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Contact **Danny Clark**

1 February 2022

Dear UK Endorsement Board

### **Draft Endorsement Criteria Assessment (DECA) for IFRS 17**

We welcome the opportunity to comment on the DECA for IFRS 17.

We note the UKEB has taken a holistic approach to its assessment of IFRS 17 against the endorsement criteria, considering the impact of the standard as a whole. We believe this is an appropriate approach.

We support the adoption of IFRS 17 in the UK. It represents a significant improvement in accounting for insurance contracts compared to IFRS 4. We believe there should be a single set of globally-consistent financial reporting standards and so support the adoption of IFRS 17 in the UK without amendment.

The UKEB's tentative technical accounting criteria assessments are fair and balanced. We note the UKEB is seeking input on several technical issues, including the allocation of the CSM for annuities, the grouping of insurance contracts, and reinsurance-to-close (RITC) transactions.

We agree the appropriate approach for determining coverage units for annuities is one of interpretation. The standard's objective and principles are clear on this and current difficulties in finding a consensus in the case of annuities do not necessarily indicate the technical accounting criteria as a whole are not met. We anticipate the interpretation of IFRS 17 in relation to this issue will be considered by the IFRS Interpretations Committee over the coming months. Regardless of the outcome of these deliberations, we would support the timely adoption of the standard as issued by the IASB.

In setting out its requirements for grouping, including profitability testing and annual cohorts, the IASB's objective was to reflect profits and losses in appropriate periods, balancing the risk of losing useful information about profitability trends and onerous



contracts with the operational burden for preparers. The requirements to identify portfolios, profitability groups and annual cohorts taken together enable this objective to be met. If there were no annual cohort requirement, we do not believe this objective would be met.

The application of IFRS 17 to RITC transactions is relevant for entities that participate in Lloyd's syndicates. We agree with the UKEB's tentative technical accounting criteria assessment that the requirements may cause a lack of understandability, initially at least, and could create an operational burden for some preparers. However, we note this issue is also relevant for entities outside the UK, because, for example, non-UK entities participate in Lloyd's syndicates or the participating entities have parents that are outside the UK. We believe 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.

If you have any questions about our comments or wish to discuss any of these matters further, please contact Danny Clark.

Yours sincerely

KPMG LLP

# 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>.

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<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.

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<sup>3</sup> The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021: <https://www.legislation.gov.uk/ukxi/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)?

The UKEB has taken a holistic approach to its assessment of IFRS 17 against the endorsement criteria, considering the impact of the standard as a whole. We believe that this is an appropriate approach for the UKEB to take.

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.

No comments

### 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 comments

### 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.

No comments

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 agree with the assessment. It explains the current position and notes that the main issue is essentially one of interpretation. The standard's objective and principles are clear on this question, and current difficulties in finding a consensus in the case of annuities do not necessarily indicate that the technical accounting criteria as a whole are not met.

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.

No comments

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 tentative assessment against the endorsement criteria. The IASB's objective was to reflect profits and losses in appropriate periods, balancing the risk of losing useful information about profitability trends and onerous contracts with operational burden. The requirements to identify portfolios, profitability groups and annual cohorts taken together enable this objective to be met. If there was no annual cohort requirement this objective would not be met.

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.

No comments

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.

No comments
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#### 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.

No comments
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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)?

No comments
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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.

No comments
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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.

No comments

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

No comments

### 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.

No comments

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)?

Please refer to our covering letter.



**Overall [Draft] ECA**

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

No

**[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.

No comments

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