

Mr. Mackenzie
IFRS Interpretations Committee
7 Westferry Circus
Canary Wharf, London
United Kingdom
E14 4HD

23 May 2022

Dear Mr. Mackenzie

IFRS IC activities on IFRS 17

This letter has been drafted by the European Insurance CFO Forum (“CFO Forum”), a body representing the views of 23 of Europe’s largest insurance companies, and Insurance Europe, representing 95% of the premium income of the European insurance market. Accordingly, it represents the consensus view of European insurance industry.

We welcome the opportunity to comment on the IFRS Interpretations Committee’s (IFRS IC) tentative agenda decision regarding ‘Transfer of Insurance Coverage under a Group of Annuity Contracts’ issued in March 2022. We would also like to comment on the recent submission to the IFRS IC on ‘Foreign currency consideration on accounting for insurance contracts’.

We highly value the work of the IASB and the IFRS IC and appreciate the due process to which the IASB and IFRS IC are committed. We are generally appreciative of the ongoing efforts of the IASB and IFRS IC to ensure a successful implementation of IFRS 17 on accounting for insurance contracts. However, we are concerned about the scope of the IFRS IC’s recent tentative agenda decision (including the technical analysis) as well as the potential disruptive effect that IFRS IC agenda decisions may have on the ongoing implementation of IFRS 17, as these are contrary to the IASB’s stated objective of avoiding significant disruptions in the period immediately before the standard is effective.

Risk of disruption

Our members are in the final stages of implementing IFRS 9 and 17 ahead of the 1 January 2023 effective date and have significant concerns that tentative agenda decisions by the IFRS IC may unduly disrupt the implementation. The topics that are currently under discussion in the IFRS IC would affect the way in which the contractual service margin is recognised for annuity contracts and the way the unit of account is determined for contracts with cash flows in multiple currencies. Implementation projects are well advanced and so are the discussions with auditors on the interpretation and application of the principles in IFRS 17. Changes to accounting methodologies resulting from IFRS IC decisions may require time-consuming and complex adaptations of IT tools and processes that have already been implemented. These changes may also impact the analysis and understanding of results and timely communication to investors. Any changes at this late stage therefore come with the significant risk of being highly disruptive. Instead, a period of stability is needed until the standard has been implemented and sufficient practical experience and market practices have emerged.

Scope of the IFRS IC tentative agenda decision

In our view, the tentative agenda decision for annuity contracts goes beyond the scope of an IFRS IC agenda decision. It is not an explanation of the existing requirements in paragraph B119 of the standard, but it would add additional requirements to the existing principle of what service the customer receives, and the method that can be used to recognise the associated revenue. IFRS 17 is intended to be a principle-based standard and does not prescribe a specific method for determining the quantity of benefits provided under a group of insurance

contracts. Instead, it sets out a key principle that an amount of the contractual service margin is recognised in profit or loss in each period to reflect the insurance contract services provided in that period. The tentative agenda decision would add requirements to IFRS 17, stating that valid claims are the survival of the policyholder during a given period.

For many of our members, it is important to stress that if the definition provided in the tentative agenda decision is a possible way to determine what a 'valid claim' is (and, therefore, what the associated insurance service is) they believe that other interpretations of the principle in IFRS 17 may equally be justified and cannot be rejected through an IFRS IC agenda decision. As such, they disagree with the technical analysis and conclusion from the IFRS IC. An insurance contract is in the scope of IFRS 17 when it compensates the policyholder for the occurrence of a specified uncertain future event (i.e. the insured event) and there is a risk of loss for the insurer. The pricing of these contracts depends on the expectancy of survival (the risk of loss) and, therefore, the 'valid claim' can be considered to be the survival beyond the expected duration (and not the survival each year taken in isolation). The tentative agenda decision refers to the definitions of the liability for incurred claims and the liability for remaining coverage in Appendix A to IFRS 17 for concluding on what the insurance coverage is in the context of the annuity contracts in scope of the submission. However, the term 'insurance coverage' and the concept of insurance service is not part of these definitions. As a result, many members believe that the conclusion provided in the tentative agenda decision is based on an interpretation of the standard which is not consistent with the scope assigned to agenda decisions.

Recommendations to the IFRS IC

In order to address the above concerns, we would like to stress the importance of the outreach that the IFRS IC undertakes before an interpretation or tentative agenda decision is finalised and we offer our full support to such outreach. We recommend that such outreach should include the members of the IFRS 17 TRG in order to fully leverage the specific insurance accounting expertise and operational experience from the ongoing implementation projects by preparers and auditors represented in the TRG. Furthermore, we recommend the IFRS IC to consider potential alternative options to proceed, by revisiting the tentative agenda decision in respect of annuity contracts and for example deferring any further consideration of the submission on foreign exchange and possible other future submissions until sufficient practical experience and market practices have emerged.

Yours sincerely



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