



STAFF PAPER

June 2022

IFRS® Interpretations Committee meeting

Project	Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)	
Paper topic	Comment letters	
CONTACT(S)	Dennis Deysel	ddeysel@ifrs.org
	Anne McGeachin	amcgeachin@ifrs.org

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). This paper does not represent the views of the International Accounting Standards Board (IASB), the Committee or any individual member of the IASB or the Committee. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*. The Committee's technical decisions are made in public and are reported in the IFRIC® *Update*.

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)' published in March 2022.

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

Date
16.05.2022

Cc: Dr Jianqiao Lu, member of the IASB Board

**IFRS Interpretations Committee: submissions related to IFRS 17
Insurance Contracts & implications for the implementation work**

Dear Mr Mackenzie

On behalf of the German Insurance Association (GDV) we would like to provide our comments and particularly to share our significant concerns in context of the IFRS Interpretations Committee's consultation on its recent Tentative Agenda Decision: *Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)* and specifically regarding the recent submission to the IFRS Interpretations Committee "*Suggested agenda item: Foreign currency considerations on accounting for insurance contracts*".

Overall, we greatly appreciate the work of the Interpretations Committee to support stakeholders in consistent application of IFRS Accounting Standards. And we acknowledge that the Board and Interpretations Committee seek to achieve in all cases a proper balance between maintaining the principle-based nature of the Standards and adding or changing requirements in response to emerging application questions raised by submitters.

The German insurers had also appreciated the IASB's commitment to provide implementation support for initial adoption of IFRS 17 being a highly complex and challenging Standard to apply. Consequently, we had closely followed and appreciated the intensive and valuable work conducted by the Transition Resource Group (TRG) for IFRS 17 between February 2018 and April 2019. And we acknowledge that the TRG has not been disbanded and is available for consultation by the Board if needed. However, the **TRG is not active since April 2019** not to disrupt the intensive adoption work at insurance entities' level. We support that pragmatic approach.

However, we have observed **IFRS 17-related requests being submitted recently to the Interpretations Committee** already and before the effective date of IFRS 17. This development concerns us **significantly**.

**Gesamtverband der Deutschen
Versicherungswirtschaft e. V.**

German Insurance Association

Wilhelmstraße 43 / 43 G, D-10117 Berlin
Phone: +49 30 2020-5000
Fax: +49 30 2020-6000

Rue du Champ de Mars 23
B - 1050 Brussels
Phone: +32 2 28247-30
Fax: +49 30 2020-6140
ID-Nummer 6437280268-55

E-Mail: rechnungsglegung@gdv.de



I. Our general concern

The potential unintended and/or very disruptive implications of the recent development described above for the advanced IFRS 17 projects of the German insurers is concerning us significantly. Our rationale is as follows:

As a matter of fact, **IFRS 17 is principle-based**, and this principle-based nature of the Standard has been a common understanding and it has been supported by the community of stakeholders at large during the time of its development. It has been always evident for us and for all interested stakeholders that principle-based requirements in IFRS 17 will require from reporting entities to **exercise discretion** and to **apply professional judgment**. I.e., it has been expected that specific application questions - which always arise in the real implementation work - would need to be approached and addressed in a **bilateral dialogue** between the reporting entity and the responsible auditor. It is indeed contradicting the principle-based nature of the Standard, if in any single case in which there is no explicit rule-based guidance in the Standard, a request for clarification is submitted to the IASB or to the Interpretations Committee. From our perspective **consistent application** being the desirable objective **does not mean the uniformity of the methods applied**. It is inevitable that methods applied might differ. As a matter of principle, consistent application refers primarily to the need of common understanding of the principles in the Standard and its objectives.

As a matter of fact, very substantial costs, human resources, and organisational and management efforts have been already applied and are still required to be invested to successfully accomplish the transition to IFRS 17, together and aligned with adoption of IFRS 9 *Financial Instruments* (incl. the preparation of comparative information for 2022). Along the milestones of the implementation projects many hundreds of questions had been discussed and solved by the German insurers, in close cooperation with actuaries and after intensive bilateral dialogues with auditors. It would be **very disruptive if the same questions would have to be reopened and reassessed again** on a continuous basis by insurers, against the outcome of the respective discussions at the Interpretations Committee's level. In the **worst case** the potential changes required, as a consequence of the Interpretations Committee's work, could not be even adopted in the time remaining considering the very advanced stage of the implementation projects of the German insurers and the considerable workload already attributed to it.

As the principle-based requirements and objectives of the Standard can be fulfilled/met in different ways with different methods, it can be put in question whether any **potential repetition of the work already done** would provide truly a substantial added value from the perspective of investors or other users of financial statement. But this outcome is only known once the analyses are conducted by the reporting entities! Such an unfortunate situation needs to be avoided as it would specifically **'punish' those entities with well-advanced IFRS 17 implementation projects**. They have approached

their projects in due time and without further delay after IFRS 17 was released in May 2017 and subsequently advanced their efforts further after the targeted Amendments to IFRS 17 have been published in June 2020.

Consequently, while we fully acknowledge that some differences might arise in detail in how entities determine their specific approaches to properly reflect their business model and their products and services provided to policy holders, from the perspective of the German insurers, the principle-based requirements in **IFRS 17 can be applied consistently and no further application guidance is necessary**. Some potential differences in methods applied are unavoidable and it might rather affect nuances but would not reflect inconsistent application of the principle-based Standard. They should rather be seen as reflecting the **range of acceptable approaches** that reporting entities are allowed to follow if the principles in the Standard are still met and the objectives behind the principles are achieved.

Finally, we are also concerned that further detailed application guidance via the Interpretations Committee's activity might finally result in rule-based requirements for IFRS 17's adoption that are not appropriate in all circumstance. Hence, it would then significantly disrupt/undermine the implementation activities of the German insurers, without providing any significant added value for investors or other users of financial statements.

II. Our high-level assessment of the current submissions

We would like to share that from our perspective the submission on how to determine the quantity of benefits provided under the group of specific **UK annuity contracts** does not seem to significantly affect the implementation projects regarding the products in the German market. Nevertheless, the general principles for the CSM release in IFRS 17 are the same for all markets and all products in the scope of the Standard. Hence, potential implication in course of future discussions cannot be fully ruled out. In this respect we think it is essential that the final agenda decision explicitly highlights that only the two specific methods as set out in the submission have been considered and explicitly assessed and hence no other approaches have been discussed by the Interpretations Committee. It should be made clear that due to the narrow fact pattern in the submission the outcome of the Interpretations Committee's particular discussion is not applicable to other cases. We support the key observation in the tentative agenda decision that IFRS 17 does not prescribe a specific method for determining the quantity of benefits provided under a contract. Indeed, different methods may be acceptable and might be equivalently applied to achieve the principles of paragraph B119 depending on the specific facts and circumstances. Overall, we fully support the Interpretations Committee's conclusion in the tentative agenda decision that **no standard-setting activity and no Interpretation for IFRS 17 is necessary** in this regard.

Contrary to the case above, the recent request submitted to the Interpretations Committee “**Foreign currency considerations on accounting for insurance contracts**” is suitable to critically impact the implementation efforts of the German insurers. It is the case because the issues raised in this recent request refer to the **core elements of the implementation projects** (e.g., level of aggregation). As a matter of fact, the implications of the interaction between both Standards IFRS 17 and IAS 21 *The Effects of Changes in Foreign Exchange Rates* had been already intensively discussed by the German insurers and resolved on a **bilateral basis** in a close cooperation with the responsible auditors, and also considering the entity-specific IT system limitations as different software applications are applied by different insurers. **Any changes** to the respective approach how the foreign currency implications had been adopted and implemented in the IFRS 17 projects, would have **critical consequences**, i.e., it would be fatal at this stage of the implementation process. Any new reading, any perceived new interpretation of IFRS 17 in context of IAS 21, any change in approach regarding the treatment of foreign currency implications might significantly impact the German insurers’ implementation projects and effectively undermine their efforts to ensure a consistently applicable accounting policy, also for the hundreds of the subsidiaries often active on a global basis, specifically when considering the remaining timeframe given. Overall, we have the view that an IFRS IC’s Interpretation of IFRS 17 is **unnecessary** in this regard.

III. Our recommendation

Overall, our primary preference would be to pause the Interpretations Committee’s activities on IFRS 17-related submissions to the greatest possible extent and to **provide an appropriate period of stability**. We understand that neither for the IASB nor for the Interpretations Committee it is feasible to restrict those stakeholders who are interested in achieving an answer to their submissions. Nevertheless, we also believe that the issues raised on the entity-specific application of IFRS 17’s principles and its interaction with other IFRS Accounting Standards should be rather collected and dealt with within the future Post-implementation Review (PIR) on IFRS 17, which is intended to be initiated by the IASB in due course anyway.

Should the IASB and the Interpretations Committee continue to deal with the IFRS 17-related submissions in due course as they arrive, we would like to respectfully ask to follow an **even more careful and flexible approach when analysing and deciding on requests submitted**. We acknowledge that the agenda decisions of the Interpretations Committee apply only to the narrow fact and circumstances as laid down in the respective submission. From our perspective it is nevertheless still essential to always clarify explicitly that methods/ approaches not explicitly included in the submission are not impacted by the outcome of the Interpretations Committee’s work.

Furthermore, if the Interpretations Committee is not in a position to temporarily abstain from dealing with the interpretation requests submitted regarding IFRS 17, we like to encourage an appropriate **involvement of the TRG for IFRS 17** in the consultation and outreach process, to ensure that the high level of specific insurance accounting expertise and operational experience of the TRG members is sufficiently taken into account when proceeding at the Interpretations Committee's and IASB's level subsequently.

Summing up, any effort should be undertaken to ensure that any upcoming decisions of the Interpretations Committee are not disruptive for the challenging implementation projects being in the very final stage of their finalisation and on the track to meet the IASB's effective date for IFRS 17. Any new (implicit or explicit) requirements beyond IFRS 17's principles must be in any case prevented.

Our conclusion

As a matter of fact, the certain degree of freedom, being inherent to the principle-based IFRS 17, has been very useful when applying the professional judgment and dealing with system limitations arising from the financial reporting software available to entities at this stage of the process.

We would like to respectfully ask the IFRS Interpretations Committee and the IASB to explore potential alternative options to proceed (e.g., collection and deferral of the submissions to be dealt with in the Post-implementation Review on IFRS 17) and to undertake any efforts to safeguard an appropriate **period of stability for the IFRS 17/IFRS 9-projects**. Such a period of calm is indeed essential to allow insurers for a proper, timely and successful finalisation of their intensive, costly, and complex implementation work in line with the effective date of IFRS 17, the 1 January 2023. The German insurers have been committing significant financial and human resources and management effort to the adoption of IFRS 17 and its alignment with IFRS 9 (incl. the parallel run in 2022). Any disruption to the challenging implementation process should be avoided. That's why they need a proper period of calm, specifically ahead of the Standards' entry into force.

We would greatly appreciate if the significant concerns of the German insurers would be considered when taking further decisions on the way forward with the current and potential future requests submitted to the Interpretations Committee in relation to IFRS 17. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)



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

**Financial Reporting Technical
Committee**

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 17 May 2022

Dear Bruce,

IFRS IC's tentative agenda decisions in its March 2022 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS IC as published in the March 2022 *IFRIC Update*.

As regards the **tentative agenda decision on IAS 32**, we basically agree with the IFRS IC's findings. However, we acknowledge that the issue comprises a more general and broadly relevant question, whether an action (or a decision) of the shareholders, e.g. at a shareholders meeting, is an action (or a decision) of the entity. This question seems crucial and, as mentioned in the *IFRIC Update*, arises equally in other circumstances. Therefore, it deserves a timely answer.

Overall, we like to note that any matter being deferred to the FICE project – as has been repeatedly the case in the past – leads to a delayed answer or none at all. While this allows for comprehensive consideration of those issues, which – on its own – would be beneficial, the respective issue(s) often will not be solved in a timely manner, which is rather detrimental to accounting.

Regarding the **tentative agenda decision on IFRS 2 / IFRS 3 / IAS 32**, we do not fully support the findings and reasoning behind the decision. While the conclusions on who is the acquirer and whether the acquisition constitutes a business appear appropriate, two other findings do not seem intuitive.

Firstly, the idea of splitting the acquisition and allocating the shares and the warrants to the individual assets/liabilities acquired does not appear evident. Further, while the IFRS application and outcomes as regards accounting/measurement at the acquisition date are broadly

Contact:

Joachimsthaler Str. 34
D-10719 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:

Deutsche Bank Berlin
IBAN-Nr.
DE26 1007 0000 0070 0781 00
BIC (Swift-Code)
DEUTDE33XXX

Register of Associations:

District Court Berlin-Charlottenburg, VR 18526 Nz
President:
Georg Lanfermann
Vice President:
Prof Dr Sven Morich



explained, we acknowledge that further questions as regards subsequent measurement could arise – on which the decision’s wording is silent.

Secondly, the finding that considering the legal structure of the acquisition might lead to the conclusion that the acquirer (i) assumes the SPAC warrants or (ii) does not assume the SPAC warrants opens up room for judgement. We understand that the IFRS IC does not suggest which of the two conclusions applies to the fact pattern submitted, nor does the IFRS IC provide further details on how to appropriately conclude on this question more generally. Overall, we feel that the decision and the respective wording do not add to clarity or to consistent application.

As regards the **tentative agenda decision on IFRS 16** (in respect of the lessor), the decision and the reasons behind do not appear fully comprehensible. More generally, this issue again touches on the interaction of modification vs. impairment vs. write-off vs. derecognition, which still awaits clarification. (We refer to our respective comments in our comment letter, dated 28 January 2022, to the PIR on IFRS 9 / classification and measurement.) It seems worth integrating and discussing this complex issue comprehensively within the next PIR on IFRS 9 / section “Impairment”.

As regards the **tentative agenda decision on IFRS 17**, we agree with the conclusions of the IFRS IC on the technical matters, in particular with the general finding that IFRS 17.B119 contains a principle without prescribing particular methods for determining the quantity of benefits.

In addition, we like to note that this tentative agenda decision is taken close to the date of initial application of IFRS 17. While we do not generally object to solving application issues even close to initial application, we have been made aware of concerns by insurance entities in respect of this particular case.

Due to the complexity of IFRS 17, accompanied by a parallel run of IFRS 4 / IAS 39 and IFRS 17 / IFRS 9 throughout 2022, these entities are currently in a crucial period of implementation and facing a high workload. Hence, for these entities it might be impracticable to implement further changes before the effective date of IFRS 17 that derive from an agenda decision. This said, we suggest that the IFRS IC thoroughly discusses, and potentially clarifies, how the principle “sufficient time” to implement applies in the respective context. Further, we kindly ask the IFRS IC to carefully consider which steps it undertakes in responding to a submission that affects IFRS requirements right before initial application.

We would like to add more generally that IFRS IC deliberations on new or just amended IFRS requirements come along with an additional challenge: The agenda decisions do not only affect the crucial implementation period, but there is also only limited accounting practice yet (be it predominance or diversity) which can be considered and analysed. Therefore, we urge the IFRS IC to carefully consider the due process it undertakes in responding to those submissions



as it may have a significant impact for entities during the implementation period if accounting policies need to be changed.

In the specific case of IFRS 17 the IFRS IC due process might benefit, inter alia, from input from the Transition Resource Group (TRG) as one of the ways the IASB is supporting implementation of the new standard by providing a public forum for stakeholders to follow the discussion of questions raised on implementation.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President



20th May 2022

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

Dear Mr Mackenzie,

Comments to Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

UNESPA (the Spanish Association of Insurers and Reinsurers) is writing to comment on the IFRS Interpretations Committee's Tentative Agenda Decision regarding Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts). UNESPA was founded in 1977 and represents over 200 firms that make up 96% of this industry in Spain. These companies invoice €60 billion a year, which represents nearly 5.3% of Spain's gross domestic product (GDP).

UNESPA considers that it is relevant before evaluating the Tentative Agenda Decision itself to contextualize the moment in which it occurs:

- The date of initial application of IFRS 17 is 1 January 2023. Most Spanish insurers will also apply IFRS 9 for the first time on that date.
- IFRS 9 and 17 implementation projects are well underway and on track to meet the requirements by 1 January 2023.
- Implementing IFRS 9 and 17 is a major project of unprecedented effort; entities will therefore need all the time to 1 January 2023 to finalise the implementation.
- Entities have been committing significant resources and effort to the implementation of IFRS 9 and 17 and need a period of stability ahead of the standards' entry into force. Any disruption to this process should be avoided.
- A few interpretations issues are being finalised by companies internally and with auditors. Whilst ongoing, these do not put the initial application of IFRS 9 and 17 at risk and further guidance/intervention by regulators is not deemed necessary and it could threaten the finalisation of the IFRS 17 implementation projects.

We firmly believe that this Tentative Agenda Decision (TAD) **is too restrictive in excluding certain methodologies that better portray the insurance service provided by these contracts under given circumstances**. Furthermore, it **is not aligned with a principle-based standard** and **puts at risk IFRS 17 implementations on time for January 2023 for companies affected by this TAD**.



It is important to highlight that although this topic has arisen in response to a question arising from certain UK stakeholders, other countries are affected by this Tentative Agenda Decision. One example is Spain, where the so-called “approach B” is the one used by almost all Spanish Insurers in the IFRS17 implementation projects (both from a methodology and an IT development point of view). Also, it is worth noting that there is a significant share of annuities in the Spanish market affected by the decision taken by the IFRS Interpretations Committee (IFRS IC), including both individual and group annuities, representing 48 % of the overall life technical reserves in the Spanish market.

The insurance service provided under the contracts is a stream of expected cash flows until policyholder’s death

In UNESPA view, both Approaches A and B are valid methodologies to allocate the CSM depending on (i) facts and circumstances of the contracts under the scope of the TAD, and (ii) how insurance companies apply their judgement when determining the service that they provide policyholders with these contracts.

While in Approach A the CSM allocation is determined based on the periodic benefit payable in each period that services are provided, in the Approach B the service in a period is based on the value to the policyholder of surviving to the end of the period which includes both the annuity payment in the period as well as the continued access to receive a continuous stream of future payments.

UNESPA consider that Approach B better reflects the quantity of insurance contract services provided by their contracts when survival risk -or longevity risk- is the main source of risk -and expected profits- of the product.

When a policyholder buys the type of insurance policy covered under the TAD, their main objective is to ensure a financial security for the remainder of their life (i.e., the annuity policy provides a lifelong income protection element since every term that the policyholder survives the policyholder is accruing annuity benefits and that is the value placed on the annuity contract). This perception of service has commercial substance to the policyholder and market evidence supports the fact that policyholders are willing to pay an additional amount for a life contingent service.

The policyholder has exchanged an insurance premium (generally an up-front premium) to get protection against the risk of surviving for an unexpected period of time. Accordingly, the value (and hence the service) the policyholder obtains from the insurance contract is continuous over time. As long as the policyholder is still alive the insurance company provides protection against the risk of their savings pot not lasting enough once retired.

In our view, Approach B is more accurate to capture that transfer of service in the form of continuous insurance coverage to the policyholders for as long as their contract survives. Additionally, the use of Approach A would not reflect the differences between a life contingent annuity and a fixed term annuity. Consequently, we believe Approach B is more representative of the underlying economics and pricing mechanism of our TAD annuity contracts.

The long tail nature of the liabilities arising from the TAD annuity contracts must be considered, as well as the importance of defining a coverage unit method which best reflects the profit pattern for this business. Most Spanish insurance undertakings will estimate under IFRS 17 the CSM for the TAD annuity contracts as the difference between (i) the generally up-front premium paid, (ii) the expected annuity terms that will be paid until the policyholder’s death which include any financial guarantees



provided under the contracts, and (iii) the required risk adjustment. Leaving aside for one moment the risk adjustment, the CSM will be ultimately determined by the age of the policyholder when underwriting the contracts – i.e., for how long the insurance companies expects to pay annuity terms – and the financial yield that can be earned according to the markets conditions and will not be passed to the policyholder.

Based on this, we conclude that Approach B works better at reflecting the true economics of these portfolios, how they are priced and how the insurance company earns the margin measured under the CSM.

The above considerations are valid regardless of how insurance companies estimate the risk adjustment for these TAD annuity contracts which is deducted from the CSM and separately released into profit or loss. The risk adjustment is the compensation estimated under IFRS 17 that insurance companies require for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

How the risk adjustment is released by companies should not obscure what is captured under the CSM for these TAD annuity contracts which is the main focus on the TAD.

In this regard, we do not agree with the argument supported by the IFRS IC that the risk adjustment represents the margin of the insurance contract. We note that when IFRS 17 was a joint project between the IASB and FASB the idea of a single margin was completely rejected by the IASB, concluding that the risk adjustment measures uncertainty separately from the expected profit and that should have a separate pattern of release.

Another point to take into consideration is that if clients perceived the insurance service to be only the benefit payable in each period, there would be no single premium contracts, or they would always ask for an option to surrender the contract which is not the case for the TAD annuity contracts being discussed. Again, this is not the case because the client pays a premium to have access to a life contingent annuity until its death.

IFRS 17 should remain a principle-based standard

IFRS 17 is a principle-based standard and does not prescribe a method for determining the quantity of the benefits provided under a group of insurance contracts, therefore, we believe that the IFRS Interpretations Committee has gone beyond the principle of how to recognise insurance services as defined in paragraph B119 of IFRS 17 by elaborating the way how coverage units are to be recognised. UNESPA believes that the standard's requirements with respect to the coverage units to be recognised in profit and loss are broad enough that both approaches can be used based on facts and circumstances.

Paragraph B119 of IFRS 17 determinates that the amount that an entity recognises in profit and loss in each period depends on the number of coverage units, that it is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period. This paragraph does not provide detailed guidance on what the insurance service is, and it does not seem reasonable that the IFRS Interpretation Committee is in a better position -compared to insurance companies - to conclude what insurance service is being provided in each geographical jurisdiction in which IFRS are applied. Neither it is appropriate that this Committee rather adds requirements to the Standard than



it interprets them because paragraph B119 does not provide detailed guidance on what the insurance service exactly is.

UNESPA considers that based on facts and circumstances both approaches A and B could be acceptable under this paragraph.

We would also like to note that paragraphs 109 and 117 of IFRS 17 require entities to disclose quantitative and qualitative information, whereas paragraph BC366B in the Basis for Conclusions explains that these disclosures aim to enhance users' understanding on the determination of the quantity of benefits provided by insurance contracts for the purpose of recognising the contractual service margin in profit or loss due to the complexity and the judgement that insurance companies need to apply.

UNESPA believes that if these disclosures are provided by companies, including disclosures regarding future CSM by appropriate time bands, there will be not a lack of comparability.

One final comment relates to the cross-cutting consistency with other IFRS which are also developed as principle-based standards, in particular with IFRS 15 Revenue from Contracts with Customers. We note that this standard requires entities to consider the terms of the contracts and all relevant facts and circumstances when determining performance obligations, whereas the TAD may seem to go back to a cash-basis accounting which clearly IFRS 15 departs from.

The TAD puts at risk the implementation of IFRS 17 as of 1st January 2023

UNESPA questions the timing of bringing a TAD less than one year before the date of first application of IFRS 17. Preparers are in need for a period of calm exactly at this stage. We note that the IFRS 17 Transition Resource Group has not addressed issues since April 2019 which has allowed preparers the much-needed stability in preparing for implementation.

Most insurance companies in Spain have implemented Approach B for determining the quantity of the benefits of insurance coverage to estimate the amount of the CSM to be recognised in profit or loss in a period and there is not enough time and human resources (in terms of Actuarial Department's dedication) to make any changes in the IT systems (i.e. actuarial calculation engines), as parallels and dry-runs are currently being performed and are further planned until the end of the year.

Any potential change now will not only bring unforeseen costs but also require lead time in implementation as it requires updates to the IT-systems as well as testing beforehand and such timing is not compatible with the application of Approach A for entities that have implemented Approach B.

The above comments go beyond the current issue and are valid also for any other topics in the IFRS IC pipeline regarding IFRS 17 before or immediately after its implementation.

In this context it is important to remember that when the amendments of IFRS 17 published in June of 2020 were prepared, constituents (including UNESPA) demanded changes to IFRS 17 which were disregarded by the IASB. The IASB decided that amendments would only be justified if those amendments would not unduly disrupt implementation already under way as implementation should be the focus. Two years have passed since the publication of these amendments, we are now in the year 2022, the date of initial application of IFRS 17 will be 1 January 2023 and the transition date will be 1 January 2022. Companies have mostly completed their implementation phases and we assume



some of them have implemented approach A and others approach B, since IFRS 17 does not establish a specific method.

Even some companies may have already produced the opening-balance sheets as of 1 January 2022. Any TAD at this stage that only accepts one of the two approaches will be completely disruptive for insurance companies that have chosen the other approach and will be contrary to the main principle which guided the IASB to accept making only limited changes in May 2020 to IFRS 17.

As previously said, UNESPA believes that **both Approach A and B represent permissible interpretations of the principles of IFRS 17.**

Yours faithfully,

María Aránzazu del Valle Schaan
Secretary General



International Actuarial Association
Association Actuarielle Internationale

20 May 2022

Mr. Bruce Mackenzie
Chairperson
The IFRS Interpretations Committee

Dear Mr. Mackenzie,

RE: Consultation on the IFRIC tentative agenda decision regarding the Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

In response to the International Financial Reporting Standards Interpretations Committee's request for feedback on their tentative agenda decision regarding the Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17), I am pleased to submit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the IAA Insurance Accounting Committee.

If you wish to discuss any of our feedback, please do not hesitate to contact Derek Wright Chair of the IAA's Insurance Accounting Committee, via the [IAA Secretariat](#).

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'RHarris'.

Roseanne Harris
President

Attachment: [IAA Comments](#)

The International Actuarial Association

The International Actuarial Association (IAA) represents the global actuarial profession. Our seventy-four Full Member actuarial associations, listed in [Appendix A](#), represent more than 95% of all actuaries practising in over 115 countries around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

The Insurance Accounting Committee (IAC) of the International Actuarial Association is pleased to respond to a request from the IFRS Interpretations Committee (IFRIC) to comment on a possible interpretation of IFRS 17, the International Financial Reporting Standard for Insurance Contracts (“the Standard”). The issue in question is the Tentative Decision made by IFRIC regarding the release of the Contractual Services Margin (CSM) for groups of immediate and deferred annuity contracts under the Standard.

As you are aware, the IAA has worked closely with the IASB on the development of the Standard and we are grateful to note that our input has been recognised, and often acted upon, over the many years of progress in the production of the Standard and its imminent application. We trust that the comments in this letter will continue to receive the attention of the IASB.

This response has been subject to the due process required for it to constitute a formal view of the IAA. The current members of Insurance Accounting Committee are listed in [Appendix B](#).

Our comments are as follows:

The Tentative Decision (TD) “Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)” is clearly set out. The IAC discussed the background to the decision and its consequences in our recent meeting in Brussels. Whilst many points were discussed we believe it is important to raise the following three matters at this juncture.

First, and dealing specifically with the annuity contracts that were the subject of the TD, we believe that the coverage units defined in the chosen “Method 1” (as described in the TD) do not reflect the full insurance coverage services provided under the contracts.

When the TD narrows down the interpretation of “benefits” in B119(a) to the periods where there is an obligation to pay valid claims, the recognition of CSM in profit of loss would no longer reflect the insurance contract services (cf. first section of B119), in the way the latter are being defined in Appendix A of the Standard as coverage of an uncertain future event.

The fundamental purpose of insurance business is the sharing of risk between policyholders, facilitated by the insurance entity. This means that policyholders do not need to be prepared to cover the maximum costs that the possible insured event could cause. The insurance contract converts uncertain future costs to the policyholder to certain costs, the premiums, and thus the

policyholder can avoid collecting sufficient monies to cover the worst-case scenario. The insurance contract gives the service of certainty to the policyholder, and we believe that the insurance services perceived and provided to a policyholder are a relevant consideration under the principles of B119.

In our view, the benefits provided in any period under an insurance contract are a combination of payments made under the contract and other benefits /services provided during that period. Using such a complete view of services would result in a more appropriate determination of coverage periods and release of the CSM.

We are concerned that the way the TD interprets paragraph B119 of IFRS17 may lead to unintended consequences. For example, the word “benefits” in B119(a) refers to the full “benefits provided under a contract and its expected coverage duration”, not to the sum of purely the Liability for Remaining Coverage (LRC) and the Liability for Incurred Claims (LIC). The allocation of the CSM to profit and loss should “reflect the services provided in the period”. We believe that paragraphs BC140 and BC141 of IFRS17 (in the Basis for Conclusions) relate to the date of recognition of a group of insurance contracts issued by an entity, not to the services within an insurance contract, or to those which are only paid in cash or investigated within a period. In particular, we do not believe that the definition of the LRC indicates that a future cash flow which is still subject to the incurrence of a (further) insured event and is therefore included in the LRC might not have already served in the past to provide benefits to the policyholder. This is because the insurer already covered insurance risk in the past related to the future cash flow.

Example: Consider an annuity covering a pension liability of an employer such as a deferred annuity which promises certain annuity payments for a limited term (e.g., for three years) where the purpose is the early retirement or could be for life. The deferral period for collecting premiums for the liability for the annuity payments may be several decades. The contract is an insurance contract and gives the policyholder the certainty during the whole deferral period that the insured person receives the agreed payment as long as s/he lives during the contract term. This benefit should be recognised on an accounting basis.

Secondly, the narrow approach of identifying benefits as proposed by IFRIC may well, in our opinion, result in equally inappropriate patterns of CSM release and perhaps other unintended consequences (e.g., in other types of insurance contracts where events triggering unconditional payments cannot occur at any time). Relevant product categories to investigate in this regard include, but are not necessarily restricted to, pure endowment contracts, certain types of Credit Insurance and types of reinsurance (including some stop loss contracts and retroactive reinsurance). For instance, Credit insurance covering the loans of a bank which pays cash if a loan, due to be repaid in two years, is not repaid on the due date. The bank benefits over the full loan period from being covered throughout the lifetime of the loans since it can recognize an asset from the insurer in the amount of any impairment of the own loan asset (adjusted for the default risk of the insurer).

In some stop loss and retroactive reinsurance contracts the valid claims can be presented only after the coverage period when in the LIC there is no CSM.

IAA comments on the IFRIC tentative agenda decision regarding the Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

We believe that the definition of “insurance contract services” in Appendix A of the Standard, as coverage for an uncertain future end, prevails here over the non-defined term “benefits”.

Thirdly, we believe that at this stage, before the implementation of the Standard, it is inappropriate to restrict interpretation of the (principles-based) standard before it is subjected to the true test of practical application that will be available next year.

In a principles-based approach, entities should be allowed to interpret “benefits” in B119(a) in line with the Standard’s definition for the items mentioned in the first section of B119, “insurance contract services in a period”.

In general, we are comfortable with a principles-based standard. With such a standard the industry relies on the scope of coverage and skills of accountants and other experts. Any narrowing of interpretation must be considered carefully before going ahead. Therefore, we recommend that IFRIC does not confirm this TD in its current form but amends it to reflect our, and others, comments.

Appendix A

Full Member Associations of the IAA (74 members)

May 2022

Argentina	Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires
Australia	Actuaries Institute Australia
Austria	Aktuarvereinigung Österreichs (AVÖ)
Belgique	Institut des Actuairens en Belgique
Bosnia and Herzegovina	Aktuarsko Društvo U Bosni I Hercegovini
Brazil	Instituto Brasileiro de Atuária (IBA)
Bulgaria	Bulgarian Actuarial Society
Canada	Canadian Institute of Actuaries/Institut Canadien des Actuairens
Caribbean	Caribbean Actuarial Association
Central America	Asociación Centroamericana de Actuarios (ACEA)
China	China Association of Actuaries
Chinese Taipei	Actuarial Institute of Chinese Taipei
Colombia	Asociación Colombiana de Actuarios
Côte D'Ivoire	Institut des Actuairens de Côte d'Ivoire
Croatia	Hrvatsko Aktuarsko Društvo
Cyprus	Cyprus Association of Actuaries
Czech Republic	Ceská Společnost Aktuárů
Denmark	Den Danske Aktuarforening
Ecuador	Ecuadorian Actuarial Association
Egypt	Egyptian Society of Actuaries
Estonia	Eesti Aktuaaride Liit
Finland	Suomen Aktuaariyhdistys
France	Institut des Actuairens
Germany	Deutsche Aktuarvereinigung e. V. (DAV)
Ghana	Actuarial Society of Ghana
Greece	Hellenic Actuarial Society
Hong Kong	Actuarial Society of Hong Kong
Hungary	Magyar Aktuárius Társaság
Iceland	Félag Islenskra Tryggingastærðfræðinga
India	Institute of Actuaries of India
Indonesia	Persatuan Aktuaris Indonesia
Ireland	Society of Actuaries in Ireland
Israel	Israel Association of Actuaries
Italy	Istituto Italiano degli Attuari and Ordine degli Attuari
Japan	Institute of Actuaries of Japan
Japan	Japanese Society of Certified Pension Actuaries
Kazakhstan	Actuarial Society of Kazakhstan

IAA comments on the IFRIC tentative agenda decision regarding the Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

Kenya	The Actuarial Society of Kenya
Latvia	Latvijas Aktuaru Asociacija
Lebanon	Lebanese Association of Actuaries
Lithuania	Lietuvos Aktuaru Draugija
Malaysia	Persatuan Aktuari Malaysia
Mexico	Colegio Nacional de Actuarios A. C.
Morocco	Association Marocaine des Actuaires
Netherlands	Het Koninklijk Actuarieel Genootschap
New Zealand	New Zealand Society of Actuaries
Nigeria	Nigeria Actuarial Society
North Macedonia	Macedonian Actuarial Association
Norway	Den Norske Aktuarforening
Pakistan	Pakistan Society of Actuaries
Philippines	Actuarial Society of the Philippines
Poland	Polskie Stowarzyszenie Aktuariuszy
Portugal	Instituto dos Actuários Portugueses
Romania	Asociatia Romana de Actuariat
Russia	Russian Guild of Actuaries
Serbia	Udruzenje Aktuara Srbije
Singapore	Singapore Actuarial Society
Slovakia	Slovenska Spolocnost Aktuarov
Slovenia	Slovensko Aktuarsko Drustvo
South Africa	Actuarial Society of South Africa
South Korea	Institute of Actuaries of Korea
Spain	Col.legi d'Actuaris de Catalunya
Spain	Instituto de Actuarios Españoles
Sri Lanka	Actuarial Association of Sri Lanka
Sweden	Svenska Aktuarieföreningen
Switzerland	Association Suisse des Actuaires
Thailand	Society of Actuaries of Thailand
Turkey	Actuarial Society of Turkey
United Kingdom	Association of Consulting Actuaries Limited
United Kingdom	Institute and Faculty of Actuaries
United States	American Society of Enrolled Actuaries
United States	Conference of Consulting Actuaries
United States	Casualty Actuarial Society
United States	Society of Actuaries

Appendix B

Members of the Insurance Accounting Committee

(May 2022)

Chair	Derek Wright
Co-Vice-Chairs	Brendan Counsell Maximilian Happacher Tara Wolf
Members	Tamsin Abbey - Institute and Faculty of Actuaries Gunn Albertsen - Den Norske Aktuarforening Subhendu Bal - Institute of Actuaries of India Daniel Barron - Israel Association of Actuaries Joaquin Benavides - Instituto de Actuarios Españoles Robert Berendsen - Canadian Institute of Actuaries Simone Brathwaite - Caribbean Actuarial Association Steve Cheung - Actuarial Society of Hong Kong Antonella Chiricosta - Istituto Italiano degli Attuari and Ordine degli Attuari Brendan Counsell - Actuaries Institute Australia Leticia Doherty - Instituto Brasileiro de Atuária (IBA) Alexander Dollhopf - Svenska Aktuarieföreningen Ann Duchêne - Institut des Actuairens en Belgique Boatema Kakra Duffuor-Nyarko - Actuarial Society of Ghana Stefan Engeländer - Deutsche Aktuarvereinigung e. V. (DAV) Andrew Gallacher - Association Suisse des Actuairens Rokas Gylys - Lietuvos Aktuaru Draugija Judit Hauer - Magyar Aktuárius Társaság Armand Ibo - Institut des Actuairens de Côte d'Ivoire Changwon Im - Institute of Actuaries of Korea Dragica Jankovic - Udruzenje aktuara Srbije Gareth Kennedy - Casualty Actuarial Society Christoph Krischanitz - Aktuarvereinigung Österreichs (AVÖ) Mustapha Lebbar - Association Marocaine des Actuairens Kristine Lomanovska - Latvijas Aktuaru Asociacija Ana Maria Martins Pereira - Instituto dos Actuários Portugueses Maaz Mushir - Society of Actuaries in Ireland Yoshio Nakamura - Institute of Actuaries of Japan Andreja Radic - Hrvatsko Aktuarsko Drustvo Jenny Rée - Den Danske Aktuarforening Jaanus Sibul - Eesti Aktuaaride Liit Mateja Slapar - Slovensko Aktuarsko Drustvo John Smith - New Zealand Society of Actuaries

*IAA comments on the IFRIC tentative agenda decision regarding the Transfer of Insurance Coverage
under a Group of Annuity Contracts (IFRS 17)*

Pentti Soininen - Suomen Aktuaariyhdistys
Petr Sotona - Česká Společnost Aktuárů
Pierre Therond - Institut des actuaires
Arseny Timakov - Russian Guild of Actuaries
Tatiana Tkáčová - Slovenska Spoločnosť Aktuarov
Ernst Visser - Het Koninklijk Actuarieel Genootschap
Andrew Warren - Actuarial Society of South Africa
Tara Wolf - Society of Actuaries
Jeng-Shiu Ye - Actuarial Institute of Chinese Taipei
Yuanhan Zhang - China Association of Actuaries
Jesús Zuñiga San Martín - Colegio Nacional de Actuarios A. C.



Canadian Accounting Standards Board
277 Wellington Street West,
Toronto, ON Canada M5V 3H2
T. 416 977.3222 F. 416 204.3412
www.frascanada.ca

May 20, 2022

Submitted electronically via ifric@ifrs.org

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear IFRS Interpretations Committee members:

Re: Tentative agenda decision on IFRS 17 *Insurance Contracts* – Transfer of Insurance Coverage under a Group of Annuity Contracts

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to the IFRS Interpretations Committee's (Committee) tentative agenda decision on Transfer of Insurance Coverage under a Group of Annuity Contracts. This tentative agenda decision was published in the March 2022 IFRIC® Update.

We followed the Committee's deliberations and discussed the tentative agenda decision with members of our [Insurance Transition Resource Group](#). Our Insurance Transition Resource Group consists of a diverse group of preparers, actuaries, and practitioners with in-depth knowledge of insurance issues.

The AcSB is keenly aware that IFRS 17 is only months away from being effective for annual reporting periods beginning on or after January 1, 2023. In Canada, there are entities already well underway in their governance review process, including involving auditor review, of results reported under IFRS 17 to prepare for the public release of their first comparatives next year. Due to the quarterly reporting regime in our jurisdiction, such comparatives will be released early next year as part of Q1 2023 results. And we understand that a few entities are contemplating earlier release of the quarterly comparatives to allow the user community to better anticipate the impacts of IFRS 17. Given this standard is technically complex and requires significant changes from a systems perspective, any methodology changes resulting from new guidance at this point would be exceptionally hard to implement.

While we understand that the tentative agenda decision is for a narrow fact pattern, the Committee's conclusions could potentially have broader implications that affect the views of how fundamental concepts in the standard are being applied (e.g., determining insurance contract services and risk adjustment). Since entities are very focused on implementing IFRS 17, many do not have the time to assess the broader implications this agenda decision might have.

We appreciate that the Committee is being responsive and issuing this tentative agenda decision to provide clarity on the application question submitted. However, we are concerned that the timing for entities to consider and apply new information often found in an agenda decision is not sufficient prior to IFRS 17 becoming effective. This concern is not only applicable to this tentative agenda decision regarding the transfer of insurance coverage under a group of annuity contracts, but also to potential future agenda decisions for application questions received during this final stage of IFRS 17 implementation. Entities need a period of calm to ensure a high-quality implementation of such a complex standard.

Therefore, we strongly encourage the Committee to reconsider its criteria when determining whether to issue an agenda decision. One of the criteria is to assess whether it is necessary to change IFRS Standards. Given this issue affects fundamental concepts in IFRS 17 and the key points in the Committee's conclusion are not in the application guidance section of the standard, "Recognition of the contractual service margin in profit or loss", we think standard-setting activity would be more beneficial to ensure clarity and consistent application going forward. In the case of this complex standard, future standard-setting activity would also alleviate the risk that entities are currently short in time to consider the impact of new information provided through any agenda decision before they publicly release their first financial results under IFRS 17.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Katharine Christopoulos, Director, Accounting Standards (+1 416 204-3270 or email kchristopoulos@acsbcanada.ca) or Davina Tam, Principal, Accounting Standards (+1 416 204-3514 or email dtam@acsbcanada.ca).

Yours truly,



Linda F. Mezon-Hutter, FCPA, FCA, CPA (MI), CGMA
Chair, Canadian Accounting Standards Board
lmezon@acsbcanada.ca
+1 416 204-3490

About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS[®] Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

23 May 2022

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

Dear Mr. Mackenzie,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comment on the following Tentative Agenda Decisions:

- (a) Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)
- (b) Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition
- (c) Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)
- (d) Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)

We agree with the IFRS Interpretations Committee's reasons set out in the Tentative Agenda Decisions for not adding a standard-setting project to its work plan based on the specific fact patterns described in the Tentative Agenda Decisions.

If you need further clarification or have any queries regarding this letter, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director



23 May 2022

IFRS Interpretations Committee (IFRIC)
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear IFRIC,

Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

The ABI

The Association of British Insurers (ABI) is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over 321,300 individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

Our members manage investments of nearly £1.7 trillion, collect and pay over £16 billion in taxes to the Government and support communities across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

We note the outcome of the IFRS interpretations committee's (IFRIC) March 2022 deliberations and tentative agenda decision on the afore mentioned topic. In this letter we outline the views and concerns of the ABI about this decision, how it was arrived at and its potential implications for the UK annuity market. For the avoidance of doubt, we continue to advocate for recognition that both Method 1 and Method 2 are valid for quantifying the benefits provided under an annuity contract. We believe both methods are in line with the principles of IFRS 17, enable annuity writers to fairly reflect the financial position and performance of their businesses and avoids disruption to IFRS 17 implementation programs.

1 IFRS' are principles-based standards

International Financial Reporting Standards (IFRS) are principles-based, requiring the application of judgement about how accounting standard provisions apply in certain circumstances. The application of principles allows preparers to interpret accounting standards and use their expert judgement to apply the principles to complex contracts, determining how best to meet its provisions all within the context of their respective business models and the overriding imperative to present fairly their financial position and performance. Therefore, in ruling out Method 2 and endorsing Method 1 as consistent with paragraph B119 of IFRS 17 the IFRIC has all but taken into its own hands the determination of the service insurers provide their customers and therefore how the contractual service margin (CSM) for annuity contracts should be amortised. We accept that this decision does not prevent insurers from producing other methods in this regard however our main concern is that the IFRIC interpretation of service does not align with the experience in practice of the terms agreed between annuity providers and their customers.

2 The IFRIC Staff Paper and the scope of IFRIC Interpretations

The IFRIC staff's March 2022 paper and the eventual tentative agenda decision gives a specific definition of the benefits provided under an annuity contract. In so doing, the IFRIC has ruled out Method 2 which many stakeholders (including members of the actuarial and audit profession and crucially annuity providers) consider a valid

interpretation of the standard's requirements. This decision is problematic because UK annuity providers who are experts on how these products work deem Method 2 more appropriate for more complex contracts. UK annuity providers are required by UK conduct regulation to reflect in their product documentation and sales practices how these products work including a clear explanation of the product terms and the service provided. The Insurer must satisfy itself that the policyholder understands the terms of the contract and the service they are buying, notably protection against the risk of longevity before they are permitted to sell the product. This crucial point appears not to have been properly considered in the staff analysis provided by IFRIC which focusses heavily on the insurance risk of simply survival. It is incongruous that on such an important product and topic the voices of annuity experts who operate in this tightly regulated industry are being overridden by judgemental technical interpretations in an area where the standard provides very little detailed guidance.

We are also concerned that the staff paper does not analyse the risk of unintended consequences which we note would not result if the IFRIC had accepted both methods submitted by the ICAEW as possible interpretations. We also note that the IFRIC paper did not include any analysis of the scale of the issue beyond the UK or for other products that are not annuities. This in our view is because the IFRIC staff did not conduct any form of outreach to national standard setters or other stakeholders to support their conclusions. Furthermore, as a result of the IFRIC decision there is also a real risk that the accounting for the CSM for longevity protection products, if done only in line with Method 1, may not fully reflect the economics of the product.

We consider that the proposed tentative agenda decision goes beyond the scope of an IFRIC agenda decision. The guidance provided constitutes more than just an explanation of standard provisions outlined in paragraph B119 but is an interpretation of what service the customer receives, and a prescription of the method used to recognise the associated revenue. As highlighted earlier, this conclusion is not consistent with the opinions of experts involved in negotiating the terms of such contracts with customers and companies. Therefore, we consider that the tentative agenda decision goes beyond what is permitted by the scope of IFRIC. As we alluded to above IFRS 17 is principles-based and does not prescribe a method for determining the quantity of benefits provided under a group of insurance contracts but sets out a key principle that an amount of the CSM is recognised in profit or loss in each period to reflect the insurance contract services provided in that period.

3 Risk of Disruption to implementation Programmes

As the standard goes live on 1 January 2023, impacted insurers who are in the final stages of implementation have significant concerns that the tentative agenda decision and its timing will unduly disrupt their implementation programmes. Discussions with auditors on the application of IFRS 17 principles are advanced and these have included acceptance of both approaches in some jurisdictions. Changes at this late stage would be disruptive, a factor the IFRIC should have regard to and not completely dismiss as irrelevant. It is unhelpful to preparers for the IFRIC to artificially delineate between an agenda decision and its broader impacts and consequences.

4 Operational Complexity and Risks to Comparability

The tentative agenda decision by narrowing the interpretation to Method 1 risks impairing and reducing comparability of reporting. This is because the approach supported by IFRIC introduces significant judgement in how the CSM should be recognised for different services provided by a complex contract. Considering this ongoing dialogue on interpretation our members have developed plans on how they would apply Method 1 to complex contracts such as Bulk Purchase Annuities (BPA). Feedback from auditors on how this method applies to complex and long-term contracts has highlighted the varied reported outcomes for similar contracts arising from the high levels of judgement required by Method 1. This will ultimately lead to lack of consistency in reporting of results. Furthermore, the Committee's conclusions add significant judgement and operational complexity for deferred annuities both prospectively and on transition.

5 Conclusions and Next Steps

For all the reasons set out above, we do not agree with certain aspects of the tentative agenda decision. Furthermore, we do not agree that it is unnecessary to add a standard-setting project to the IASB work plan as this is a material issue for UK annuity providers:

- The IASB should now weigh up in light of feedback it receives how to finalise this tentative agenda decision. We would recommend that IFRIC consider revising its analysis to confirm what many experts believe, i.e.,

that both Method 1 and Method 2 are valid interpretations of the standard. This would avoid the risk of disruption and enable a proper review to be undertaken as part of the post implementation review process.

- Irrespective of the conclusion reached on the point above this issue needs to be prioritised in the IFRS 17 post implementation review. This would give preparers and users ample time to see the impacts of the tentative agenda decision on actual reported figures and an opportunity to effect change if necessary. As is the case with the annual cohort requirement which requires the Commission to review the exemption by 31 December 2027, the IASB should choose a date by which this tentative agenda decision must be reviewed.

We would welcome the opportunity to explain any of the points outlined above in more detail and if you require added clarity or have any questions please do not hesitate to get in contact.

Yours Faithfully

The ABI



RÉPUBLIQUE
FRANÇAISE

*Liberté
Égalité
Fraternité*



AUTORITÉ

DES NORMES COMPTABLES

Paris, 23 May 2022

Patrick de Cambourg

Phone : 01 53 44 28 53

Mail. : patrick.de-cambourg@anc.gouv.fr

Internet : www.anc.gouv.fr

Mr Bruce Mackenzie

Chairman of the IFRS Interpretations
Committee

Columbus Building, 7 Westferry Circus,
Canary Wharf, London E14 4HD
United Kingdom

PDC n°28

March 2022 IFRIC Update—Feedback on the Tentative Agenda Decision *Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts)*

Dear Bruce,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned tentative agenda decision (TAD).

We have comments on the IFRS Interpretations Committee's (Committee) technical analysis as set out in the TAD—in our view, this analysis is only a possible reading of the requirements in IFRS 17 that, itself, is insufficient to reject the applicability of Method 2 to the fact pattern as described in the TAD. We also have observations we encourage the Committee to consider before finalising the TAD.

- **The technical analysis set out in the TAD**
 - ***Why, we think, the requirements in IFRS 17 also support Method 2***

IFRS 17 does not specify any methodology to determine the quantity of the benefits provided by a contract that is part of a group of insurance contracts. Paragraph B119 of IFRS 17 solely specifies that an entity considers the quantity of such benefits to determine the coverage units of (or the quantity of *insurance contracts services* provided by) the group of insurance contracts. Appendix A to IFRS 17 defines *insurance contracts services* as the services that an entity provides to a policyholder of an insurance contract, including the coverage for an insured event (*insurance coverage*).

The TAD derives a description for *insurance coverage* from the definitions of a liability for incurred claims (LIC) and a liability for remaining coverage (LRC) that are set out in Appendix A to IFRS 17. Using that description, the TAD then explains that an entity considers (i) the periods in which the entity has an obligation to pay a valid claim if an insured event occurs (criterion A), and (ii) the amount of the claim if

a valid claim is made (criterion B) to determine the *quantity of the benefits of insurance coverage* provided under a contract—to ultimately determine the quantity of the benefits provided by an insurance contract. The Committee then assesses Method 1 and Method 2 as described in the TAD against criterion A and criterion B to conclude that Method 2 does not meet the principle in paragraph B119 of reflecting the insurance contract services provided in each period.

The Committee links pieces of IFRS 17 together to identify two criteria that, it thinks, an entity shall consider to determine the quantity of the benefits of insurance coverage—and which ultimately narrow the meaning of insurance coverage for a given reporting period to the payments made to the policyholder on that period. We think the manner the Committee ‘walks through’ those pieces is far from being clear when reading the requirements in IFRS 17 and, ultimately, is not convincing. In particular, we observe that:

- the description for insurance coverage (*‘an entity’s obligation to investigate and pay valid claims for insured events’*) are based on some of the words used to define a LIC and a LRC but cannot, in our view, be so directly connected to insurance coverage. The TAD seems to view the reference to insurance coverage in the definition for LRC as providing the missing link to develop a description for such coverage. We think this is adding to the requirements in IFRS 17.
- IFRS 17 does not explicitly set out the two above-mentioned criteria that the Committee derives from the description for insurance coverage—here again, we think the TAD adds requirements to IFRS 17.

Overall, we think there is so much judgement involved to collate those pieces of literature that we do not view the Committee’s analysis to be sufficiently robust to support the conclusion set out in the TAD. If the Committee’s analysis were to hold true, we think this would outline weaknesses in the readability and understandability of an essential aspect of the IFRS 17 accounting model—if the IASB’s (Board) intention was to constraint the identification of coverage units along the lines set out by criteria A and B, why this intention has not been made clearer in the existing requirements?

As explained above, we think that the description for insurance coverage as set out in the TAD (and the criteria A and B deriving therefrom) do not clearly align with the words in IFRS 17 and even add requirements to this IFRS Standard. We assume, though, in the remaining part of this section that the above-mentioned description is reasonably reflective of the requirements in IFRS 17.

Having laid out criteria A and B to apply the requirements in paragraph B119 of IFRS 17, the TAD goes on and explains that the insured event in the fact pattern is the obligation to pay a period amount from the start of the annuity period for each year of the policyholder’s survival. We think this is only a possible way of applying the definition of an insured event.

An alternative view is to consider that, in the insurance contract described in the submission, the insured event is the policyholder’s survival whose duration is uncertain (longevity risk). Significant insurance risk arises because the policyholder can benefit from an annuity for an uncertain period of time. This view fully aligns with the definition of an insurance contract and an insured event in Appendix A to IFRS 17—this appendix defines an insurance contract under which one party (the issuer) accepts *significant insurance risk* from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain event (the *insured event*) adversely affects the policyholder. For a given reporting period, the survival of the policyholder *beyond that period* can be viewed as the insured event. The fact that the pricing of the premium for such a contract takes into consideration the policyholder’s survival expectancy—and thus, that the risk of loss for the insurer is the survival beyond the expected duration—provides support to this view. Applying this view, the total annuity payments until the policyholder’s death with the risk of survival beyond the expected duration would be considered as the ‘valid claim’ referred to in criterion A. This would reflect the fact that the insurance entity has a continuous stand-ready obligation during the whole of the coverage period and thus, that the benefits of insurance coverage for a given period also include a continued right for the policyholder to receive annual

payments until death. In contrast, in this view, yearly payments would be no valid claim—they are only partial settlements of a unique claim occurring continuously over the coverage period that starts *at the beginning of the contract* and ends at the policyholder's death. Applying this view, Method 2 would be appropriate to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract¹.

Accordingly, we see no reason for the Committee to give prominence to how the TAD views the insured event in the contract described in the submission—and by doing so, to reject Method 2. Here again, this would involve the use of judgement that, we think, is unsuited to an agenda decision.

Overall, we appreciate the merits of the analysis set out in the TAD concluding that only Method 1 meets the principle in paragraph B119 of IFRS 17. However, we think this analysis involves too much judgement and ultimately goes well beyond the words in the IFRS Standard. For the reasons set out above, we think the Committee should conclude that Method 2 also meets the principle in paragraph B119 of IFRS 17.

- **Other drafting comment**

The TAD states that the Committee did not discuss how the entity would apply other requirements in IFRS 17 to recognise in profit or loss—separately from the contractual service margin—the risk adjustment for non-financial risk. It goes on and states that the risk adjustment for non-financial risk represents *'the entity's compensation for bearing insurance risk and other non-financial risks'*. This statement does not align with the definition for risk adjustment for non-financial risk in Appendix A to IFRS 17—this appendix defines the risk adjustment for non-financial risk as *'the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts'* (emphasis added). As drafted, the TAD inappropriately implies that the risk adjustment for non-financial risk reflects insurance risk in its entirety (and thus, the margin on that risk in its entirety)—the definition for that risk in IFRS 17 solely states it reflects the uncertainty about the amount and timing of the cash flows from non-financial risk. Accordingly, we recommend the TAD be amended to align with the words in IFRS 17.

- **Other observations**

We understand that the TAD discusses a matter that is prevalent in a few jurisdictions only. However, we understand that the Committee may receive, and is even going to consider, some other application questions by the end of 2022. Those questions may materially affect a number of insurance entities across many jurisdictions.

We think important that, when dealing with those application questions, the Committee be careful to develop technical analyses that neither interpret nor add to the existing requirements in IFRS 17. If the requirements in IFRS 17 are not clear or are insufficient to reach only one conclusion—as, we think, it is the case for the matter described in the submission—, the Committee should assess, in the light of the criteria set out in the *IFRS Foundation Due Process Handbook (DPH)*, whether to recommend standard-setting to the Board.

We think the matter described in the submission is a relevant case for standard-setting. However, we observe that the effective date of IFRS 17 (ie annual periods opening on or after 1 January 2023) is drawing near and, accordingly, that insurance entities are busy implementing this new IFRS Standard (in particular with regard to the preparation of comparative information for 2022). Against this backdrop, any standard-setting could be disruptive for the implementation activities of insurance entities. Thus,

¹ Having assessed that the existing requirements in IFRS 17 also support the use of Method 2, those supporting that method think it results in more relevant information than Method 1—in their view, Method 1 does not give an appropriate view of performance because it (i) fails to reflect adequately the protection service provided to the policyholder and (ii) is not aligned with the contract's pricing.

we recommend the Board not undertake standard-setting immediately and consider the matter, together with any other application issue that may arise, at a later stage.


As a final note, we think there is an overall inconsistency in how to deal with application questions on IFRS Standards not yet effective. Absent any provision in the existing DPH stating otherwise, the Committee may address such questions and thus, is acting within its remits by answering application questions about IFRS 17. Those questions risk disrupting implementation processes under way. In contrast, we observe that:

- the Transition Resource Group (TRG) for IFRS 17 has not been convened since 2019—this was ‘to allow for a period of stability prior to the mandatory effective date of IFRS 17’²³.
- when deciding on which topics to undertake standard-setting in the context of the June 2020 *Amendments to IFRS 17*, the Board specifically considered that ‘...any amendments to IFRS 17 must not... unduly disrupt implementation already under way’⁴.

We fail to see the rationale for having a differing approach for application questions on IFRS Standards not yet effective—ie setting the ‘not disrupt implementation already under way’ as a constraint applying to the TRG or the Board but not to the Committee. We think clear and consistent rules should apply in this respect. Accordingly, we encourage the Committee to report this point to the Board and the Trustees of the IFRS Foundation for further consideration in the context of the next DPH’s revision.

Should you need any further clarification, please do not hesitate to contact me.

Yours sincerely,



Patrick de Cambourg

² Transition Resource Group for IFRS 17 *Insurance Contracts*, November 2017, [Agenda Paper 1 Overview and Operating Procedures](#), page 10.

³ Paragraph 15(b) of [the Summary of the Transition Resource Group for IFRS 17 Insurance Contracts](#) meeting held on 4 April 2019 explained that ‘...a TRG meeting may be scheduled in the future depending on the nature of any new submissions and whether discussion of those submissions would provide helpful education to stakeholders at this stage of implementing IFRS 17, without disrupting implementation processes under way’.

⁴ Paragraph 6b of the Basis for Conclusions on IFRS 17.

May 22, 2022

IFRS Foundation
7 Westferry Circus,
Canary Wharf
London E14 4HD,
United Kingdom

SOCPA Comments on *Tentative Agenda Decision, Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)*

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision, Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)*.

Overall, we support the IFRS IC's conclusion that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contract (as described in the request) to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period and consequently deciding not to add a standard-setting project to the work plan.

SOCPA supports the IFRS IC's conclusion as IFRS 17 requires the use of an appropriate method based on paragraph B119 of the standard to reflect the insurance contract services provided in each period. While IFRS 17 does not require a specific method to be used to determine the quantity of the benefits provided under a contract, an entity recognises in profit or loss in each period an amount of the contractual service margin to reflect the insurance contract services provided under the group of insurance contract in that period. Therefore, Method 2 in the request is not acceptable as it contradicts paragraph B119 of IFRS 17 because it assigns a quantity of the benefits to periods for which the entity has no obligation to investigate and pay valid claims for the insured event.

However, SOCPA wishes to state that certain entities that are in the process of implementing IFRS 17 may have concluded that method 2 depicts a more accurate picture of the profitability of these annuity contracts. Method 2 effectively front-loads profit recognition and therefore entities have shown preference to use this method. These entities would now need to revise their implementation plans and apply IFRS 17 accordingly.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames
Chief Executive Officer

To: IFRS Interpretations Committee
Attn: Mr. Mackenzie
7 Westferry Circus
Canary Wharf, London
United Kingdom

Subject: Comments on the IFRS IC's Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

Dear Mr. Mackenzie,

CaixaBank welcomes the opportunity to comment on the IFRS Interpretations Committee's (IFRS IC) Tentative Agenda Decision – Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17).

CaixaBank is the parent company of the financial conglomerate. We are the leading financial group in terms of retail banking in Spain and one of the most important in Portugal, where we control 100% of BPI. We are linked to 21 million customers in the Iberian market, through more than 6,143 branches and the largest business network on the peninsula. We have been listed on the stock market since 2008 and we are part of the IBEX-35, the leading index of the Spanish stock market. CaixaBank Group also includes VidaCaixa, the leading insurer in Spain and BPI Vida e Pensões.

As a preamble to our comments, we believe it is relevant to contextualize the moment in which the Tentative Agenda Decision occurs:

- The date of initial application of IFRS 17 is 1 January 2023. Most European insurers will also apply IFRS 9 for the first time on that date.
- IFRS 9 and 17 implementation projects are well underway and on track to meet the requirements by 1 January 2023.
- Implementing IFRS 9 and 17 is a major project of unprecedented effort; entities will therefore need all the time to 1 January 2023 to finalise the implementation.
- Entities have been committing significant resources and effort to the implementation of IFRS 9 and 17 and **need a period of stability ahead of the standards' entry into force. Any disruption to this process should be avoided.**
- A number of interpretations issues are being finalised by companies internally and with auditors. Whilst ongoing, these do not put the initial application of IFRS 9 and 17 at risk and **further guidance/intervention by regulators is not deemed necessary and it could threaten the finalisation of the IFRS 17 implementation projects.**

CaixaBank Group supports a high-quality standard for insurance contracts accounting, however, we firmly believe that this Tentative Agenda Decision (TAD) does **not correctly portray the insurance service provided under these contracts, is not aligned with a principle-based standard and puts at risk IFRS 17 implementation on time for January 2023 for companies affected by this TAD.**

CaixaBank Group elaborates further in the next section on each of these points.

It is important to highlight that although this topic is in response to a question arising from the UK, other countries are affected by this Tentative Agenda Decision. One example is Spain, where the so-called "approach B" is the one used by almost all Spanish Insurers in the IFRS17 implementation projects (both from a methodology and an IT development point of view). Also, it is worth noting that there is a significant share of annuities in the Spanish market affected by the decision taken by the IFRS Interpretations Committee (IFRS IC), including both annuities underwritten by individuals and corporates.

The insurance service provided under the contracts is a stream of expected cash flows until policyholder's death

In CaixaBank Group view, both Approaches A and B are valid methodologies to allocate the CSM depending on (i) facts and circumstances of the contracts under the scope of the TAD, and (ii) how insurance companies apply their judgement when determining the service that they provide policyholders with these contracts.

While in Approach A the CSM allocation is determined based on the periodic benefit payable in each period that services are provided, in the Approach B the service in a period is based on the value to the policyholder of surviving to the end of the period which includes both the annuity payment in the period as well as the continued access to receive a continuous stream of future payments.

We consider that Approach B better reflects the quantity of insurance contract services provided by our insurance subsidiaries through their contracts. When a policyholder buys the type of insurance policy covered under the TAD, its main objective is to ensure a financial security for the remainder of its life (i.e. the annuity policy provides a lifelong income protection element since every term that the policyholder survives the policyholder is accruing annuity benefits and that is the value placed on the annuity contract). This perception of service has commercial substance to the policyholder and market evidence supports the fact that policyholders are willing to pay an additional amount for a life contingent service. The policyholder has exchanged an insurance premium (generally an up-front premium) to get protection against the risk of surviving for an unexpected period of time. Accordingly, the value (and hence the service) the policyholder obtains from the insurance contract is continuous over time. As long as the policyholder is still alive the insurance company provides protection against the risk of their savings pot not lasting once retired.

Our view is that Approach A fails to accurately capture that transfer of service in the form of continuous insurance coverage to the policyholder for as long as their contract survives. Additionally, the use of Approach A would not reflect the differences between a life contingent annuity and a fixed term annuity. Consequently, **we believe Approach A is not representative of the underlying economics and pricing mechanism of our TAD annuity contracts** and would result in a material overstatement of the CSM accounting balance recognised in the balance sheet for many years once the contract has been issued due to the fact that Approach A underestimates the services transferred to the policyholder in the first stages of the annuity.

The long tail nature of the liabilities arising from the TAD annuity contracts must be taken into account, as well as the importance of defining a coverage unit method which best reflects the profit pattern for this business. Our insurance subsidiaries will estimate under IFRS 17 the CSM for the TAD annuity contracts as the difference between (i) the generally up-front premium paid, (ii) the expected annuity terms that will be paid until the

policyholder's death which include any financial guarantees provided under the contracts, and (iii) the required risk adjustment. Leaving aside for one moment the risk adjustment, the CSM will be ultimately determined by the age of the policyholder when underwriting the contracts – i.e. for how long the insurance companies expects to pay annuity terms – and the financial yield that can be earned according to the markets conditions and will not be passed to the policyholder. Based on this, we conclude that **Approach B works better at reflecting the true economics of these portfolios, how they are priced and how the insurance company earns the margin measured under the CSM.**

The above considerations are valid regardless of how insurance companies estimate the risk adjustment for these TAD annuity contracts which is deducted from the CSM and separately released into profit or loss. The risk adjustment is the compensation estimated under IFRS 17 that insurance companies require for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts. How the risk adjustment is released by companies should not obscure what is captured under the CSM for these TAD annuity contracts which is the main focus on the TAD.

In this regard, we do not agree with the argument supported by the IFRIC Committee that the risk adjustment represents the margin of the insurance contract. We note that when IFRS 17 was a joint project between the IASB and FASB the idea of a single margin was completely rejected by the IASB, concluding that the risk adjustment measures uncertainty separately from the expected profit and that should have a separate pattern of release. When estimating the risk adjustment entities should consider not only negative deviations but also positive ones due to the fact that cash flows arising from insurance contracts are uncertain but there should not only be negative deviations.

Another point to take into consideration is that if clients perceived the insurance service to be only the benefit payable in each period, there would be no single premium contracts, or they would always ask for an option to surrender the contract which is not the case for the TAD annuity contracts being discussed. Again, this is not the case because the client pays a premium to have access to a life contingent annuity until its death.

IFRS 17 should remain a principle-based standard

IFRS 17 is a principle-based standard and does not prescribe a method for determining the quantity of the benefits provided under a group of insurance contracts, therefore, we believe that the IFRS Interpretations Committee has gone beyond the principle of how to recognise insurance services as defined in paragraph B119 of IFRS 17 by elaborating the way how coverage units are to be recognised. **CaixaBank Group believes that the standard's requirements with respect to the coverage units to be recognised in profit and loss are broad enough that both approaches can be used based on facts and circumstances.**

Paragraph B119 of IFRS 17 determinates that the amount that an entity recognises in profit and loss in each period depends on the number of coverage units, that it is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period. This paragraph does not provide detailed guidance on what the insurance service is, and it does not seem reasonable that the

IFRS Interpretation Committee is in a better position -compared to insurance companies - to conclude what insurance service is being provided in each geographical jurisdiction in which IFRS are applied. Neither it is appropriate that this Committee rather adds requirements to the Standard than it interprets them because paragraph B119 does not provide detailed guidance on what the insurance service exactly is. CaixaBank Group considers that based on facts and circumstances both approaches A and B could be acceptable under this paragraph.

We would also like to note that paragraphs 109 and 117 of IFRS 17 require entities to disclose quantitative and qualitative information, whereas paragraph BC366B in the Basis for Conclusions explains that these disclosures aim to enhance users' understanding on the determination of the quantity of benefits provided by insurance contracts for the purpose of recognising the contractual service margin in profit or loss due to the complexity and the judgement that insurance companies need to apply. **CaixaBank Group believes that if these disclosures are provided by companies, including disclosures regarding future CSM by appropriate time bands, there will be not a lack of comparability.**

One final comment relates to the cross-cutting consistency with other IFRS which are also developed as principle-based standards, in particular with IFRS 15 *Revenue from Contracts with Customers*. We note that this standard requires entities to consider the terms of the contracts and all relevant facts and circumstances when determining performance obligations, whereas the TAD may seem to go back to a cash-basis accounting which clearly IFRS 15 departs from.

The TAD puts at risk the implementation of IFRS 17 as of 1st January 2023

CaixaBank Group questions the timing of bringing a TAD less than one year before the date of first application of IFRS 17. Preparers are in need for a period of calm exactly at this stage. We note that the IFRS 17 Transition Resource Group has not addressed issues since April 2019 which has allowed preparers the much-needed stability in preparing for implementation.

Our insurance subsidiaries have already implemented Approach B for determining the quantity of the benefits of insurance coverage to estimate the amount of the CSM to be recognised in profit or loss in a period and there is not enough time and human resources (in terms of Actuarial Department's dedication) to make any changes in the IT systems (i.e. actuarial calculation engines), as parallels and dry-runs are currently being performed and are further planned until the end of the year. Any potential change now will not only bring unforeseen costs but also require lead time in implementation as it requires updates to the IT-systems as well as testing beforehand and such timing is not compatible with the application of Approach A for entities that have implemented Approach B.

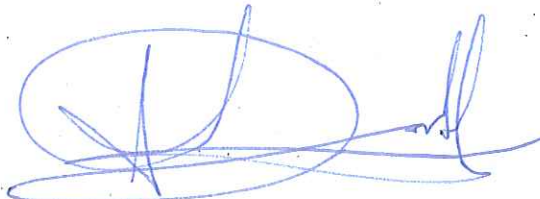
The above comments go beyond the current issue and are valid also for any other topics in the IFRIC pipeline regarding IFRS 17 before or immediately after its implementation.

In this context it is important to remember that when the amendments of IFRS 17 published in June of 2020 were prepared, constituents (included CaixaBank Group) demanded changes to IFRS 17 which were disregarded by the IASB. **The IASB decided that amendments would only be justified if those amendments would not unduly disrupt implementation already under way as implementation should be the focus.**

Two years have passed since the publication of these amendments, we are now in the year 2022, the date of initial application of IFRS 17 will be 1 January 2023 and the transition date will be 1 January 2022. Companies have mostly completed their implementation phases and we assume some of them have implemented approach A and others approach B, since IFRS 17 does not establish a specific method. Even some companies may have already produced the opening-balance sheets as of 1 January 2022. **Any TAD at this stage that only accepts one of the two approaches will be completely disruptive for insurance companies that have chosen the other approach and will be contrary to the main principle which guided the IASB to accept making only limited changes in May 2020 to IFRS 17.**

As previously said, CaixaBank Group believes **that both Approaches A and B represent valid interpretations of the principles of IFRS 17. However, if despite the above-mentioned arguments, the IFRS Interpretations Committee still believes that only one approach is a valid interpretation of IFRS 17 principles, then CaixaBank Group would recommend this issue to be addressed in a post-implementation review** together with other issues that were pending to be addressed as well as others that may arise in the future. As the due Process Handbook mentions, when the Board undertakes a post-implementation review it has an opportunity to understand the effects of the change in financial reporting by comparison to those identified by the Board when it issued the new requirements. Once the standard is implemented, it will be possible to assess whether it is necessary to clarify the application criteria of paragraph B119.

Yours sincerely,



Jordi Deulofeu Xicoira

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

20 May 2022

Dear Mr Mackenzie (cc Andreas Barckow),

RE: IFRS IC Tentative Agenda Decisions in the final phase of implementing IFRS 17 Insurance Contracts

EFRAG is appreciative and supports the IFRS Interpretations Committee's (IFRS IC's) work and efforts to bring consistency in the application of IFRS Standards and welcomes that the IFRS IC is reacting swiftly to submissions that it has received.

Nonetheless, I am writing to make you aware of concerns that EFRAG has heard from some of its constituents about possible agenda decisions that may raise challenges in the next months, when the insurance preparers are finalising their implementation of IFRS 17, as evidenced by the decisions taken by the IFRS IC as published in the March 2022 IFRS IC Update.

EFRAG, has been made aware of concerns by some constituents in the context of the latest IFRS IC Tentative Agenda Decision on Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*) that was issued in March 2022. These constituents believe that, in light of the challenges arising from the implementation of IFRS 17, other interpretation issues may come to the attention of the IFRS IC in the coming months and have concerns about the IFRS IC considering such application questions less than one year before the date of first application of IFRS 17. In their view, this would unduly disrupt the implementation of the Standard.

In their view, due to the complexity of the Standard, and as insurance entities often are – throughout 2022 – performing a 'parallel run' of IFRS 4/IAS 39 and IFRS 17/IFRS 9, these entities are currently in a critical period of implementation and facing a high workload. Therefore, there is a concern that during the 'run up' phase towards applying IFRS 17, any change now will not only bring unforeseen costs but also require lead time in implementation as it requires updates to the IT-systems as well as testing beforehand. Significant changes to the current implementation of IFRS 17 would therefore require a reasonable period of time to adopt these changes, which could go beyond that what can usually be expected following an Agenda Decision, given the current implementation phase.

Given the significant efforts that insurance entities are currently undertaking to successfully implement IFRS 17, EFRAG kindly reminds the IFRS IC of any potential impact that an Agenda Decision may have on the timetable of IFRS 17

implementation projects at this stage. EFRAG also emphasises the importance of the outreach that the IFRS IC undertakes before any Tentative Agenda Decisions, in particular considering that common practices are still emerging with the implementation at this stage.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'JP Gauzès', written in a cursive style.

Jean-Paul Gauzès

President of the EFRAG FR Board

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

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.

insurance market. The approach to recognising the contractual service margin (CSM) in profit or loss is fundamental to revenue recognition for these contracts.

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. 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. 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. We therefore encourage the Committee to finalise the decision as soon as is practicable.

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 by the IASB 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 in the period.
- 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 different insurance contract services would be useful.

There is a risk of diversity in practice 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. We consider this should take place as part of the IFRS 17 post-implementation review, which should be commenced on a timely basis.

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

Mr Mackenzie
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

23 May 2022

Dear Mr Mackenzie

IFRIC Tentative Agenda Decision on the Transfer of Insurance Coverage under a Group of Annuity Contracts

Phoenix Group (Phoenix) is the UK's largest long-term savings and retirement business. We are driven by our purpose of helping people secure a life of possibilities. We passionately believe that our customers are at the heart of what we do and we continue to improve customer outcomes, broadening the focus of our business so that we can help customers as they journey to and through retirement.

Annuity products are a key part of our offering in support of that purpose, as they allow individuals the security that comes with knowing they have an income for the remainder of their life. Furthermore, our Bulk Purchase Annuities (BPAs) business allows corporates and pension scheme trustees to secure the benefits of their members. At 31 December 2021, Phoenix had c.£56 billion of gross IFRS 4 annuity liabilities.

We see BPAs continuing to be a major market trend in the UK life insurance sector, with increasing demand from corporates who wish to de-risk their defined benefit pension schemes liabilities in order to focus on their core businesses.

We note the outcome of IFRIC's deliberations and tentative agenda decision on the transfers of insurance coverage under a group of annuity contracts. We have participated in the discussions on this matter by the European Insurance CFO Forum, the ABI and the ICAEW and support the concerns they highlight in their responses, including:

- Further understanding is necessary of the services provided under the terms of annuity contracts (including more complex annuity products) before concluding that Method 2 is not an appropriate interpretation of the requirements of IFRS 17;
- The risk of disruption to implementation programmes that would arise at a critical period for insurers; and

- Diversity in application under Method 1, particularly to complex contracts, where different approaches could result in varied reporting outcomes for similar contracts and reduced comparability between firms. This will also increase the length of time to determine the most appropriate approach and obtain approval from the auditor placing further strain on implementation programmes.

We continue to believe that both Method 1 and Method 2 are in line with the principles set out in IFRS 17 for quantifying the benefits of insurance coverage. Both methods should therefore be considered acceptable interpretations of the requirements of IFRS 17 to allow annuity writers to fairly reflect the financial position and performance of their businesses.

We would recommend that further analysis and outreach should be carried out as part of the post-implementation review of IFRS 17 to address this issue.

If you would like to discuss our comments further, or have any questions please do not hesitate to get in contact.

Yours sincerely



Rakesh Thakrar
Chief Financial Officer



VICEPRESIDENCIA
PRIMERA DEL GOBIERNO
MINISTERIO
DE ASUNTOS ECONÓMICOS
Y TRANSFORMACIÓN DIGITAL

ic/ac / Instituto de Contabilidad y
Auditoría de Cuentas

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

Ref: IFRS Interpretation Committee's tentative agenda decision in the final phase of implementing IFRS 17 Insurance contracts.

Madrid, 23rd May 2022

Dear Mr. Mackenzie,

In the present letter ICAC gives its view on the IFRS Interpretation Committee Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17).

First of all, ICAC appreciates the effort that the IFRS Interpretation Committee's is doing to clarify the application questions arisen in relation to IFRS 17 to bring consistency in the application of the IFRS standards.

However, there is a huge concern expressed by many participants of the Spanish insurance market regarding the latest IFRS IC Tentative Agenda Decision in the final phase of implementing IFRS 17 Insurance Contracts on Transfer of Insurance Coverage under a Group of Annuity Contracts that was issued in March 2022.

C/ HUERTAS, 26
28014 MADRID
TEL.: 91 389 56 00
FAX: 91 429 94 86

CSV : GEN-0365-9915-e6f4-6269-3079-b904-6f44-5fad

DIRECCIÓN DE VALIDACIÓN : <https://sede.administracion.gob.es/pagSedeFront/servicios/consultaCSV.htm>

FIRMANTE(1) : SANTIAGO DURÁN DOMÍNGUEZ | FECHA : 23/05/2022 14:14 | Sin acción específica





We understand that the conclusion of the IFRS IC agenda decision is that, in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, the Approach A is the only one acceptable to determine the amount of the contractual service margin to recognize in profit or loss in a period.

This issue has a huge negative impact for the insurance Spanish market since annuity contracts represent around 48% (91 billion € approximately) of the life in-force portfolio (as of 31st December 2021).

We would like to highlight that Spanish insurance companies are at very advance stage of implementation of the standard and the approach B has been applied. One of the main criteria to be assessed in the amendment process initiated by the IASB in 2020 was to avoid undue disruption to the implementation process and in our opinion it is crucial to respect this criteria.

In our view, allowing only Approach A will have a huge negative impact on the operational costs and on the IFRS 17 implementation process. Having into account the challenges that the insurance companies are facing in this critical phase of implementation, any change now would require a reasonable period of time to be adopted and implies a huge negative impact on the operational costs and on the IFRS 17 implementation process.

As IFRS is a principle- based standard, we believe that both approach A and approach B should be acceptable based on facts and circumstances.

Also, it is important to have into account that insurance entities are also performing 'parallel run' of IFRS 4 - IAS 39 and IFRS 17 - IFRS 9. In consequence any possible change now would require an extra time to be processed and would surely increase the operational costs.

For these reasons, ICAC kindly asks IFRS IC's to ensure an appropriate period of stability for the IFRS 17 implementation project, allowing the application of both approaches to determine the amount of the contractual service margin to recognize in profit or loss in a period.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

C/ HUERTAS, 26
28014 MADRID
TEL.: 91 389 56 00
FAX: 91 429 94 86





VICEPRESIDENCIA
PRIMERA DEL GOBIERNO
MINISTERIO
DE ASUNTOS ECONÓMICOS
Y TRANSFORMACIÓN DIGITAL

ic/cac / Instituto de Contabilidad y
Auditoría de Cuentas

Yours sincerely,

Santiago Durán Domínguez

Chairman of the ICAC

C/ HUERTAS, 26
28014 MADRID
TEL.: 91 389 56 00
FAX: 91 429 94 86

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Legal and General Group Plc
One Coleman Street
London
EC2R 5AA
Richard.Crooks@group.landg.com
legalandgeneral.com

IFRS Interpretations Committee (IFRIC)
Columbus Building
7 Westferry Circus
Canary Wharf
London

Dear IFRIC

Re: Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

We welcome IFRIC's consideration of an issue that has been the subject of debate in the UK for a long period of time and remains one of the few remaining technical concerns for the application of IFRS 17.

Legal & General is a FTSE listed international insurance group selling, amongst other products, annuity contracts to both the retail and institutional markets in the UK, US, Canada and elsewhere in Europe. We therefore have extensive knowledge of the economics and the terms of the contracts beyond those covered in the IFRIC submission and the outcome is of significant interest to our implementation programme.

However, we do not agree with the tentative IFRIC conclusions. We believe there are some important aspects of the IFRIC technical analysis which should be reconsidered and there are significant consequences of the tentative interpretation which indicate that standard setting activity is required if the proposals are upheld. We believe that the consequences of the interpretation are sufficiently pervasive to the application of IFRS 17 that IFRIC could be considered to have taken standard setting activity in publishing the conclusion.

In the attached Appendix we have expanded on our technical concerns around the analysis of IFRIC and the consequences of the tentative conclusion. We continue to believe that both approaches discussed in the IFRIC paper and submission are compliant with IFRS 17 and should be explicitly permitted by IFRIC.

In the light of these concerns, we believe that IFRIC and the IASB should reconsider the analysis. As it stands, the interpretation of IFRIC would lead to a reduction in comparability and faithfulness of financial reporting for and between annuity writers. This will increase the application of non-GAAP measures and the reliance on other financial metrics, such as those based on regulatory requirements.

If the final IFRIC conclusion is not reversed from this tentative interpretation, the IASB should consider urgent standard setting activity. In particular, the interpretation exposes the financial impacts of flaws in the standard which were raised by several respondents to ED/2019/4 during the development of IFRS 17. We believe that this standard setting activity should consider both expanding the definition of the investment return service to align with where investment management are incorporated in the fulfilment cash flows (i.e. where IFRS 17 already acknowledges that the asset management activities are a component of the contract) and defining insurance benefits such that they reflect the value of the insurance coverage provided rather than the narrow view indicated by this tentative agenda decision. These features would allow annuity products to be fairly represented under the standard, remove operational complexity, and eliminate the accounting mismatches created by this interpretation (particularly with reinsurance).

We would welcome further engagement on the topic to explain further any of the issues we have raised or to answer any questions you may have.

Yours faithfully,

Richard Crooks
IFRS 17 Technical Lead
Legal & General Group Plc

Appendix

As stated in the cover letter, we do not agree with the tentative IFRIC conclusions. This Appendix details our concerns in two sections, covering the technical analysis and the consequences of the tentative conclusion.

1. Technical concerns with the IFRIC analysis

IFRS 17 is a principle based standard

As noted in IFRS 17 itself, and in the discussions of the TRG on CSM spreading, IFRS 17 is a principle based standard. The TRG discussions specifically noted that IFRS 17 did not create detailed requirements and, for some insurance contracts, specified that multiple approaches which were permitted. We believe that the analysis did not fully consider all the potential articulations of the service provided and therefore inappropriately removes a valid interpretation of the standard.

Identification of insurance service provided

At its heart, the IFRIC analysis is based on the premise that the insurance service provided in a group of contracts is insurance coverage for survival (IFRIC March meeting Paper 2 p20). However, the analysis is based on the consideration of the annuity contract as a series of discrete insurance contracts which are independent on each other. This is an interpretation which does not reflect the economics of the contract. As a policyholder survives, they retain access to future economic value which is increasing due to the increasing ultimate life expectancy of the individual. An alternative way of looking at this is that at outset an insurer provides a series of many individual life contingent contracts, each dependent on survival to a different date up to the date of death. Approach B reflects a benefit from all these concurrent contracts, irrespective of them reaching maturity whereas Approach A only delivers benefit on the last day of each contract.

Practically, we can see this in how a deferred annuity operates. In a simple deferred annuity example (life contingent throughout with no payments in the first 5 years) the price a policyholder would pay at inception would be lower than if they could purchase an option to buy an annuity in 5 years' time for the same cash flows. This lower price demonstrates that there is a benefit to the policyholder. This benefit is provided as either a lower premium or higher post deferral phase cash flows. It is therefore clear that the economic value that a surviving policyholder will have access to increases and we believe this meets the IFRS 17 definition of benefits. We note that this benefit is driven by survival and that it is quite possible that there is no investment return service if there is no transfer option.

Quantity of benefits

We have several concerns with the IFRIC analysis on the quantity of benefits provided discussed in the March IFRIC staff paper.

Firstly, the staff analysis of Approach B is primarily based on the specific example mechanic provided in the submission. This is secondary to the analysis of whether a benefit is provided and whether it is different to the expected cash flow. In principle, there are many ways in articulating the benefit provided beyond the simple cash flow and these should be assessed before considering a specific mechanic and therefore there are multiple ways in identifying a coverage unit which reflects those benefits. From an operational perspective, what is important is that the profile of coverage reflects the benefits provided, not the calculated number of coverage units in a period. This important element was not discussed in the paper.

We also disagree with aspects of the staff analysis (referenced to tie into the March IFRIC paper):

- A. As previously outlined, there is a clear benefit to the policyholder in the year of survival (particularly clear in a deferred annuity) which is beyond the receipt of a payment in the year. We believe the staff view was linked to the interpretation of the example rather than the articulation of the service provided.
- C. The submission makes the point that the CSM of a new contract would be out of step with an old contract that was identical in all other respects because of the slow release of CSM under Approach A. This does not support A or B in either way from a technical perspective, but it does indicate that Approach A is not reflecting all the economic services provided in the contract.
- D. The staff disagree with the benefits lost analogy. However, this is the most directly comparable approach with the use of the sum assured for the comparable life insurance contract. It also ties most directly to how a policyholder would consider the benefit of holding an annuity product. This approach effectively tries to remove the complexity in the analysis by converting the multiple survival events into a single insurance event, death, and think of the benefits in that context. This has a strong conceptual appeal as it creates consistency with other contracts. It is again noted that it is the shape of the benefits that is important rather than the actual quantity presented. We believe this articulation is both permitted and would fairly reflect the benefits.
- E. We do not disagree with the analysis of the impact of investment management profits in the CSM. However, it does demonstrate a flaw in the identification of an investment return service in IFRS 17. It is clear that, in a group containing a consolidated investment manager, a component of the CSM reflects profit margins the insurer will pay internally for the management of the associated assets. The artificial limitations on the presence of an investment return service prevent this from being separately identified and run-off in line with the provision of that service. Under Approach B, the financial impact of this flaw is limited as the profile of insurance and investment return service would be aligned. This concern was raised by several responses to the IASB in the final development of IFRS 17. The IFRIC interpretation exacerbates the financial consequences of this.
- F. We believe that BC36 is supportive of Approach B rather than Approach A in considering a single combined service and that the two views demonstrate that Approach A is not capturing an appropriate amount of coverage relating to the period.

We also note that Approach B is closely aligned to the revenue recognition approach for a level 3 instrument accounted for under IFRS 9. For example, it is possible to split an annuity into an annuity certain (under IFRS 9) and a longevity swap under IFRS 17.

Approach A would diverge the profit recognition of an annuity from these separate instruments whereas Approach B would be more closely aligned.

Finally, we do not agree with the tentative IFRIC conclusion that:

“a. the present value of expected future annuity payments (Method 2) does not meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period because it would:
i. assign a quantity of the benefits to periods for which the entity has no obligation to investigate and pay valid claims for the insured event (for example, to the deferral period of a deferred annuity contract)”

This interpretation links the definition of ‘coverage’ to the definition of the balance sheet ‘liability for remaining coverage’.

We believe this interpretation goes far beyond what could be reasonably inferred from IFRS 17 and is not aligned with the standalone interpretation of B119. It was also not the interpretation of the TRG who indicated that a claim payment was not necessarily the valid measure of benefits. We also believe that it is inconsistent with the application of investment return services in both the general model and the VFA model.

2. Consequences of the tentative IFRIC agenda decision

The IFRIC analysis did not fully consider the consequences of the selection of a single approach to recognising CSM. This in part reflected the submission focussing on immediate annuities as many of the complexities are more significant for deferred annuities. However, these considerations are important in the assessment of whether further standard setting activities are necessary from the IASB if the IFRIC position is not overturned.

To illustrate some of the issues that arise we have considered immediate and deferred annuities separately:

- Immediate annuities
 - o Under the proposals the CSM is earned more slowly than would be indicated by the economics. Given the long duration of the contracts, this effect becomes pronounced in the balance sheet, with an overstatement of the insurance contract liability and an understatement of the income statement.
 - o The divergence from the economics creates a mismatch with the FV transition approach which distorts profit recognition for the remaining duration of FV cohorts.
 - o Components of the CSM in relation to investment services will not be earned in line with the actual assets held.
 - o These concerns undermine the usefulness of IFRS 17 in describing the income statement and balance sheet position and warrants reconsideration by the IASB.

- Deferred annuities

The operation of deferred annuities is more complex due to the range of contractual terms in different jurisdictions. Under Approach 2, the coverage unit profile of an investment return service and the insurance service would be aligned making it operationally simple and economically meaningful. The presence or otherwise of an investment return service would not trigger uneconomic differences in the profit profile as insurance service would be present throughout the contract duration.

However, many complexities arise in Approach 1:

- o The presence or not of an investment return service (IRS) makes a significant difference to the result for a unit of account although it has little impact on the economics. It also adds significant operational complexity as, in some jurisdictions, the presence of the IRS may be specific to the contract terms which are not relevant to the valuation.
- o There are often high levels of reinsurance on this business. The terms of the reinsurance (particularly in terms of transfer implications) often do not align with the insurance contracts. This means that the reinsurance CSM may not be earned when the underlying CSM is earned, creating an accounting mismatch.
- o Splitting the CSM between different phases of the contract is arbitrary and judgemental. This is difficult because the services identified by IFRS 17 are artificially restricted in duration and therefore cannot be linked back to pricing or economics. This becomes even more complex when some contracts in a unit of account incorporate an IRS and others do not. It is not clear how auditors will assess this as there is an apparent balance between the outcome being reasonable for the amount of profit relating to a period and the comparative amounts of service provided between the periods.
- o It is unclear how to attribute CSM to services for bulk annuities where there are many underlying lives and the IRS may be present for some of those lives and not others (i.e. is the presence in the contract sufficient and how should weightings reflect this).
- o Transition financials will be distorted in the same way as immediate annuities, although significantly more so where an investment return service is not present.

All these factors mean that whilst it appears that diversity in practice is being reduced by selection of a single approach, in reality, the judgements which will need to be made (and cannot be faithfully linked to economics) will lead to an increase in diversity in practice and less comparable results.

In our view the consideration of whether the outcome of the interpretation has an impact on the relevance of financial reporting under IFRS 17 was insufficient. We believe that Approach A seriously detracts from the usefulness of IFRS 17 as a reporting metric for annuity contracts because it reduces comparability and diverges from faithfully portraying the economics of the business.

In addition to these product specific consequences, there are broader practical issues that arise for implementation projects. These include:

- Making these amendments at such a late stage could impact on the transition methodology. It is yet to be determined if the judgements required by the interpretation can be made in historic cohorts without the use of hindsight. This could therefore significantly disrupt transition activity for some entities.
- Deferred annuities can have differences in contractual terms between contracts triggering differences in whether IFRS 17 services are present. This adds significant additional data requirements to identify the appropriate coverage units.
- Each different unit of account will have different mixes of durations and terms making CSM weighting different for every cohort. Developing an operational solution for this is onerous and in operation will need to be regularly updated whilst new business is added to the cohort.

In summary, we believe the consequences of the decision are very broad in nature and are detrimental to the usefulness of IFRS 17. The pervasiveness of the interpretation is such that it is akin to standard setting activity in itself. If the IFRIC decision is ratified as it stands, then we believe that standard setting activity is urgently required to ensure that annuity contracts can be faithfully reported under the standard, ideally modifying the criteria for determination of an investment return service and the definition of benefits.

POSITION PAPER



Comments to Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

ESBG Transparency Register ID 8765978796-80

May 2022



ESBG welcomes the opportunity to comment on the Tentative Agenda Decision – Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17).

We represent the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. ESBG unites at EU level around 900 banks that provide retail banking services, including for certain banks the provision of insurance coverage and related services to their clients. This letter represents the consensus view of ESBG, including the financial conglomerates that are represented.

ESBG is writing to comment on the IFRS Interpretations Committee's Tentative Agenda Decision regarding Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts).

ESBG considers that it is relevant before evaluating the Tentative Agenda Decision itself to contextualize the moment in which it occurs:

- The date of initial application of IFRS 17 is 1 January 2023. Most European insurers will also apply IFRS 9 for the first time on that date.
- IFRS 9 and 17 implementation projects are well underway and on track to meet the requirements by 1 January 2023.
- Implementing IFRS 9 and 17 is a major project of unprecedented effort; entities will therefore need all the time to 1 January 2023 to finalise the implementation.
- Entities have been committing significant resources and effort to the implementation of IFRS 9 and 17 and need a period of stability ahead of the standards' entry into force. Any disruption to this process should be avoided.
- A number of interpretations issues are being finalised by companies internally and with auditors. Whilst ongoing, these do not put the initial application of IFRS 9 and 17 at risk and further guidance/intervention by regulators is not deemed necessary and it could threaten the finalisation of the IFRS 17 implementation projects.

ESBG supports a high-quality standard for insurance contracts accounting, however, we firmly believe that this Tentative Agenda Decision (TAD) does **not correctly portray the insurance service provided under these contracts, is not aligned with a principle-based standard and puts at risk IFRS 17 implementation on time for January 2023 for companies affected by this TAD.**

ESBG elaborates further in the next section on each of these points.

It is important to highlight that although this topic has arisen in response to a question arising from the UK, other countries are affected by this Tentative Agenda Decision. One example is Spain, where the so-called "approach B" is the one used by almost all Spanish Insurers in the IFRS17 implementation projects (both from a methodology and an IT development point of view).



The insurance service provided under the contracts is a stream of expected cash flows until policyholder's death

In ESBG view, both Approaches A and B are valid methodologies to allocate the CSM depending on (i) facts and circumstances of the contracts under the scope of the TAD, and (ii) how insurance companies apply their judgement when determining the service that they provide policyholders with these contracts.

While in Approach A the CSM allocation is determined based on the periodic benefit payable in each period that services are provided, in the Approach B the service in a period is based on the value to the policyholder of surviving to the end of the period which includes both the annuity payment in the period as well as the continued access to receive a continuous stream of future payments.

Companies represented through ESBG consider that Approach B better reflects the quantity of insurance contract services provided by their contracts. When a policyholder buys the type of insurance policy covered under the TAD, their main objective is to ensure a financial security for the remainder of their life (i.e. the annuity policy provides a lifelong income protection element since every term that the policyholder survives the policyholder is accruing annuity benefits and that is the value placed on the annuity contract) . This perception of service has commercial substance to the policyholder and market evidence supports the fact that policyholders are willing to pay an additional amount for a life contingent service. The policyholder has exchanged an insurance premium (generally an up-front premium) to get protection against the risk of surviving for an unexpected period of time. Accordingly, the value (and hence the service) the policyholder obtains from the insurance contract is continuous over time. As long as the policyholder is still alive the insurance company provides protection against the risk of their savings pot not lasting once retired.

Our view is that Approach A fails to accurately capture that transfer of service in the form of continuous insurance coverage to the policyholder for as long as their contract survives. Additionally, the use of Approach A would not reflect the differences between a life contingent annuity and a fixed term annuity. Consequently, we believe Approach A is not representative of the underlying economics and pricing mechanism of our TAD annuity contracts and would result in a material overstatement of the CSM accounting balance recognised in the balance sheet for many years once the contract has been issued due to the fact that Approach A underestimates the services transferred to the policyholder in the first stages of the annuity.

The long tail nature of the liabilities arising from the TAD annuity contracts must be taken into account, as well as the importance of defining a coverage unit method which best reflects the profit pattern for this business. Companies represented through ESBG will estimate under IFRS 17 the CSM for the TAD annuity contracts as the difference between (i) the generally up-front premium paid, (ii) the expected annuity terms that will be paid until the policyholder's death which include any financial guarantees provided under the contracts, and (iii) the required risk adjustment. Leaving aside for one moment the risk adjustment, the CSM will be ultimately determined by the age of the policyholder when underwriting the contracts – i.e. for how long the insurance companies expects to pay annuity terms – and the financial yield that can be earned according to the markets conditions and will not be passed to the policyholder. Based on this, we conclude that Approach B works better at reflecting the true economics of these portfolios, how they are priced and how the insurance company earns the margin measured under the CSM.



The above considerations are valid regardless of how insurance companies estimate the risk adjustment for these TAD annuity contracts which is deducted from the CSM and separately released into profit or loss. The risk adjustment is the compensation estimated under IFRS 17 that insurance companies require for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts. How the risk adjustment is released by companies should not obscure what is captured under the CSM for these TAD annuity contracts which is the main focus on the TAD.

In this regard, we do not agree with the argument supported by the IFRIC Committee that the risk adjustment represents the margin of the insurance contract. We note that when IFRS 17 was a joint project between the IASB and FASB the idea of a single margin was completely rejected by the IASB, concluding that the risk adjustment measures uncertainty separately from the expected profit and that should have a separate pattern of release. When estimating the risk adjustment entities should consider not only negative deviations but also positive ones due to the fact that cash flows arising from insurance contracts are uncertain but should there only be negative deviations.

Another point to take into consideration is that if clients perceived the insurance service to be only the benefit payable in each period, there would be no single premium contracts, or they would always ask for an option to surrender the contract which is not the case for the TAD annuity contracts being discussed. Again, this is not the case because the client pays a premium to have access to a life contingent annuity until its death.

IFRS 17 should remain a principle-based standard

IFRS 17 is a principle-based standard and does not prescribe a method for determining the quantity of the benefits provided under a group of insurance contracts, therefore, we believe that the IFRS Interpretations Committee has gone beyond the principle of how to recognise insurance services as defined in paragraph B119 of IFRS 17 by elaborating the way how coverage units are to be recognised. ESG believes that the standard's requirements with respect to the coverage units to be recognised in profit and loss are broad enough that both approaches can be used based on facts and circumstances.

Paragraph B119 of IFRS 17 determinates that the amount that an entity recognises in profit and loss in each period depends on the number of coverage units, that it is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period. This paragraph does not provide detailed guidance on what the insurance service is, and it does not seem reasonable that the IFRS Interpretation Committee is in a better position -compared to insurance companies - to conclude what insurance service is being provided in each geographical jurisdiction in which IFRS are applied. Neither it is appropriate that this Committee rather adds requirements to the Standard than it interprets them because paragraph B119 does not provide detailed guidance on what the insurance service exactly is. ESG considers that based on facts and circumstances both approaches A and B could be acceptable under this paragraph.

We would also like to note that paragraphs 109 and 117 of IFRS 17 require entities to disclose quantitative and qualitative information, whereas paragraph BC366B in the Basis for Conclusions explains that these disclosures aim to enhance users' understanding on the determination of the quantity of benefits provided by insurance contracts for the purpose of recognising the contractual service margin in profit or loss due to the complexity and the



judgement that insurance companies need to apply. ESBG believes that if these disclosures are provided by companies, including disclosures regarding future CSM by appropriate time bands, there will be not a lack of comparability.

One final comment relates to the cross-cutting consistency with other IFRS which are also developed as principle-based standards, in particular with IFRS 15 *Revenue from Contracts with Customers*. We note that this standard requires entities to consider the terms of the contracts and all relevant facts and circumstances when determining performance obligations, whereas the TAD may seem to go back to a cash-basis accounting which clearly IFRS 15 departs from.

The TAD puts at risk the implementation of IFRS 17 as of 1st January 2023

ESBG questions the timing of bringing a TAD less than one year before the date of first application of IFRS 17. Preparers are in need for a period of calm exactly at this stage. We note that the IFRS 17 Transition Resource Group has not addressed issues since April 2019 which has allowed preparers the much-needed stability in preparing for implementation.

There are financial conglomerates within ESBG that have implemented Approach B for determining the quantity of the benefits of insurance coverage to estimate the amount of the CSM to be recognised in profit or loss in a period and there is not enough time and human resources (in terms of Actuarial Department's dedication) to make any changes in the IT systems (i.e. actuarial calculation engines), as parallels and dry-runs are currently being performed and are further planned until the end of the year. Any potential change now will not only bring unforeseen costs but also require lead time in implementation as it requires updates to the IT-systems as well as testing beforehand and such timing is not compatible with the application of Approach A for entities that have implemented Approach B.

The above comments go beyond the current issue and are valid also for any other topics in the IFRIC pipeline regarding IFRS 17 before or immediately after its implementation.

In this context it is important to remember that when the amendments of IFRS 17 published in June of 2020 were prepared, constituents (included ESBG) demanded changes to IFRS 17 which were disregarded by the IASB. The IASB decided that amendments would only be justified if those amendments would not unduly disrupt implementation already under way as implementation should be the focus. Two years have passed since the publication of these amendments, we are now in the year 2022, the date of initial application of IFRS 17 will be 1 January 2023 and the transition date will be 1 January 2022. Companies have mostly completed their implementation phases and we assume some of them have implemented approach A and others approach B, since IFRS 17 does not establish a specific method. Even some companies may have already produced the opening-balance sheets as of 1 January 2022. Any TAD at this stage that only accepts one of the two approaches will be completely disruptive for insurance companies that have chosen the other approach and will be contrary to the main principle which guided the IASB to accept making only limited changes in May 2020 to IFRS 17.

As previously said, ESBG believes **that both Approach A and B represent permissible interpretations of the principles of IFRS 17. However, if despite the above-mentioned arguments, the IFRS Interpretations Committee still believes that only one approach is a valid interpretation of IFRS 17 principles, then ESBG would recommend this issue to be addressed in a post-implementation review** together with other issues that were pending to be addressed as well as others that may arise in the future. As the due



Process Handbook mentions, when the Board undertakes a post-implementation review it has an opportunity to understand the effects of the change in financial reporting by comparison to those identified by the Board when it issued the new requirements. Once the standard is implemented, it will be possible to assess whether it is necessary to clarify the application criteria of paragraph B119.



About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.



European Savings and Retail Banking Group – aisbl

Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax : +32 2 211 11 99

Info@wsbi-esbg.org ■ www.wsbi-esbg.org

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Mr. Bruce Mackenzie,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD,
United Kingdom

Dear Bruce,

Subject: Comments of the Institute of Chartered Accountants of India on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee (IFRS IC) on Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

We agree with the conclusion in the TAD in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract.

With kind regards,

CA. Pramod Jain
Chairman,
Accounting Standards Board
Institute of Chartered Accountants of India



Aviva plc St Helen's 1 Undershaft London EC3P 3DQ
Telephone +44 (0) 20 7283 2000 www.aviva.com

Chairman
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom
23 May 2022

Dear Mr Bruce Mackenzie

Re: IFRS IC Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts)

We welcome the opportunity to comment on the IFRS IC Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts).

Aviva aims to be the UK's leading insurer; and we are the only insurer in the UK able to meet the needs of customers at every stage of their lives. We provide life insurance, general insurance and health insurance to 18.5 million customers in the UK, Ireland and Canada. We paid £14.9 billion in claims and benefits to customers in 2021. Our shares are listed on the London Stock Exchange and we are a member of the FTSE100 index.

Annuity contracts represent a very significant component of the UK's insurance market and are predicted to grow further over the period to 2030. As reported by PensionAge and Hymans Robertson, circa £150bn of BPA contracts have been written by eight UK market participants in the period 2009 to 2020 and transactions of £40bn per annum are forecast through to 2030, with continued high volumes up to 2040.

We are in the final stages of implementation of IFRS 17 ahead of the 1 January 2023 effective date, it is a matter of particular concern that for the UK's most significant product there is still uncertainty on how the CSM should be recognised.

We appreciate the time taken by the IFRS IC to consider this issue, however we have some major concerns with the tentative agenda decision which are set out below:

Interpretation of principles based standards

IFRS 17 is a principles based standard and does not prescribe a method for determining the quantity of benefits provided under a group of insurance contracts, rather it sets out a key principle that an amount of the contractual service margin (CSM) is recognised in profit or loss in each period to reflect the insurance contract services provided in that period.

As a major writer of annuity products in the UK we have experts involved in negotiating with our customers the service to be provided by our contracts. The submission from ICAEW set out on page 4 an explanation of this service, however we do not believe that this has been appropriately articulated in the IFRS IC agenda decision. In particular the staff analysis has focused on the insurance risk transferred as being survival. This does not align with the terms specified in these contracts where the insurance risk transferred is longevity, i.e. the risk that an individual lives longer than expected.

In our extensive experience of discussions with customers, particularly since the UK's pensions freedom act of 2014, the only reason a policyholder chooses an annuity contract, rather than an alternative product which provides a regular income, is for the protection against the risk that the policyholder lives longer than expected. Policyholders benefit from this protection service from inception of the contract, in the same way

that policyholders who take out protection against their death benefit in each period, even if they don't die in the period.

The staff analysis focuses on paragraph B119 and concludes that method 2 is not consistent with this paragraph because it would assign a quantity of benefits to periods for which the entity has no obligation to investigate and pay valid claims for the insured event. We disagree with this interpretation because the entity does have an obligation to investigate and pay valid claims as a consequence of the insurance coverage provided in the period and the amount the policyholder can validly expect to claim increases as a result of their survival in that period.

To apply appropriately the principle in the standard, that CSM is recognised in profit or loss in each period to reflect the insurance contract services provided in that period, we should be able to reflect the service that we agree with our customers to provide and which they pay for. The narrow interpretation proposed by the IFRS IC tentative agenda decision would prohibit us from doing this and would result in a presentation which we do not believe fairly reflects the financial position and performance in respect of annuity contracts.

We would also note that the technical analysis provided by the IFRS IC papers refers back to the May 2018 TRG paper which was based on the 2017 version of IFRS 17 and does not consider the changes that were made to the revised standard published in 2020, notably the acknowledgement that investment management services were a key part of meeting the obligations to policyholders under the contract terms of a UK annuity and thus amending the standard to permit the inclusion of investment management expenses in the fulfilment cashflows.

Scope of the IFRS IC agenda decision

We believe the proposed tentative agenda decision goes beyond the scope assigned to an IFRS IC agenda decision because it is not just an explanation of the standard's guidance, paragraph B119, it is an interpretation of what service the customer receives, and the method that can be used to recognise the associated revenue. We do not believe it is within the scope of the IFRS IC remit to opine on service provided.

Interaction of CSM and the risk adjustment

The staff analysis states in a number of places that the risk adjustment should include the margin associated with the protection service provided by a life contingent annuity. Our risk adjustment methodology is well advanced and our analysis of dry run results demonstrates that there is a component of service, over and above the uncertainty in the cash flows arising from the insurance risk transferred, that is not recognised in line with the transfer of service by applying method 1. While this can be a small amount per annum, for the very long term contracts in question the cumulative impact becomes very material over time.

Impact of the IFRS IC Tentative Agenda Decision

We are aware of jurisdictions where both methods 1 and 2, or indeed alternatives, are being used depending on the particular features of the contracts in question. If the tentative agenda decision is upheld we are concerned that this will significantly disrupt implementation of the standard. We would note that if both methods 1 and 2 are considered to be valid interpretations then there would be no disruption to implementation.

For simple annuity products without complex features, for instance without indexation, method 1 can work well, especially if the contract duration is not longer than c 15 to 20 years. For such simpler contracts the differences in the pattern of CSM recognition between method 1 and method 2 may not be significant. For more complex contracts with a range of features and contract durations of up to 70 years method 2 can be demonstrated to provide a more faithful representation of the service provided that aligns with how the contracts are priced and traded in open market transactions.

If the narrow interpretation proposed prevails then we expect to see lack of comparability and consistency of application and IFRS 17 will provide less decision useful information for investors and other users of accounts.

In summary

We urge the IFRS IC to reconsider its tentative agenda decision and recognise that both approaches are valid interpretations of the standard.

If the tentative agenda decision is upheld we do not believe it is logical to conclude that no standard setting activity is required when the outcome of the tentative agenda decision is that the key service associated with a life contingent annuity cannot be recognised in line with how the contracts operate in practice in an open and active market with knowledgeable willing participants.

We are at your service to answer any further questions you may have and work collaboratively with your staff to resolve this issue.

Yours sincerely,

Hugh Francis

Hugh Francis
Director of External Reporting Developments
Aviva plc
St Helen's
1 Undershaft
London EC3P 3DQ

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



Delfin Rueda
Chair
European Insurance CFO Forum



Olav Jones
Deputy Director General
Director Economics & Finance, Insurance Europe



**Mr. Bruce Mackenzie
Chair of the IFRS
Interpretations Committee**

Dear Mr. Mackenzie,

The Spanish Insurance Supervisor (Dirección General de Seguros y Fondos de Pensiones, DGSFP, depending on the Ministry of Economy and Business) is appreciative and supports the IFRS Interpretations Committee's (IFRS IC's) work and efforts to bring consistency in the application of IFRS Standards. However, we write you in relation to the IFRS IC Tentative Agenda Decisions in the final phase of implementing IFRS 17 Insurance Contracts. Although this topic has arisen in response to a question asked by UK, we are following it very closely due to the great impact it could have on Spanish annuity market. Therefore, after an in-depth analysis of the tentative decision, we understand that the staff will recommend only approach A can be applied, we want to share with you some concerns.

The approach B is used by most of Spanish Insurers in the IFRS17 implementation projects (methodology and IT), in a similar way that has been chosen by UK insurers. We consider that other jurisdictions may also be affected by this topic in addition to Spain.

If the final IFRS Interpretations Committee agenda decision is that the Approach A is the only acceptable, this could have a huge negative impact on the operational costs and on the IFRS17 implementation process. We understand that it could not be the right moment to introduce new criteria, since the implementation of the standard is in an advanced stage. This is because IFRS 17 comes in force in January 2023 but requires comparative financial statements from 2022, so there is less than one year before the date of first application of IFRS 17. Avoiding undue disruption to the implementation process was one of the criteria to be assessed in the amendment process initiated by the IASB in 2020 and should continue to be taken into account.

As IFRS 17 is a principle based standard, we believe that both, approach A and approach B, could be acceptable based on facts and circumstances, even for some kind of products approach B could be more adequate than approach A. We remember that TRG of IFRS 17 established: *The following methods would not meet the objective:*

(iv) methods based on expected cash flows, unless they can be demonstrated to be reasonable proxies for the services provided by the entity in each period. For example, expected cash flows will not be a reasonable proxy if they reflect

Paseo de la Castellana, 44
28046 MADRID
TEL.: 952 24 99 82

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different probabilities of claims rather than different levels of the service of standing ready to meet claims.

In this sense, we understand that restrictive interpretations should be done only for very specific cases. We consider that the prohibition or limitation of a methodology on a general basis should have been done in the body of the regulation and not in subsequent interpretations. In our opinion, if the IFRS IC's interpretation is not clearly defined about its scope, the criteria could be applied in a general basis, even in cases in which approach B could fit better.

For all this, and thanking you in advance for all the effort to provide a high-quality standard for insurance contracts accounting, we kindly reminds the IFRS IC of any potential impact that an Agenda Decision may have.

Best regards,

Director-General of Insurance
and Pension Funds

Sergio Álvarez Camiña



Bruce Mackenzie
Chair
IFRS Interpretation Committee
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

The IFRS Interpretations Committee's tentative agenda decision on Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

Dear Mr Mackenzie,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that enhances the protection of investors and promotes stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU.

ESMA strongly supports the work of the IFRS Interpretations Committee (IFRS IC) to promote the consistent application of IFRS and continuous improvement of financial reporting quality. ESMA therefore appreciates the opportunity to respond to the IFRS IC's tentative agenda decision on Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17).

The IFRS IC discussed a question about how an entity determines, for a group of annuity contracts, the amount of the contractual service margin to recognise in profit or loss in a period as a result of the transfer of insurance coverage for survival in that period.

ESMA agrees with the IFRS IC's tentative agenda decision that in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, a method based on the amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period, while a method based on the present value of expected future annuity payments (Method 2) does not meet this principle.

We consider that this decision would provide the necessary clarity and improve the consistent application of principles and requirements of IFRS 17.



In case you have any questions or comments regarding this letter, I suggest you contact Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

Verena Ross

Rothsay

The Post Building
100 Museum Street
London WC1A 1PB
Phone: 020 7770 5300
Web: rothesay.com

Private and confidential

IFRS Interpretations Committee (IFRIC)
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

23 May 2022

Dear IFRIC,

Tentative Agenda Decision: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

I am writing to you on behalf of Rothsay in relation to IFRIC's tentative agenda decisions regarding Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts) issued in March 2022.

As you may know, Rothsay is the UK's largest pensions insurance specialist, purpose-built to protect pension schemes and their members' pensions. With over £60 billion of assets under management, Rothsay secures the pensions of over 830,000 people and pays out, on average, more than £240 million in pension payments each month.

We would like to make clear that our view on this topic is aligned with the response of the Association of British Insurers. We continue to believe that there are multiple methods for quantifying the benefits provided under an annuity contract for the purpose of the CSM amortisation calculation, which are in line with the IFRS 17 Standard. We are concerned that the IFRIC tentative agenda decision narrows permissible approaches to solely Method 1 and discounts Method 2, a method which we believe more accurately reflects the service provided by annuity contracts. We believe that following Method 1 will have a detrimental impact to the introduction of IFRS 17, and will go against the key aims of the Standard.

The following points summarise the key areas of the Standard that we believe the tentative agenda decision would jeopardise:

1. **True and fair view** – Given the size of the UK annuity market, and the expected growth over the coming years, we believe that it is critical that the accounting standard used should give a true and fair view of the economics of annuity business. We believe that following Method 1 would not do this, as it would result in a material overstatement of the CSM for many decades and would generate a material divergence between the economic view of annuity business written, and that which is reflected in the IFRS 17 balance sheet. As a result, insurers will continue to rely on alternative performance

Rothesay

measures.

2. **Lack of comparability** – The derivation and weighting of coverage units required under Method 1 for the investment return service is likely to result in coverage units that are significantly different from the coverage units derived for insurance service. This will create significant additional operational complexity and lead to a material divergence in IFRS 17 results for annuity business. Hence there will be a lack of comparability between preparers. This is particularly the case for complex agreements such as bulk purchase annuity contracts, which include a variety of benefits beyond those offered under a simple immediate annuity. This lack of comparability goes against one of the key aims of IFRS 17, namely enhancing the comparability of results between insurers.
3. **Principles based Standard** - The IFRS 17 Standard is principles based, and involves significant judgement on how to apply the Standard to various insurance products. Given the absence of explicit definitions of coverage units in the context of CSM amortisation, we believe that permissible approaches should not be dismissed, and should not be limited to a closed list of options.

Given the above, we believe IFRIC should revisit the analysis presented in the tentative agenda decision to not dismiss approaches in line with Method 2. Alternatively, IFRIC could consider a standard setting process in order to amend the Standard such that economic and rational approaches such as Method 2 are deemed permissible.

Yours sincerely,



Andrew Stoker
Chief Financial Officer



IASB Interpretation Committee – Comment on tentative agenda decision: “Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)” – March 2022 Agenda Paper 2

IFoA Response

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Key points

The IFoA welcomes the opportunity to comment on the tentative agenda decision made by the IASB IFRS Interpretation Committee on the ‘Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts)’, at its March 2022 meeting.

In relation to the transfer of insurance coverage (the service) for an immediate annuity in payment (the ‘fact pattern’), we view that a range of methods could be permitted in a principles-based standard, and this is not limited to the two methods considered by the Committee in its March 2022 meeting.

IFRS 17 is not explicit on whose perspective to consider when considering the service provided from an insurer to a policyholder (or customer) and the policyholder’s perspective is likely to be very different to the insurer’s. For an immediate annuity in payment a policyholder may perceive a more continuous service at a different rate to that implied by discrete payments received each period.

The Committee concluded that providing a service to a policyholder can only occur during periods where valid claims are paid/ investigated. In our view IFRS 17 does not explicitly state this and it depends on the interpretation of the word ‘service’ and whose perspective this is considered from. We view that a policyholder could quite easily envisage an insurer providing a service during periods where no valid claims are paid.

We also observe:

- a potential inconsistency between the proposed treatment of insurance coverage through Method 1 compared to the treatment of investment-return (General Model) or investment-related (Variable Fee Approach) services; and
- there may be unintended consequences from the tentative agenda decision. For example, adopting Method 1 for a pure endowment would result in no CSM being released to profit or loss until the last day of the contract. Similarly, for contracts that provide guarantees at specific points in the policy lifetime (e.g. maturity) no related CSM would be released to profit or loss until the period in which the guarantee can be taken-up. This appears counter-intuitive to the policyholder’s view of service (and so CSM being released) throughout the contract lifetime.

In our experience within the UK and globally, we expect that there may be divergence in practice in the application of paragraph B119 of IFRS 17 across similar products and so the recognition of CSM to profit or loss. This is not limited to the fact pattern considered by the Committee. In our view, this is an area that the IASB should consider in any future Post Implementation Review of IFRS 17.

Hong Kong

London (registered office)

Oxford

Singapore

1803 Tower One · Lippo Centre · 89 Queensway · Hong Kong · Tel: +852 2147 9418

7th Floor · Holborn Gate · 326-330 High Holborn · London · WC1V 7PP · Tel: +44 (0) 20 7632 2100

1st Floor · Park Central · 40/41 Park End Street · Oxford · OX1 1JD · Tel: +44 (0) 1865 268 200

163 Tras Street · #07-05 Lian Huat Building · Singapore 079024 · Tel: +65 6906 0889

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to comment on the tentative agenda decision made by the International Accounting Standards Board (IASB) IFRS Interpretation Committee (the 'Committee') on the 'Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)' (Agenda Paper 2), at its March 2022 meeting.
2. The tentative agenda decision of Committee is set out here: <https://www.ifrs.org/news-and-events/updates/ifric/2022/ifric-update-march-2022/#1> and our comment is technical in nature based on this decision.
3. We have been actively engaged in the development of IFRS 17 for a number of years including responding to each Exposure Draft published by the IASB and through supporting the global IFRS 17 work of the International Actuarial Association (IAA).
4. It is important to note that, as for any IFoA response, we have considered the tentative agenda decision made by the Committee from an independent, public interest perspective.

Principles-based standards

5. Paragraph 1 of IFRS 17 notes that the standard '*establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts ...*'. IFRS 17, consistent with other IFRSs, is principles-based and a range of approaches within the principles is permitted with disclosure required of material areas of judgement.
6. On the release of the Contractual Service Margin (CSM) to profit or loss through coverage units, the IASB's Transition Resource Group (TRG) in May 2018 noted the following in paragraphs 32 and 33 of the meeting summary¹ [emphasis in bold added]:

*"32. TRG members discussed the analysis in Agenda Paper 5. They observed that IFRS 17 **established a principle** (to reflect the services provided in a period under a group of insurance contracts), **not detailed requirements**, and that it would not be possible to develop detailed requirements that would apply appropriately to the wide variety of insurance products existing globally.*

*33. TRG members also observed the determination of coverage units is not an accounting policy choice **but involves judgement and estimates to best achieve the principle of reflecting the services provided in each period**. Those judgements and estimates should be applied systematically and rationally."*

7. In relation to the transfer of insurance coverage (the service) for an immediate annuity in payment (the 'fact pattern'), we view that a range of methods could be permitted in a principles-based standard and this is not limited to the two methods considered by the Committee in its March 2022 meeting.

Perspective of service when applying IFRS 17

8. The tentative agenda decision by the Committee focuses on the application of paragraph B119 of IFRS 17 and the definition of the 'Liability for Incurred Claims' and the 'Liability for Remaining Coverage' as defined in Appendix A to IFRS 17. In applying paragraph B119 of IFRS 17, an entity is required to identify the insurance contract services, in particular, the insurance coverage for the immediate annuity in payment fact pattern considered by the Committee. IFRS 17 is not explicit on whose perspective to consider when considering the service provided from an insurer to a

¹ <https://www.ifrs.org/content/dam/ifrs/meetings/2018/may/trg-for-ifrs-17/trg-for-ifrs17-meeting-summary.pdf>

policyholder (or customer) and the policyholder's perspective is likely to be very different to the insurer's. However, the IASB's TRG in May 2018 notes in paragraph 35(d) of the meeting summary²:

'determining the quantity of benefits provided under a contract requires an entity to consider the benefits expected to be received by the policyholder, not the costs of providing those benefits expected to be incurred by the entity.'

This is further expanded in the International Actuarial Association's (IAA's) IAN 100³ para 6.14:

'(c) The quantity of benefits is determined from the policyholder perspective and not the quantity of benefits expected to be incurred by the insurer;'

For an immediate annuity in payment a policyholder may perceive a more continuous service at a different rate to that implied by discrete payments received each period. This is noted in paragraph 4 of the executive summary of the submission made by the ICAEW⁴ (18 November 2021) to the IASB:

'The differences in interpretation relate to different views on the service that is provided and this in turn results in a difference in the approach to releasing the CSM and revenue recognition. Some consider that service is represented by the benefits and commitments made by the insurer to the policyholder as described in the policyholder documentation described in section 2 of this paper. Others consider the payments made to the policyholder are the relevant measure of service under IFRS 17.'

9. The Committee's conclusion on Method 2 states [emphasis in bold added]:

- a. *the present value of expected future annuity payments (Method 2) does not meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period because it would:
 - i. assign a quantity of the benefits to **periods for which the entity has no obligation to investigate and pay valid claims** for the insured event (for example, to the deferral period of a deferred annuity contract)....*

The decision concludes that providing a service to a policyholder can only occur during periods where valid claims are paid/investigated. In our view IFRS 17 does not explicitly state this and it depends on the interpretation of the word 'service' and whose perspective this is considered from. We view that a policyholder could quite easily envisage an insurer providing a service during periods where no valid claims are paid. For example, for an immediate annuity in payment the element of protection afforded to the policyholder from a guaranteed income for the rest of their life.

10. In addition, we observe:

- a. a potential inconsistency between the proposed treatment of insurance coverage through Method 1 compared to the treatment of investment-return (General Model) or investment-related (Variable Fee Approach) services. For the two types of investment service there is no prescription in IFRS 17 that a service is provided only where the policyholder has a right to withdraw '*in that period*' as it is recognised that the insurer provides such service over time through, for example, the management of assets for the policyholder. This seems contrary to Committee's view that insurance coverage can only be provided where valid claims are paid/investigated in the period.
- b. There may be unintended consequences from the tentative agenda decision. For example, adopting Method 1 for a pure endowment⁵ would result in no CSM being released to profit or loss

² <https://www.ifrs.org/content/dam/ifrs/meetings/2018/may/trg-for-ifrs-17/trg-for-ifrs17-meeting-summary.pdf>

³ https://www.actuaries.org/IAA/Documents/Publications/IANs/IAA_IAN100_31August2021.pdf

⁴ <https://www.icaew.com/-/media/corporate/files/technical/financial-services/ifrs17-and-iasb/ifrs-17-letter-to-the-iasb.ashx>

⁵ A pure endowment is a type of life insurance in which the insurer guarantees to pay the insured a specific sum of money if the life assured lives to the end of the policy's term.

until the last day of the contract. This appears contrary to the service that a policyholder would view as being provided throughout the contract lifetime. Similarly, for contracts that provide guarantees at specific points in the policy lifetime (e.g. maturity) no related CSM would be released to profit or loss until the period in which the guarantee can be taken-up. This appears counter-intuitive to the policyholder's view of service (and so CSM being released) throughout the contract lifetime.

Other considerations

Weighting of services

11. The Committee considered Method 1 and 2 in relation to the immediate annuity in payment fact pattern. A topic which was not explicitly considered by the Committee is the impact of each Method for more complex products where different services are required to be weighted when determining the insurance contract services in each period and so the coverage units (i.e. release in CSM to profit or loss). The need to make judgements is common throughout accounting standards and the weighting between different services was identified by the IASB to be a key judgement and so the disclosures requirements in paragraph 117(v) of IFRS 17 were developed.
12. Section 4 of the ICAEW submission⁶ to the Committee sets out the impact of Method 1 and 2 for a deferred annuity where there is the requirement to weight between investment-return service (in the deferred period) and insurance coverage (when the annuity is in payment). In our experience, the requirement to apply Method 1 for insurance coverage is likely to result in less consistent practice between insurers in selecting the weighting of service for a deferred annuity than if Method 2 was adopted. As consequence, we expect that the adoption of Method 1 will result in less consistent recognition of profit between insurers for similar deferred annuity contracts. There are also likely to be practical barriers for insurers to convergence over time post-implementation of IFRS 17, for example, the potential need to reset transition balances determined on a fully retrospective approach.

Application of the risk adjustment

13. In line with IFRS 17 requirements the risk adjustment is determined based on the 'compensation' required for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk (which for an immediate annuity in payment would primarily reflect longevity risk). The implication of paragraph 41 of the IASB Staff Paper⁷ presented to the Committee is that the element of protection afforded to the policyholder (from a guaranteed income for the rest of their life) may be part of the risk adjustment and that in Method 2 this influences the CSM release to profit or loss. In our experience this element is not part of the risk adjustment and, as set out in paragraph 7, above we view that a policyholder could envisage this as a service.

Post Implementation Review of IFRS 17

14. In our experience within the UK and globally, we expect that there may be divergence in practice in the application of paragraph B119 of IFRS 17 across similar products and so the recognition of CSM to profit or loss. This is not limited to the immediate annuity in payment fact pattern considered by the Committee. In our view, this is an area that the IASB should consider in any future Post Implementation Review of IFRS 17.

⁶ <https://www.icaew.com/-/media/corporate/files/technical/financial-services/ifrs17-and-iasb/ifrs-17-letter-to-the-iasb.ashx>

⁷ <https://www.ifrs.org/content/dam/ifrs/meetings/2022/march/ifric/ap02-profit-recognition-for-annuity-contracts-ifrs-17.pdf>

We trust that these comments will be useful to the IASB Interpretation Committee in relation to their tentative agenda decision. We would welcome the opportunity to discuss our comments with the IASB.

Should you want to discuss any of the points raised please contact me, Technical Policy Manager (steven.graham@actuaries.org.uk) in the first instance.

Yours Sincerely,

A handwritten signature in black ink that reads "Steven Graham". The signature is written in a cursive style with a small flourish at the end.

Steven Graham

On behalf of Institute and Faculty of Actuaries



TENTATIVE AGENDA DECISION: TRANSFER OF INSURANCE COVERAGE UNDER A GROUP OF ANNUITY CONTRACTS (IFRS 17)

Issued 23 May 2022

ICAEW welcomes the opportunity to comment on the Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17) published on 23 March 2022, a copy of which is available from this [link](#).

For questions on this response please contact the ICAEW Financial Reporting Faculty at frf@icaew.com quoting REP 41/22.

This response of 23 May 2022 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on corporate reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial and non-financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common corporate reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 161,000 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
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The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

1. We thank the IASB staff and the members of the Interpretation Committee (the Committee) for the time taken to analyse and interpret the question raised regarding the quantity of benefits provided under a group of annuity contracts.
2. The Committee has tentatively reached the view that Method 1 (and not Method 2) meets the principle described in paragraph 119 of IFRS 17. During our discussions of the Tentative Agenda Decision, some of our members expressed concerns, set out in paragraphs a-c below, about this conclusion. We would urge the Committee to consider these points when finalising their decision. In addition, we believe these points should be considered by the IASB when it conducts the post-implementation review of IFRS 17:
 - a. Some of our members believe that Method 2 would yield less diversity in application, particularly for deferred annuities, as they believe it allows insurers to use the same profile of coverage units for the insurance and investment return services and that this profile would be related to the economics of the contract and result in improved decision useful information for users. They believe that Method 1 will create diversity in practice that would be undesirable and have the potential to result in notable comparability issues for users.
 - b. Method 2 is likely to be operationally simpler for preparers while still meeting the needs of users. This is true particularly in the context of Bulk Purchase Annuities, where a single contract may provide insurance coverage services for many thousands of individuals. It is common in this type of contract for there to be numerous services, including death benefits, spouse and other dependents benefits, and some individuals will have annuities in payment, while others will be in the pre-retirement phase. Application of Method 1 to such complex contracts is operationally very challenging, whereas supporters of Method 2 believe the insurance services and investment return service are reflected appropriately using the method during both the deferred and pay-out periods. In addition, there is a concern that the tentative agenda decision as it currently stands will cause costly disruption to entities' implementation of IFRS 17 by not permitting Method 2.
 - c. Finally, the interpretation concludes that the 'service provided' is linked only to the period in which valid claims can be paid. Some of our members consider that the interpretation made by the Committee of the services provided by an annuity contract does not capture adequately the value of surviving to the end of the period, which includes both the annuity payment as well as the benefit of a guaranteed income for life at the rates agreed at inception of the contract. If the interpretation of the 'service provided' were to include the value of survival, this may affect the tentative decision that Method 2 is not appropriate under IFRS 17.
3. In summary, we believe that the concerns set out above should be considered carefully during the finalisation of the agenda decision and during the eventual post-implementation review of IFRS 17.

Mr Bruce MacKenzie
IFRS Interpretations Committee Chair
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Paris, 23 May 2022

March 2022 IFRIC Tentative Agenda Decision – Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts)

Dear Bruce,

Mazars welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision (TAD), issued in March 2022, on Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts).

We agree with the Committee's statement that IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in IFRS 17.B 119 of reflecting the insurance contract services provided in each period. Different methods may achieve that principle depending on the facts and circumstances.

We also agree with the TAD in respect of the steps outlined to assess B119 and would add one step (d) in accordance with paragraph 44(e) being:

- a. Identification of the insurance coverage provided under the insurance contract
- b. Determining the coverage period of the insurance contract (which would imply determining when coverage starts and when coverage ends)
- c. Determine the quantity of benefits provided for insurance contract services over the whole coverage period
- d. Allocation of quantity of benefits to the current period based on transfer of insurance contract services in that period

We concur with the TAD under (a) that the insurance coverage provided is that for survival. We note that, according to IFRS 17.BC 283, an annuity payment, which is a partial settlement of a liability, is not considered to be a service provided by the entity.

On the derived definition of an insurance coverage period

Under (b) the TAD concludes: “the expected coverage period would reflect the entity’s expectations of how long the policyholder will survive.” This provides an interpretation on when the coverage period is expected to end, which cannot be beyond the point a policyholder dies, but does not address when the coverage period starts, which is a critical aspect of the request.

The TAD further states: “The definitions of the liability for incurred claims and the liability for remaining coverage in Appendix A to IFRS 17 describe insurance coverage as ‘an entity’s obligation to investigate and pay valid claims for insured events’”. We disagree with the TAD that this definition provides interpretative guidance or requirements on insurance coverage and more specifically on when the coverage period starts under an insurance contract.

At contract inception – even if entering a deferral period – a liability for remaining coverage (LRC) is accounted for reflecting, per Appendix A definition, the existence of an “obligation to investigate and pay valid claims under existing contracts for insured events that have not yet occurred (unexpired portion of the insurance coverage)”. Accordingly, the statement made in the TAD that in this period “the entity has no obligation to investigate and pay valid claims” is in contradiction with the LRC definition in the standard.

We acknowledge that BC140-142 – which provide the Board’s view in regard of recognition of a group of insurance contracts under paras 25 to 28F – make a distinction between an “accepted” obligation and a “recognised” one. These bases set out the Board’s thinking on when an entity should start recognition of a group of insurance contracts. We acknowledge that for some insurance contracts an entity accepts insurance risks before it starts to transfer insurance contract services, but we do not agree that these words translate into guidance or requirements on when the coverage period under an insurance contract starts or in what period insurance contract services are being transferred. We do not read in these bases nor in the LRC definition in appendix A how to derive from these texts the criteria for triggering/defining the starting point of the “insurance coverage” as ‘an entity’s obligation to investigate and pay valid claims for insured events’. Since insurance coverage is a pivotal concept in the standard, if the Board’s intent were to introduce such a definition, we think that it would require standard-setting.

On method 1

We concur with the Committee’s view that the annuity payments, recognising actual survival in a year (Method 1) meet the principle in IFRS 17.B119 of reflecting the insurance coverage provided in each period of an immediate annuity. We believe that, upon survival a policyholder is entitled to receive compensation i.e. the entity’s contingent obligation / or stand ready obligation to compensate a claim (LRC) has turned into an obligation to pay it (Liability for Incurred Claim, LIC), which has eventually been settled in the same period. Method 1 is a suitable basis if there is the presumption that no service is transferred prior to pay-out commencing.

On method 2

We do not agree with the Committee discarding Method 2 because of the two new criteria introduced in the decision. As explained above, we believe that these criteria are not sufficiently obviously derived from the standard’s definitions but rather are the result of the Committee’s judgement and would go beyond the remit of a tentative agenda decision. Introducing such criteria could impact the

understanding of “insurance coverage” and therefore have unintended consequences for insurance contracts beyond those corresponding to the fact pattern in the request.

On the scope of the decision

We note that, when clarifying the scope of the decision, the Committee describes the risk adjustment for non-financial risk as “representing the entity’s compensation for bearing **insurance risk and other non-financial risks**”. This definition differs from the one provided in Appendix A according to which it rather represents the “compensation for bearing **the uncertainty about the amount and timing of the cash-flows that arise from non-financial risk**”. We fear that modifying the definition in an agenda decision might lead to unintended interpretations and blurs the common understanding of the standard. We believe references to the use of the risk adjustment itself should be avoided in the final agenda decision, as it was not an explicit question and as it risks unintended consequences.

On the timing of the decision


There are concerns about whether, if the TAD is finalised as exposed, there is sufficient time for implementation prior to 1 Jan 2023. Immediate application is an issue for any agenda decision, and we do not believe that the IFRS Foundation should deal with these issues by holding off responding to questions. However, the IASB should do more to reflect on the timing and impact of agenda decisions as part of due process.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,



Michel Barbet-Massin
Financial Reporting Technical Support



Edouard Fossat

23 May 2022

Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Mr Mackenzie

Tentative agenda decision – Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2022 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS and Corporate Reporting Leader



AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.™

May 23, 2022

Bruce Mackenzie
Chair
Interpretations Committee
International Financial Reporting Standards (IFRS) Foundation
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
UK

Dear Chair Mackenzie:

The IFRS 17 Work Group (Work Group) of the American Academy of Actuaries (Academy)¹ welcomes the opportunity to comment on the tentative agenda decision “Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)”—March 2022 Agenda Paper 2.

Work Group members have had considerable insight into IFRS both through their experience in the United States with entities with parent companies that report under IFRS and as parent companies of foreign subsidiaries that will be required to report under IFRS. As a result, the Work Group has been involved with commenting on IFRS 17 prior to adoption.

As stated in the Interpretations Committee March 2022 consultation, “IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in paragraph B119 of reflecting the insurance contract services provided in each period. Different methods may achieve that principle depending on the fact pattern.”

In the response below, the Work Group supports a broader view of insurance contract services than what is described in the tentative decision. Rather than ask for an amendment to the tentative decision, the Work Group requests a withdrawal of the tentative decision. The Work Group is concerned about unanticipated consequences to IFRS 17 implementation of setting out a rule to narrow the interpretation of “insurance contract services” at this moment immediately before the implementation of the standard.

There are several reasons to consider the period prior to the initiation of payments to be part of the insurance period, or coverage unit, for which the contractual service margin (CSM) should be

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

amortized. As the International Accounting Standards Board (IASB) considered in amending IFRS 17, Insurance Contract Services now include the generation of investment returns. The premium paid for these deferred payment annuities anticipates both the generation of investment returns and expected mortality among the covered individuals. Also, the individuals who will receive the payment have insurance from the beginning of the contract.

For life insurance, the insurance payment commences if one dies during the period. For these contracts, the insurance is for if one survives the period. From the date the contract is issued, the insurer is subject to the risk of higher survival rates. The fact that these two risks offset each other makes the deferred income annuity a natural hedge for insurance companies to sell.

The coverage unit, over which CSM would be amortized, could be based on the number of lives insured. Like life insurance, the coverage unit could be based on the scheduled amount of the future payment, which represents the amount of survival insurance. In U.S. generally accepted accounting principles (GAAP) there is precedence for using the present value of payments, such as described in the provided sample case and which represents both the amount of survival insurance and the generation of investment returns, to amortize a similar concept—deferred profit liability.

Paragraphs BC140 and BC141 do not appear to be appropriate comparisons for the following reasons. In those paragraphs, the coverage period has not started. If something happens prior to the coverage period, the premium, if any has been received, will be returned. In the example, the coverage period has started. There is no refund if the insured dies prior to first payment.

If the tentative decision is unable to be withdrawn, the Work Group suggests an amendment to allow the entity that has sold the insurance contract to determine the coverage units that are appropriate for the insurance contract once the coverage under the insurance contract has begun. The Work Group acknowledges that it is often difficult to divide an insurance policy into distinct pieces, and for that reason it supports a principle-based approach be adopted by the standard.

If you have any questions about this letter or seek additional information from the Academy, please contact Sam Owen, risk management & financial reporting policy analyst, at owen@actuary.org.

Sincerely,



Douglas S. Van Dam, MAAA, FSA
Chairperson
IFRS 17 Work Group
American Academy of Actuaries



IFRS Foundation

Columbus Building, 7 West ferry Circus

Canary Wharf, London E14 4HD

United Kingdom

23 May 2022

Dear Sir/Madam,

**Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS)
Submission – commentary on Tentative Agenda Decision and comment letters: Transfer of
Insurance Coverage under a Group of Annuity Contracts (IFRS 17).**

In response to your request for comments on Tentative Agenda Decision and comment letters: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17), attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in auditing, IFRS specialists, and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Nyasha Chakuma

Project Director

Webster Sigauke

Project Director

Project team : Desmond Makoni

: Allen Mazhaume

Our responses to the decision are as below:

We agree with the committee's thinking pattern and decision because of the following:

1. Though method B results may be viewed by some entities as a more appropriate reflection of the economics and profitability pattern of the annuity insurance contracts, consistency with the underlying principles of IFRS 17 especially paragraph B119 of reflecting the insurance coverage provided in each period is key. A decision away from the principles of IFRS 17 may have undesirable consequences considering:
 - i. The possible applicability of **method 2** to also contracts other than annuity contracts may result in divergence of treatment by insurance firms which will impact the comparability and understandability of the financial statements by users.
 - ii. This may trigger similar requests from different stakeholders on dissimilar issues due to the diverse nature of insurance contracts which may ultimately result in the comparability of the financial statements becoming difficult thereby defeating one of the key purposes of the development of IFRS 17.
 - iii. Currently, insurance firm's world over are at advanced stages of implementing IFRS 17 and amendments to the standard at this particular point in time will be costly and disruptive to the process as it may force further delays of the effective date of application of the standard.

However, though we do agree with the board's decision, the possible differences in economic and profitability patterns arising from the impact of both methods are a major cause for concern which may require to be looked at more closely in the future post-implementation.

May 23, 2022

Bruce Mackenzie, Chair
IFRS Interpretations Committee
7 Westferry Circus
Canary Wharf
London, UK
E14 4HD

Subject: Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

The Canadian Institute of Actuaries (CIA) is thankful for the opportunity to comment on the IFRS Interpretations Committee (IFRIC) tentative decision on the transfer of insurance coverage under a group of annuity contracts (IFRS 17 insurance contracts), following their meeting held on March 15, 2022. This meeting was held to address a submission received regarding the interpretation of IFRS 17 with respect to the service provided by a life contingent annuity and the principles for recognizing that service through the release of the contractual service margin (CSM). The submission sought views on whether the two approaches presented in it were both acceptable interpretations of the principles of IFRS 17. The CIA respectfully disagrees with the tentative decision rendered by the IFRIC. This letter details the CIA's position.

Introduction

IFRS 17 paragraph B119 states “An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the **insurance contract services** [emphasis added] provided under the group of insurance contracts in that period.”

Appendix A of the IFRS 17 Standard defines **insurance contract services** as “the following services that an entity provides to a **policyholder** of an **insurance contract**:

- (a) coverage for an **insured event** (insurance coverage);
- (b) for **insurance contracts without direct participation features**, the generation of an investment return for the policyholder, if applicable (investment-return service); and
- (c) for **insurance contracts with direct participation features**, the management of underlying items on behalf of the **policyholder** (investment-related service).”

The fact pattern presented in the submission of the Institute of Chartered Accountants in England and Wales (ICAEW) did not include information on whether or not investment-return services or investment-related services exist. Therefore, the IFRIC tentative decision on whether or not insurance contract services are provided in a given period focused on whether or not

there is insurance coverage in the given period as the topic of investment-return services or investment-related services was out of scope.

This letter focuses on the question of the existence of insurance coverage in the fact pattern addressed in the IFRIC tentative decision, and the implication of that assessment on other potential fact patterns.

Analysis of the IFRIC interpretation on the issue

On page 7 describing Approach A (Method 1), the ICAEW submission states “Proponents of this approach believe that an annuity contract has a series of insured events, being survival to future points in time that valid claims can be made by the policyholder under the contract. A key feature of the contract is that the policyholder needs to remain alive up to each point in time in order to claim from the insurer the contractually agreed annuity payment.” Put another way, the next payment that an annuitant will receive is contingent upon survival to that point.

IFRIC acknowledges that this contingent survival requirement makes the annuity contract an insurance contract, which is subject to accounting under IFRS 17. While IFRIC acknowledges that there is insurance coverage under the contract given the contingent survival, it restricts its interpretation of insurance coverage to amounts “determined based on the annuity payment the policyholder is able to validly claim *in the current period* [emphasis added].”

The CIA believes that IFRIC’s interpretation of Approach A (Method 1) is too narrow, for the following reasons:

1. IFRS 17 Appendix A defines **insurance contract services** as “...(a) coverage for an **insured event...**,” and defines an **insured event** as “an uncertain future event covered by an **insurance contract** that creates **insurance risk**.” There is no dispute that an annuity contract, as defined in the fact pattern of the ICAEW submission, provides insurance coverage, but clarity is lacking over exactly when insurance coverage is provided.

The CIA supports the view that insurance coverage is provided from initial recognition of the annuity contract for contracts that are not onerous,¹ given that recognition of the contract creates insurance risk in that all future payments are subject to uncertain future events from the moment the contract is recognized. This logic would be applicable to payout and deferred annuities.

2. The “Applying paragraph B119 of IFRS 17” subsection of the IFRIC’s tentative decision states that “The definitions of the liability for incurred claims (LIC) and the liability for remaining coverage (LRC) in Appendix A to IFRS 17 describe insurance coverage as ‘an

¹ For onerous contracts, initial recognition may occur prior to the start of the coverage period (per IFRS 17 paragraph 25). The CIA’s view is that insurance coverage under these contracts would become effective on the date the contract would have been recognized had it not been onerous.

entity's obligation to investigate and pay valid claims for insured events.'" IFRIC's response infers that these definitions mean there can only be insurance coverage provided in an accounting period for which a claim can be made in that period.

The CIA does not agree with such an inference, as the requirement to pay a valid claim in the definitions of LIC and LRC are cited out of context in support of IFRIC's position, nor do those definitions of LIC or LRC imply there is no coverage in an accounting period where there is no possibility of a claim being paid.

3. IFRIC's response goes on to say in the same paragraph "In addition, paragraphs BC140 and BC141 of the Basis for Conclusions on IFRS 17 explain that an entity can accept insurance risk before it is obliged to perform the insurance coverage service. Therefore, in determining the quantity of the benefits of insurance coverage provided under a contract, an entity considers (a) the periods in which it has an obligation to pay a valid claim if an insured event occurs; and (b) the amount of the claim if a valid claim is made."

Those particular Basis of Conclusions paragraphs relate to the initial recognition of an insurance contract, not to amortization of CSM subsequent to initial recognition. Although we acknowledge that an entity can accept insurance risk before insurance coverage service is provided for onerous contracts, the CIA believes that this reference to BC140 and BC141 is taken out of context. The coverage period for deferred annuities starts at the beginning of the deferral period and insurance coverage service is provided throughout the deferral period. The situation covered in paragraphs BC140 and BC141 does not apply to the issue being analyzed, as insurance risk is accepted throughout the coverage period for deferred annuities. The intent of BC140 and BC141 is to minimize administrative complexity associated with recognizing insurance contracts before contractual coverage becomes effective, not to create an inference that there can only be insurance coverage in a period in which a claim payment can be made.

The IFRS 17 Standard does not explicitly state that the possibility of a payment in an accounting period is a prerequisite for insurance coverage in that period. We acknowledge the reasonability of such a conclusion in the context of some fact patterns, such as a life insurance contract, where the insured event is death, and the occurrence of the insured event expires the contract – clearly there is no insurance coverage if occurrence of the insured event can expire the contract without a benefit being paid. But such a conclusion does not seem like a sound interpretation of the Standard in the context of an annuity contract (or an endowment contract), where the insured event is survival, and the occurrence of the insured event does not expire the contract – i.e., coverage continues if the insured event happens, whether or not a payment is made in the period.

4. In its conclusion, IFRIC endorses approach A (Method 1), saying "the amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle

in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period by:

- a. assigning a quantity of the benefits only to periods for which the entity has an obligation to investigate and pay valid claims for the insured event (survival of the policyholder); and
- b. aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim in each period.”

Such an inference is based on the narrow interpretations of Appendix A and BC140/141 noted above in points 2 and 3.

Paragraph B119 simply states that “The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.” To be clear, IFRS 17.B119 does not state that there can be a quantity of benefits assigned only to periods for which the entity has an obligation to investigate and pay valid claims.

The CIA is of the view that IFRIC’s tentative conclusion is an overly narrow interpretation of the requirements of other parts of the Standard, taken out of context, and not an objective application of B119.

Furthermore, IFRIC’s rationale for rejecting Approach B (Method 2) is founded on the same narrow interpretation that there must be a benefit potentially payable in an accounting period in order for there to be insurance coverage in that accounting period. For the same reasons noted above, the CIA does not believe that this “stand ready to pay in an accounting period” is a prerequisite for the existence of insurance coverage under the IFRS 17 Standard. As such, the CIA does not agree that the IFRIC response provides sound reasoning to invalidate Approach B (Method 2) as contrary to the Standard.

Logical inconsistencies of IFRIC’s interpretation with specific examples

Regarding the application of either Approach A (Method 1) or Approach B (Method 2), the CIA believes that the fundamental issue is whether or not insurance coverage can be provided during a period in which a contractual benefit is not potentially payable. IFRIC’s response suggests that it cannot be. However, this position leads to inconsistencies in its application.

Consider an endowment insurance contract that pays a benefit to the insured if, and only if, the insured survives to a point several years in the future. Application of the “stand ready to pay” doctrine in IFRIC’s position would imply that there is no insurance coverage provided under this contract until the very last accounting period of the contract, should the insured survive to that point, because this is the only accounting period in which a benefit could potentially be paid under the endowment contract. The CIA is of the view that this interpretation would be contrary to the intent of B119. This type of outcome is the consequence of artificially narrowing the interpretation of the IFRS 17 Standard to suit one particular conclusion.

In the case of an endowment contract noted in the previous paragraph, the CIA believes that a sounder judgment would be a level coverage unit basis over the entire term of the contract, perhaps weighted for the probability of survival to each future period, although that latter nuance is not important for this discussion. A level coverage unit basis would recognize that there is an uncertain future event that creates insurance coverage from the moment the endowment contract is recognized, per the definitions of insurance contract services and insured events in IFRS 17 Appendix A. The potential future benefit is a good proxy for the amount of that coverage throughout the lifetime of the contract.

Similarly, an annuity contract is merely a series of endowment contracts. The next benefit payable could be a sound coverage unit basis under Approach A (preferable to the benefit payable in the current period), as it appropriately reflects that there is insurance coverage in the form of contingent survival to the next payment date, even if that next payment date is not in the current accounting period. This type of application of the next benefit payable would be well suited to certain types of deferred annuities, or to immediate annuities in which the next benefit payment does not occur until a subsequent accounting period (for example immediate annuities where the payment is made annually as opposed to quarterly).

The broader issue of serving the public interest

The CIA would like to highlight its duty to the public interest over the actuarial profession. While we fully respect the IASB's authority over the Standard, we are concerned that the narrow interpretation of the Standard in the IFRIC tentative decision would do a disservice to the public in the case of deferred annuities and other products with a similar fact pattern.

Regardless of the IASB's decision, insurance entities will be required to hold capital for insurance risk during the deferral period. The premise in the IFRIC tentative decision that there can be no insurance coverage during the deferral period (where no benefits are payable) would mean that, in many fact patterns, there would be no profit recognition until the end of the deferral period (other than some release of risk adjustment). Entities issuing deferred annuity contracts would seek additional compensation for the deferral of profit recognition in order to earn an adequate return on capital.

Therefore, potential consequences of this narrow interpretation of the IFRS 17 Standard could be increased prices charged to consumers and/or elimination of some types of contracts altogether.

We do not believe that such outcomes are in the best interest of the public, nor do we believe that it is the intent of IFRIC or the IASB to endorse an unduly narrow interpretation of the Standard to this potential end.

Conclusion

The CIA encourages the IASB to reconsider the consequences of endorsing an unnecessarily narrow interpretation of the IFRS 17 Standard. The IFRIC's tentative conclusion is not in the

public interest and more importantly could lead to inconsistencies in the application of IFRS 17 as noted above: No insurance coverage over the life of an endowment insurance coverage and inconsistent reflection of insurance coverage in annuity contracts with certain fact patterns not presented in the ICAEW submission.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, FCIA, Actuary, Communications and Public Affairs, at 613-236-8196 ext. 119 or chris.fievoli@cia-ica.ca.

Sincerely,

A handwritten signature in black ink, appearing to be 'JF', with a period at the end.

Jacqueline Friedland, FCIA
President, Canadian Institute of Actuaries

The Canadian Institute of Actuaries (CIA) is the qualifying and governing body of the actuarial profession in Canada. We develop and uphold rigorous standards, share our risk management expertise, and advance actuarial science for the financial well-being of society. Our more than 6,000 members apply their knowledge of math, statistics, data analytics, and business in providing services and advice of the highest quality to help ensure the financial security of all Canadians.