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Submitted electronically to: ifrs17@endorsement-board.uk

Dear Sirs

UKEB Draft Endorsement Criteria Assessment (DECA) for IFRS 17 Insurance Contracts

Grant Thornton UK LLP is pleased to comment on the Draft Endorsement Criteria Assessment: IFRS 17 Insurance Contracts on the UK endorsement and adoption of IFRS 17 Insurance Contracts issued by the International Accounting Standards Board (IASB) in May 2017 including subsequent amendments. We have considered the Endorsement Criteria, as set out in the Draft Endorsement Criteria Assessment.

We are supportive of the endorsement of IFRS 17 in the UK. Whilst there are some UK specific technical accounting issues as noted in the DECA, we do not believe that this should hold up the endorsement process particularly considering the UK being aligned with other jurisdictions.

Our detailed responses to the Questions for Respondents are in the Appendix to this letter.

If you have any questions on our response, or wish us to amplify our comments, please contact

Yours faithfully

Director
For and on behalf of Grant Thornton UK LLP

Appendix: Responses to Invitation to Comment questions

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 agree with the UKEB's approach to the assessment in Section 1

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?

Overall, we believe the summary of IFRS 17's requirements is a reasonable representation of the Standard. We believe the summary strikes the right balance between providing enough detail and not getting into the very detailed aspects of IFRS 17.

We have the following suggestion for enhancements to this section:

The summary does not include any discussion in respect of contract modification or derecognition as discussed in paragraphs 72 to 74 of the Standard. Although this is not a material component of the Standard, we believe that Section 2 of the ECA would benefit from some information about this.

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.

Click or tap here to enter text.

Appendix: Responses to Invitation to Comment questions

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

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

We note, however, that the principles of coverage units set out in IFRS 17 may lead to different methods being adopted by insurers to determine the amount of service provided. While we acknowledge this may lead to a comparability issue between similar products sold by different insurers, we believe it is more important to ensure that each insurer is consistently following their chosen methodology. IFRS 17's disclosure requirements are expected to mitigate the challenge of comparability of results between insurers for users of the financial statements.

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 agree with the assessment that the principle-based approach of IFRS 17 in determining the discount rate may result in a lack of direct comparison between entities, but this is mitigated by extensive disclosures required by IFRS 17. Some of the potential divergences considered includes choice of approach (top-down or bottom-up), determination of illiquidity premium for bottom-up approach and determination of different reference portfolios under the top-down approach. We recommend that the assessment be expanded to also consider the implications on comparability.

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.

We agree with the assessments but wanted to point out some complications that may arise. Insurers have different operational and governance structures that might lead to different groupings of contracts based on 'managed together', which may reduce comparability. We recommend that the assessment be expanded to also consider the implications on comparability.

Appendix: Responses to Invitation to Comment questions

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"/>
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If not, please provide an explanation.

We agree with the assessment since it acknowledges that these features on with profit funds are UK specific and that the standard cannot explicitly cover a full spectrum of product features within each territory adopting the standard. The IFRS 17 principle-based approach provides for entities to disclose nuances and judgements applied in accounting for insurance contract's profit recognition.

The uniqueness of with-profits products, however, creates scope for a variation of approaches across UK insurers in the treatment of policyholders' and shareholders' share in equity. We recommend UKEB to consider potential inconsistencies and the risk of reduced comparability between companies reporting under IFRS 17. Additional interpretation or clarification of principles of the Standard may prove useful to the market.

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"/>
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If not, please provide an explanation.

We note that although IFRS 17 financial statements are more comparable than IFRS 4 financial statements, there are still substantial challenges in comparing financial statements under IFRS 17 between different entities.

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.

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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)?

We think the preparers of financial statements are best positioned to comment on the key costs and benefits including the approach taken to sunk costs together with associated audit costs.

Appendix: Responses to Invitation to Comment questions

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

Click or tap here to enter text.

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.

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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?

We have no comments for this question

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"/>
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If not, please provide an explanation.

Click or tap here to enter text.

Appendix: Responses to Invitation to Comment questions

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.

We agree with the assessments in Appendix B. Below are some comments on a selected issue:

Contracts acquired in their settlement period:

This was one of the most highly debated topics during the IFRS 17 2020 amendments deliberation process. The treatment of insurance liabilities in run-off 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. Furthermore, 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. This amendment has introduced operational complexities particularly for run-off consolidators.

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)?

We agree that the application of IFRS 17 to RITC where it is reinsured into the following Year of Account of the same syndicate could potentially result in two different accounting models (GMM and PAA) being applied to the same underlying group of contracts over the reporting horizon. It is quite conceivable that a group of contracts acquired is reported under the PAA when written but is then reported under the GMM after it is acquired in an RITC.

This means that the group of contracts will change from being recognised as LIC before the RITC to being recognised as LRC after the RITC. This may reduce comparability between open Years of Account and closed Years of Account in addition to creating an operational burden.

There are also issues surrounding the treatment around derecognition of a corporate member's interest (which when exited or increased or decreased) in the earlier Years of Account.

However, we recognise that any modification to IFRS 17 may create comparability issues as well as operational implementation issues particularly for those that are in advance stages of IFRS 17 implementation.

Overall [Draft] ECA

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

No

Appendix: Responses to Invitation to Comment questions

[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.

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