue and encourage the Committee to address it. Finalising an agenda decision that clarifies the application of IFRS 17 would remove an element of potential diversity in practice and enable insurers and auditors to move towards initial application of IFRS 17 with greater certainty in respect of this specific issue. Whilst we acknowledge concerns expressed by some regarding the risk of disruption to implementation processes this close to the standard's effective date, we note that, despite extensive debate, the insurance industry had been unable to find a consensus on this issue.

We are aware from discussions with UK stakeholders that some of them have a number of concerns with the Committee's TAD. In part these concerns reflect that, while the TAD has a deliberately narrow focus, it gives rise to further questions on related matters. We consider these need to be revisited on a holistic basis once experience has been gained of applying the standard in practice. They include:

- Uncertainty over the concept of insurance service and what that might comprise, how its transfer to policyholders might be measured and whether that should necessarily be linked to, or limited by, policyholders' ability to make valid claims.
- Interaction of the CSM with the risk adjustment for non-financial risk, including:
 - clarity over whether the risk adjustment represents the amount 'required' by the entity or the amount 'charged' to the policyholder for the transfer of risk; and
 - implications of the fact that recognition of CSM in profit or loss reflects a policyholder perspective while measurement of the risk adjustment reflects an entity perspective.
- Whether the criteria for recognition of an investment-return service operate as intended, and whether further guidance on splitting the CSM between insurance contract services would be useful.

There is a risk of diversity in practice and, potentially, of inappropriate accounting practices developing, if these further matters are not addressed. We therefore encourage the Committee to recommend to the IASB that it conducts a broader review of revenue recognition under IFRS 17, addressing the recognition of insurance coverage and the related issues referred to above in greater depth. At the latest, we consider this should take place as part of the IFRS 17 post-implementation review.

We would be pleased to discuss any of the points raised in this letter with you in more detail, if that would be helpful.

If you have any questions about this response, please contact the project team at ifrs17@endorsement-board.uk.

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

c.c. Dr Andreas Barckow, Chairman, International Accounting Standards Board