STAFF PAPER

September 2022

IFRS® Interpretations Committee meeting

Project	**Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)**
Paper topic	Comment letters

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Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)' published in June 2022.

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Bruce Mackenzie
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Financial Reporting Technical Committee

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Berlin, 15 July 2022

Dear Bruce,

IFRS IC's tentative agenda decision in its June 2022 meeting

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

We fully agree with the tentative agenda decision on *Multi-currency Groups of Insurance Contracts* (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*) and the IFRS IC's conclusions how to appropriately apply the respective IFRS requirements and that no narrow-scope standardsetting is suggested.

In particular, we support the IFRS IC's finding – and respective wording – which does not exclude any of the views as suggested by the submission, but instead underlines that the appropriate method of applying the relevant requirements in IFRS 17 and IAS 21 depends on an entity's assessment of the specific facts and circumstances.

We understand that extensive outreach, including to members of the respective Transition Resource Group, has been performed in preparing the basis for the IFRS IC's discussion. We highly appreciate these efforts and would like to encourage the IFRS IC to follow the same approach regarding future submissions related to IFRS 17.

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

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Our ref., Date
18.07.2022

Tenative Agenda Decision: Multi Currency Groups of Insurance Contracts

Dear Mr. Mackenzie,

We welcome the opportunity to comment on the IFRS Interpretations Committee's (IFRS IC) tentative agenda decision regarding 'Multi-currency Groups of Insurance Contracts' issued in June 2022.

We acknowledge the IFRS IC's efforts in seeking a balance between maintaining the principle-based nature of the Standards and adding or clarifying requirements in response to emerging application questions. As such, Allianz fully agrees with the tentative agenda decision on IFRS 17 / IAS 21 and the IFRS IC's conclusions as to how to appropriately apply the respective IFRS requirements. We welcome that no narrow-scope standard setting is suggested.

We highly appreciated the value adding outreach of the IASB staff to the TRG members conducted ahead of preparing the staff paper that formed the basis for the discussions in the IFRS IC meeting. These efforts are very well received and we would like to encourage the IFRS IC to follow a very similar approach regarding future submissions related to IFRS 17. Furthermore, we would like to reiterate the importance of a stable standard in the current phase of the implementation projects.

We hope that our feedback is helpful for you. Please feel free to contact Ferdinand Hartmann (ferdinand.hartmann@allianz.com) or us to discuss any matters raised in this letter.

Yours sincerely,

Dr. Roman Sauer
Head of Group Accounting & Reporting

Andreas Thiele
Head of Group Accounting Policy Department

mazars

Mr Bruce MacKenzie
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Paris, 22 July 2022

June 2022 IFRIC Tentative Agenda Decision – Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

Dear Bruce,

Mazars welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision (TAD), issued in June 2022, on Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21).

We agree with the Committee's analysis of the fact pattern described in the Tentative Agenda Decision and with its conclusion that portfolios of contracts may include contracts exposed to different currency exchange rate risks, subject to the entity's analysis of the nature and extent of the risks in its insurance contracts.

We also agree with the Committee's analysis and guidance on how to account for a multi-currency group of insurance contracts under IFRS 17 and IAS 21, welcoming the outreach conducted upfront by the staff and the practical solution provided the Committee on how to apply judgement in a principles-based environment.

We therefore agree with the Committee's decision not to add this item onto its agenda.

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

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Date: 22.07.2022

Tentative Agenda Decision: Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

Dear Mr Mackenzie

On behalf of the German Insurance Association (GDV) we greatly appreciate the opportunity to comment on the Tentative Agenda Decision: *Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)*, as released by the IFRS Interpretations Committee for public consultation on 20 June 2022 (I.).

In addition, we would like to reinforce our general perspective on the current interpretation activities of the IFRS Interpretations Committee related to IFRS 17 *Insurance Contracts* at this challenging stage of the implementation processes for the German insurers when considering the upcoming effective date of IFRS 17, the 1 January 2023 (II.).

I. Specific comments on the Tentative Agenda Decision regarding multi-currency groups of insurance contracts

As a matter of fact, we are fully supportive of the Committee's conclusions in its Tentative Agenda Decision of 15 June 2022 regarding the accounting of insurance contracts that generate cash flows in more than one currency.

We strongly agree with the tentative conclusion of the Committee that the matter discussed should not be added as a standard-setting project to the work plan. We also fully share the technical analysis provided by the staff in the agenda paper 6 for the Committee's June

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2022 meeting and we back its rationale as provided. Overall, we highly appreciate the outcome of the Committee's discussion as it acknowledges the accounting approaches developed in the practice as valid ones when considering the interplay of principles laid down in both relevant standards IFRS 17 and IAS 21. At the same time, it respects the well-advanced stage of the implementation projects of the German insurers.

In the following paragraphs we provide the rationale for our support with some more technical details:

- <u>Re: Identifying portfolios of insurance contracts</u>

  We strongly support the tentative conclusion that 'similar risks' do not mean 'identical risks' as expressed by the Committee. It is fully aligned with our understanding of the principle-based IFRS 17. We appreciate and support the additional explicit clarification that an "entity could therefore identify portfolios of contracts that include contracts subject to different currency exchange rate risks".

- <u>Re: Measuring a multi-currency group of insurance contracts</u>

  We fully agree that in measuring a multi-currency group of insurance contracts, an entity needs to "use its judgement in developing and applying an accounting policy based on its specific circumstances and the terms of the contracts in the group". Indeed, the accounting policy must result in information that is relevant and reliable and "be applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8)". In this regard we would like to emphasise our strong support for the tentative Committee's conclusion that an entity could determine that the group of insurance contracts, including the contractual service margin (CSM), is **denominated in a single currency <u>or</u> in the multiple currencies of the cash flows in the group**. Both techniques equally respect the principle that ultimately the CSM is determined as a single amount for the group of contracts under consideration. Furthermore, for the purpose of the CSM recognition in profit or loss "a single method of determining the coverage units provided in the current period and expected to be provided in the future" is applied as highlighted by the Committee. Specifically, we greatly appreciate the acknowledgement that different methods, **different techniques to translate foreign currencies might equivalently apply** when they are in accordance with the existing requirements and principles in both IFRS 17 and IAS 21. Any other outcome would indeed cause severe disruptions of the German insurers' implementation work.

As already indicated in our letter to the Committee of 16 May 2022, the foreign currency issue has been suitable to critically impact the implementation efforts of the German insurers. It is indeed the case because the issues raised in the submission to the Committee refer to the **core elements of the implementation projects** (e.g., the level of aggregation). Hence, it is of critical importance to follow a careful and balanced approach allowing the entities to proceed without changes to system and processes already implemented if there is no evidence that principles or requirements of the Standards are neglected.

In this regard we would like to highlight the **importance of the outreach** (incl. the outreach to the members of the TRG) the staff conducted ahead of the Committee's discussion and its tentative decision. At the same time, we would like to encourage the Committee to follow the same robust approach regarding any potential future submissions related to IFRS 17.

Summing up, being fully aligned with the tentative Committee's decision we agree that **no standard-setting is necessary**. The principles and rules provided in IFRS 17 and in IAS 21 are sufficient to develop an appropriate accounting method as evidenced by the outreach conducted and as demonstrated in the Tentative Agenda Decision itself. Consequently, there is no urgent need to address the matter under discussion via standard-setting, neither currently nor in the foreseeable future.

II. General comments on interpretation activities related to IFRS 17 *Insurance Contracts*

As a matter of principle, we reinforce our support for the work of the Committee to support stakeholders in consistent application of IFRS Accounting Standards. We fully acknowledge that the Board and the 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.

Nevertheless, and as already expressed in the GDV comment letter of 16 May 2022, we continue to be generally concerned about submissions in relation to IFRS 17, particularly at this final stage of the process. Its adoption is operationally a highly complex and challenging task for reporting entities. Hence, any activities which might be disruptive to the implementation work should be avoided. It is our firm view that IFRS 17 is a principle-based standard and therefore entities are rightly required to exercise discretion and apply professional judgment when applying it. From the perspective of the German insurers, the standard can be applied consistently, and no further application guidance is necessary, neither via standard-setting of the IASB nor via the interpretation activity of the Committee. It should be recognised and acknowledged that IFRS 17 allows for a range of acceptable approaches that entities are equally allowed to follow if the principles in the Standard are still met and the objectives behind the principles are achieved.

As a matter of fact, the German insurers have approached their implementation projects in due time and without any delay after IFRS 17 was released in May 2017. Any additional detailed application guidance via the Committee's activity might finally result in rule-based requirements that would not be appropriate in all circumstance. Hence, it would then significantly undermine the implementation activities, without providing any significant added value for investors or other users of financial statements. Such an unfortunate situation must be avoided as it would specifically 'punish' those entities with well-advanced IFRS 17 implementation projects. Hence, at this stage of the process, any disruption to the challenging implementation activities should be avoided. The German insurers indeed need a proper period of calm, specifically ahead of the Standards' effective date on 1 January 2023.

Consequently, our primary preference would be to pause the Committee's activities on IFRS 17-related submissions to the greatest possible extent and to provide an appropriate **period of stability**. Issues raised on the entity-specific application of IFRS 17's principles and its interaction with other IFRS Accounting Standards should be rather dealt with within the future regular Post-implementation Review (PIR) on IFRS 17.

Should the Committee continue to deal with the IFRS 17-related submissions in due course, we would like to respectfully ask to follow an **even more careful and balanced approach when analysing and deciding on requests submitted**. In this regard we would like to highlight again the importance of 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 considered when proceeding at the Committee's and IASB's level subsequently. We have appreciated that the TRG has not been disbanded and is available for consultation if needed.

Our conclusions

We fully support the Tentative Agenda Decision on the submission regarding the insurance contracts with multi-currency cashflows.

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

We would greatly appreciate if our comments and concerns would be considered when taking decisions on the way forward with the current and future requests submitted to the 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)

RÉPUBLIQUE FRANÇAISE
Liberté
Égalité
Fraternité

AUTORITÉ
DES NORMES COMPTABLES

Paris, 19 July 2022

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PDC n°45

June 2022 IFRIC Update––Feedback on the Tentative Agenda Decisions on Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)

Dear Bruce,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above mentioned IFRS Interpretations Committee's (Committee) Tentative Agenda Decision (TAD) published in June 2022.

We agree with the Committee's tentative decision not to add a standard-setting project on this matter to its work plan for the reasons set out in the TAD.

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

Yours sincerely,

Patrick de Cambourg

Contact E-Mails:
Lukas.Kalina@sas.com ▪ Jozef.Kusnier@sas.com ▪ Philippe.Laffin@sas.com ▪ Joshua.Teng@sas.com

Mr. Bruce Mackenzie
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Date: 1 August 2022

Tentative Agenda Decision: Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

Dear Mr. Mackenzie,

We greatly appreciate the opportunity to comment on the tentative agenda decision regarding *Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)* and the agenda paper 6 published in the June 2022 IFRIC Update.

As interested individuals in the developments of the IFRS17 standards, we have studied the paper and the examples presented. For the measurement of a multi-currency group of insurance contracts, there were two approaches presented:

- Approach 1 – the group of insurance contracts (including CSM) is considered to be denominated in a single currency.
- Approach 2 – the group of insurance contracts (including CSM) is considered to be denominated in multiple currencies.

Both approaches are illustrated in an example in Appendix B.

Here, we would like to highlight certain concerns that we have regarding Approach 2 listed in Appendix B. We found that following the calculation methodology can lead to the following unintuitive results when the exchange rates move in certain directions:

i) <u>IAS 21 exchange differences on CSM can result in the recognition of a Loss Component.</u>

Based on Paragraph 48, exchange differences arising by applying paragraph 44(d) should not give rise to the recognition of a loss component. However, when we applied approach 2, there are instances where a negative CSM balance can result.

ii) <u>CSM allocation to Insurance Revenue can be negative.</u>

Notwithstanding issue i), applying Approach 2 can result in a negative allocation to insurance revenue. It is counter-intuitive to have a negative transfer of services in the period.

These cases where these results are observed in Approach 2 are found in the appendix.

It would be very helpful if more clarity could be provided on these topics, for example by expanding the illustrative examples.

We greatly appreciate your time to look into this matter. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

Lukas Kalina
Jozef Kusnier
Philippe Laffin
Joshua Teng, CPA (ASEAN), CA Singapore, FIA (IFoA), FSAS

Appendix to the comment letter

This appendix is a replica of the Approach 2 illustrative example from Appendix B of the paper *AP6: Initial consideration on Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)* published in June 2022 IFIC Update. The goal is to demonstrate the issues mentioned in the comment letter. It is achieved by completely replicating the calculation, only FX rates are changed to demonstrate the effect of unfavourable exchange differences on CSM that leads to the issues.

Fact pattern

B2. An entity has a functional currency of Euro (€).

B5. The expected future cashflows of a multi-currency group of insurance contracts at initial recognition are following:

	Year 1	Year 2	Year 3	Total
Premiums (US$)	400	400	400	1200
Claims (US$)	-100	-100	-100	-300
Claims (£)	***-250***	***-250***	***-250***	***-750***

In this example, we have modified the claims cashflows in Pound Sterling from the original 200 £ to 250 £. This is to illustrate the case where the initial CSM recognized in low, and potentially an exchange difference can result in the balance being negative.

B6. The exchange rates are:

	At recognition	End of Year 1
US$1	£0.85	£0.80
US$1	€ 1.00	€ 0.95
£1	€ 1.18	€ 1.19

The rates are different from the original rates to demonstrate the effect of unfavorable changes.

B7. For simplicity, everything occurs as the entity expects at initial recognition. The example also ignores the time value of money and the risk adjustment for non-financial risk.

B10. At the end of Year 1, the change in the carrying amount of the fulfilment cash flows are calculated as follows:

	Fulfilment CFs at the end of Year 1		
	$	£	€
Opening balance	-	-	-
Contracts issued	900.0 Dr	750.0 Cr	17.6 Dr (900 x 1 - 750 x 1.18)
Premiums received ($)	400.0 Cr		400.0 Cr (400 x 1)
Claims paid ($)	100.0 Dr		95.0 Dr (100 x 0.95)
Claims paid (£)		250.0 Dr	296.9 Dr (250 x 1.19)
Closing balance (A)	600.0 Dr	500.0 Cr	9.5 Dr
IFIE (C)			-
Exchange differences (B – A)			33.3 Cr
Closing balance (B)	600.0 Dr	500.0 Cr	23.7 Cr (600 x 0.95 - 500 x 1.19)

B12. At the end of Year 1, the change in the carrying amount of the contractual service margin is calculated as follows:

	CSM at the end of Year 1		
	$	£	€
Opening balance	-	-	-
Contracts issued	900.0 Cr	750.0 Dr	17.6 Cr (900 x 1 - 750 x 1.18)
Amount allocated	300.0 Dr	250.0 Cr	***3.0 Cr*** (- 300 x avg. + 250 x avg.)
Sub-total (A)	600.0 Cr	500.0 Dr	20.6 Cr
Exchange differences (B – A)			44.4 Dr
Closing balance (B)	600.0 Cr	500.0 Dr	***23.7 Dr*** (- 600 x 0.95 + 500 x 1.19)

The two issues are demonstrated in the two grey cells:

i) IAS 21 exchange differences on CSM result in the recognition of a Loss Component.

CSM before the exchange differences (called "Sub-total (A)" in B12) is in a credit position 20.6 EUR.

CSM after the exchange differences (called "Closing balance (B)" in B12) is:

Closing balance (B) of CSM = 600 USD * 0.95 EUR/USD – 500 GBP * 1.19 EUR/GBP = – 23.7 EUR

Because CSM cannot be negative (it is always a postponed credit, called "the unearned profit" in paragraph 38), it should be set to 0 Eur and a loss 23.7 EUR should be immediately recognized in P&L in insurance service expenses (ISE). However, it seems to be inconsistent with the standard as explained in our comment letter. Particularly the establishment of the loss component as a credit account is not clear when there is a credit to P&L "IAS 21 exchange differences on CSM" instead.

ii) CSM allocation to Insurance Revenue is negative.

CSM allocation (called "Amount allocated" in B12) is a credit 3 EUR to CSM.

So, instead of the allocation of a share of the existing CSM to insurance revenue (a debit to CSM), the CSM is increased, and a negative amount is booked to insurance revenue. It seems to violate the allocation principle in paragraph 44(e).

Both, this example and the original example can be found in an excel file available upon e-mail request.

Mr. Mackenzie
IFRS Interpretations Committee
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E14 4HD

9 August 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 'Multi-currency Groups of Insurance Contracts' issued in June 2022.

We highly value the work of the IASB and the IFRS IC and 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. We understand that extensive outreach, including to TRG members, was performed when preparing the staff paper on which the discussion in the IFRS IC was based on. We highly appreciate these efforts and would like to encourage the IFRS IC to follow the same approach regarding future submissions related to IFRS 17.

As previously noted, we are concerned about any potential change that could have a disruptive effect on the ongoing implementation of IFRS 17 in the period immediately before the standard is effective. Fortunately, we believe this multi-currency tentative agenda decision will not cause significant disruptions with regard to the IFRS 17 implementation projects. It is critical to maintain the Board's stated objective to avoid significant disruptions during this critical period in the implementation of IFRS 17.

Furthermore, we support this tentative agenda decision (including the technical analysis) as well as the decision not to add a standard-setting project to the work plan.

Yours sincerely

Giulio Terzariol
Chair
European Insurance CFO Forum

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

SOCPA
الهيئـــة السعوديـــة
للمراجـعين والمحـاسبين

VISION رؤيـــة 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

August 09, 2022

IFRS Foundation
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SOCPA Comments on *Tentative Agenda Decision, Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)*

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, Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)*.

Accounting for insurance contracts that generate cash flows in more than one currency has two areas that require attention. Our comments below address these two areas.

i. Whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts:

A portfolio of contracts is defined in IFRS 17 as comprising contracts that are "subject to similar risks and managed together" (See Appendix A: Defined terms). IFRS 17 also defines "financial risks" and "insurance risks" and "currency exchange rate" risks are included within financial risks.

Paragraph 14 of IFRS 17 states that contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together.

"A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together."

In light of the above, SOCPA agrees with the IFRS IC's conclusion that as per IFRS 17 "similar risks" are not limited to only non-financial risks. When identifying portfolios of insurance contracts an entity is required to consider all risks including currency risk. However, since IFRS 17 does not define or elaborate on the term "similar risks" and to ensure consistency in application of IFRS 17, SOCPA believes the term "similar risks" should be defined or at least an explanation should be included for better understanding of the term.

ii. How an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts):

SOCPA agrees that IAS 21 in conjunction with IFRS 17 provides adequate guidance in measuring a group of insurance contracts that generate cash flows in more than one currency. An entity could issue contracts in multiple jurisdictions with contracts denominated in the currency of the jurisdiction in which they are issued, issue an individual insurance contract with cash flows in more than one currency or issue insurance contracts in only one currency but incur costs in a different currency.

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In applying IAS 21, an entity would treat the group of insurance contracts (including the contractual service margin) as a monetary item. At each reporting date the carrying amount (including the contractual service margin) of these contracts will be translated at the closing rate. In addition, the entity will also have to develop an accounting policy to determine the currency in which the group of contracts (including the contractual service margin) is to be denominated initially. This accounting policy would have to be developed based on the principles of IAS 8.

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

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August 8, 2022

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Dear Bruce,

Tentative Agenda Decision: Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

We welcome the opportunity to comment on the June 2022 Tentative Agenda Decision regarding Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21). We support the tentative agenda decision fully. We also welcome the extensive outreach conducted on the issue.

Identifying portfolios of insurance contracts

We agree with the observation that portfolios of contracts are based on what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts. We agree with the conclusion that an entity therefore could identify portfolios of contracts that include contracts subject to different currency exchange rate risks.

Measuring a multi-currency group of insurance contracts

We agree that IFRS Accounting Standards has no explicit requirements on how to determine the currency denomination of transactions or items that generate cash flows in more than one currency. Accordingly, we agree with the Committee's observations that an entity is to develop its own accounting policy choice based on its specific circumstances and the terms of the contracts in the group. We strongly welcome the acknowledgement that an entity is permitted to determine the group, including the contractual service margin, in multiple currencies of the cash flows of the group. We also agree that if the contractual service margin is denominated in the multiple currencies of the cash flows in the group, the entity would:

1) assess whether a group of contracts is onerous considering the contractual service margin as a single amount, after translation into the functional currency; and

2) determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future.

We note that there have been different strongly held views on which of the two approaches set out in the staff paper is compliant with IFRS standards. This has distracted the implementation efforts underway. We think the tentative agenda decisions supports the implementation of IFRS 17.

We also agree that there should be no standard-setting project on how to account for foreign currency aspects of insurance contracts for the reasons stated in the tentative agenda decision.

If you would like to discuss our views further, please do not hesitate to contact Joanna Yeoh (joanna.yeoh@chubb.com). We also welcome any future opportunities to discuss the implementation of IFRS 17.

Yours sincerely,

Annmarie Hagan

Annmarie Hagan
Chief Accounting Officer, Chubb Group

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Chair
IFRS Interpretations Committee
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United Kingdom

11 August 2022

Dear Bruce

RE: Tentative Agenda Decision: Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

We are responding on behalf of PricewaterhouseCoopers to the IFRS Interpretation Committee's (Committee's) Tentative Agenda Decision (TAD)—*Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)*.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. This response summarises the views of member firms who contributed to our consultation during the comment letter period.

We acknowledge the Committee's tentative decisions. However, in this letter we set out important consequences and questions that arise because of the Committee's tentative decisions that need to be analysed and clarified before those decisions are finalised.

A. Identifying portfolios of insurance contracts (paragraph 14 of IFRS 17)

Paragraph 14 of IFRS 17 requires an entity to identify portfolios of insurance contracts that are subject to similar risks and managed together. The Committee tentatively decided that an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios. The rationale for the conclusion is that, unlike some other IFRS 17 requirements related to risks, paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risks.

Judgement is required to determine whether contracts are subject to 'similar risks and managed together'. Our existing published view provides guidance on the risks we expect an entity to consider in 'similar risks', which is a narrower set of risks compared to 'all risks' as described in the TAD (see appendix for an overview of our guidance). We are concerned that without explanation of the implications of the TAD outside of the context of currency risk, the Committee's conclusion could lead to diversity in practice and interpretations that result in highly aggregated portfolios, particularly relating to insurance contracts with mutualised risks. A higher aggregation of portfolios results in more off-setting in the measurement of insurance contracts and the recognition of profits and losses.

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B. Measuring a multi-currency group of insurance contracts as a monetary item (IAS 21 and paragraph 30 of IFRS 17)

Paragraph 30 of IFRS 17 requires an entity to treat a group of insurance contracts—including the contractual service margin (CSM)—as a monetary item for the purpose of applying IAS 21. The Committee tentatively decided that for a group of contracts with cash flows in multiple currencies, an entity can determine that the CSM is denominated in either a single currency or multiple currencies. The rationale for this conclusion is that IAS 21 and IFRS 17 are both silent on how to apply IAS 21 to a single unit of account consisting of multiple currencies.

Our existing published view supports only a single currency approach for measuring the CSM. We are concerned about possible outcomes of a multiple-currency CSM approach and we have important questions about how such an approach should be applied. In particular, we are concerned that such an approach could require adjustments to the CSM and recognition of amounts in profit or loss that are counterintuitive and inconsistent with the principles in IFRS 17. To illustrate this, we have included in this letter an example in which an entity is required to reduce the CSM to zero and recognise a corresponding gain in profit or loss when there has been no services provided and no change in cash flows. We also think the tentative decision relating to a multiple-currency CSM approach could have wider implications for other aspects of IFRS 17 measurement.

These issues were not analysed by the Committee during its initial discussion and we are concerned that without further analysis, there could be diversity in practice and outcomes that are inconsistent with the principles of IFRS 17. Therefore, we ask that the Committee carefully consider and clarify the issues set out in the appendix to this letter before finalising the Agenda Decision.

The appendix to this letter sets out:

- further information on the above two topics to support your staff with their analysis; and
- two requests for clarification relating to the drafting of the TAD.

If you have any questions related to this letter, please contact Gail Tucker, Marie-Claude Kling, or Henry Daubeney.

Pricewaterhouse Coopers

Pricewaterhousecoopers

Yours sincerely
Henry Daubeney
Global Chief Accountant and Head of Reporting

Appendix—detailed response

A. Identifying portfolios of insurance contracts (paragraph 14 of IFRS 17)

We acknowledge the conclusion in the TAD that currency risk cannot be ignored. However, we are concerned about possible broader implications of the statement in the TAD that 'an entity is required to consider all risks' when identifying portfolios of insurance contracts.

Our published view is that the risks considered when identifying a portfolio should be consistent with the risks considered when determining the cash flows in the contract boundary applying paragraph 34 of IFRS 17—that is, 'policyholder risks' (see FAQ 50A.50.1). As observed by the IFRS 17 TRG (February 2018), policyholder risks include both the insurance risk and financial risk transferred from the policyholder to the entity, but exclude risks that are created by the contract, such as lapse risk and expense risk. By extension, in most circumstances currency risk is not considered when determining the contract boundary because it is not a risk transferred from the policyholder. Accordingly, our view is that otherwise identical contracts issued in different currencies would be considered to be subject to similar risks. Therefore, if those contracts are also 'managed together' they could be in the same portfolio.

In contrast to 'risks transferred from the policyholder', 'all risks' could be interpreted as requiring or permitting an entity to consider expense and lapse risks. It could be argued that such risks are 'similar' across different types of insurance contracts, and therefore including such risks in the assessment of similar risks dilutes that assessment.

In addition, in our view, when considering only risks transferred from the policyholder, the risks being considered are those before the effect of any mutualisation between different insurance contracts. However, considering 'all risks' opens up the question of whether these are the risks the entity is exposed to before or after mutualisation. This is an important question because fundamentally different insurance contracts, such as an annuity that provides cover for longevity risk and a life insurance product that provides cover for mortality risk, may share in the same pool of underlying items. This is common in participating contracts in many countries. If 'all risks' are considered after the effect of mutualisation, and if an entity determines that all mutualised contracts are 'managed together', both types of contracts could be in the same portfolio and thus in the same group for measurement purposes. In our view, this would significantly reduce comparability between two entities that issue similar contracts if those contracts are mutualised in one entity and not in the other. This outcome seems to conflict with the IASB's intentions to achieve comparability between insurance contracts issued by entities with and without mutual funds, as discussed in paragraphs BC268–BC269 of the Basis for Conclusions on IFRS 17.

To avoid diversity in practice, we would welcome the Committee clarifying whether and how the conclusions in the TAD affect the assessment of whether mutualised contracts are 'subject to similar risks and managed together'.

B. Measuring a multi-currency group of insurance contracts as a monetary item (IAS 21 and paragraph 30 of IFRS 17)

We acknowledge the conclusion in the TAD that neither IAS 21 nor IFRS 17 explicitly prohibit an entity from determining that the CSM is denominated in multiple currencies.

However, based on our understanding of a multiple-currency CSM approach, we are concerned about a possible inappropriate outcome that could arise under such an approach, as illustrated in the following example. This outcome was not illustrated in the example considered by the Committee at its June 2022 meeting because in that example cash flows in both currencies occur across the coverage period relatively evenly and service is also provided evenly.

Example of a group of insurance contracts:

- € functional currency
- initial recognition:
  - expected cash flows: $100 premium inflows and £90 claims outflows
  - exchange rates: $1 : £1 : €1 and so in the functional currency the CSM is €10
- subsequently:
  - $100 premiums are received on day 1
  - after premiums are received, but before any claims are incurred or service is provided, there is an adverse change in the $ to € exchange rate to $1 : €0.8

Applying a multiple-currency CSM approach:

The entity determines that the CSM is denominated in both $ and £. This means that at initial recognition, the net CSM of €10 is tracked as being the sum of two gross components: $100 relating to premium inflows; and (£90) relating to claims outflows.

The receipt of $100 premiums on day 1 has no effect on the CSM.

The exchange rate change from $1 : €1 to $1 : €0.8 and € has no effect on the fulfilment cash flows because at that time the fulfilment cash flows consist of only £ cash flows.

Under a multiple-currency CSM approach, the entity translates each of the $ and £ gross components of the CSM into the € functional currency applying IAS 21 before determining whether the group has become onerous.

The exchange rate change between $ and € affects the $100 component of the CSM. Applying IAS 21 to that component, the $100 is translated to €80–a change of (€20) compared to the €100 translation at initial recognition.

It appears the possible journal entries would be: Cr P&L IAS 21 FX gain €20; Dr CSM €10 (to reduce to zero); and—since the CSM cannot be below zero—we assume that the remaining Dr €10 must be recognised as an expense in the income statement, similar to the recognition of a loss.

The overall outcome is that the CSM has been reduced to zero and a net gain of €10 has been recognised in the income statement (the IAS 21 gain of €20 minus the expense of €10). This happens despite the fact there has been no service provided in accordance with paragraph B119 of IFRS 17, no change in fulfilment cash flows and there is no loss component in accordance with paragraphs 48 and 50 of IFRS 17. Therefore, this appears to conflict with the principles of IFRS 17.

The multiple-currency CSM approach also raises fundamental questions relating to which discount rates are locked-in for adjustments to—and accretion of interest on—the CSM. One interpretation is that an entity would be required to lock-in the discount rates relating to each currency at initial recognition. Any adjustments to the CSM relating to the fulfilment cash flows in that currency would be made considering the relevant locked-in rate. Such an approach might result in an overall negative accretion of interest on the CSM when the discount rates associated with the negative components of the CSM are significantly greater than those of the positive components. Similar to the outcome illustrated in the example above, it is conceivable that the CSM could be reduced to zero simply due to the effect of interest accretion. These outcomes appear counterintuitive and inconsistent with the principles of IFRS 17. Another interpretation is that the discount rates would be locked-in only after translation to the functional currency and would only reflect the functional currency. This would address these issues, but might be seen to be inconsistent with the conclusion in the TAD that an entity cannot simply deem the CSM to be denominated in the functional currency.

In addition to these concerns, we think that a multiple-currency approach could have other broad reaching implications. The question analysed by the Committee relates to applying paragraph 30 of IFRS 17 when measuring the CSM for a group of general measurement model contracts. However, paragraph 30 of IFRS 17 —which states that a group of insurance contracts is treated as a monetary item—applies to all aspects of the measurement of the group and applies to all types of groups of contracts. Therefore, the multiple-currency CSM approach in the TAD, if finalised, could have consequences for the treatment of other components of measurement such as the loss-component and the risk adjustment for non-financial risk. It could also have consequences for contracts accounted for under the variable fee approach and the premium allocation approach.

C. Clarifications relating to the drafting of the TAD

Alternative approach with a single CSM currency

During its discussion, the Committee considered an example demonstrating one approach that could be used when the CSM is denominated in a single currency. We have concluded that when the CSM is determined in a single currency, an entity could apply one of two approaches: (i) a 'group currency' approach (consistent with the example considered by the Committee); and (ii) a 'CSM currency' approach.

For the avoidance of doubt, we ask the Committee to confirm that the 'CSM currency' approach, as set out in our FAQ 50A.78.2, is also permissible. Under this approach, consistent with the 'group currency' approach, the CSM is assigned a single currency. However, all of the fulfilment cash flows retain the currency identity of the respective transactions (similar to the multiple-currency CSM approach). We expect the 'CSM currency' approach will generally result in a similar outcome to the 'group currency' approach.

IAS 8 accounting policy - group vs. entity level

The TAD explains that an entity develops and applies an accounting policy for determining the CSM currency or currencies based on the specific circumstances of an individual group of contracts. We ask that the Committee clarify why an entity is not required to select and apply a single accounting policy consistently to all groups of insurance contracts issued by the entity in accordance with paragraph 13 of IAS 8 (in the absence of a specific accounting policy choice being permitted or required by IFRS 17).

MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

17 August 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 Decision

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comment on the Tentative Agenda Decision—Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*).

We agree with the IFRS Interpretations Committee's decision for not adding a standard-setting project to its work plan for the reasons set out in the Tentative Agenda Decision. The analysis described in the Tentative Agenda Decision would be useful given the lack of guidance in IFRS 17 and IAS 21.

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

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18 August 2022

Bruce Mackenzie
Chair
IFRS Interpretations Committee
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Canary Wharf
London
United Kingdom

Dear Mr Mackenzie

Tentative agenda decision – Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the July 2022 Update of the tentative agenda decision not to take onto the Committee's agenda the request for clarification on:

a. whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and
b. how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts).

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.

However, we question whether the following statement in the tentative agenda decision is consistent with the requirements of IFRS 17 (emphasis added):

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. Accordingly, if an entity were to determine that for the purpose of applying IAS 21 the contractual service margin is denominated in the multiple currencies of the cash flows in the group, the entity would:

*a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount, **after translation into the functional currency**; and*
b. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future.

The inclusion of the effects of foreign currency translation in the accounting for the contractual service margin of a group of contracts does not appear to be in line with the requirement of IFRS 17:B97(a)(i) which requires the effect of financial risk to be excluded from estimated future cash flows. As such, we believe that this paragraph forbids the inclusion of the effect of financial risk and changes in financial risk in the adjustment required by IFRS 17:44(c).

The IFRS 17 guidance noted above would suggest that the increase or decrease of the fulfilment cash flows that adjusts the contractual service margin would need to be calculated "before" the retranslation into the functional currency. In fact, for groups with multiple currencies that are different from the functional currency, the adjustment to the contractual service margin should exclude the effect of the changes in those rates.

The sequence of calculation and the use of line items that feed the mandatory insurance service result vs. the insurance finance income or expenses amount needs to be consistent with the fact that the fulfilment cash flows are translated at current rates at the reporting date in the same way as they are remeasured at current discount rate (another financial variable). We believe paragraphs BC274 and BC275 in the IFRS 17 basis for conclusion offer a valid analogy between discount rates and foreign exchange rates for the Committee to consider (emphasis added):

From BC274: The contractual service margin does not represent future cash flows; it represents the unearned profit in the contract, measured at the point of initial recognition and adjusted only for specified amounts. For insurance contracts without direct participation features, ***the contractual service margin is not adjusted (remeasured) for changes in interest rates*** *for the reasons set out in paragraphs BC228–BC231.*

From BC275: To make the contractual service margin internally consistent, the Board decided that the adjustments for changes in estimates of future cash flows also need to be measured at the rate that applied on initial recognition. ***This leads to a difference between the change in the fulfilment cash flows and the adjustment to the contractual service margin—the difference between the change in the future cash flows measured at a current rate and the change in the future cash flows measured at the rate that had applied on initial recognition****. That difference gives rise to a gain or loss that is included in profit or loss or other comprehensive income, depending on the accounting policy choice an entity makes for the presentation of* ***insurance finance income or expenses****.*

By analogy, the use of current exchange rates for the fulfilment cash flows would not flow directly through the adjustment to the contractual service margin and they should instead be considered as an amount in insurance finance income or expense. IFRS 17 applies this principle for foreign exchange gains and losses through the requirement of paragraph IFRS 17:92, which states:

"an entity includes exchange differences on changes in the carrying amount of groups of insurance contracts in the statement of profit or loss, unless they relate to changes in the carrying amount of groups of insurance contracts included in other comprehensive income applying paragraph 90, in which case they shall be included in other comprehensive income."

We believe that when *"an entity were to determine that for the purpose of applying IAS 21 the contractual service margin is denominated in the multiple currencies of the cash flows in the group"*, the adjustment to the contractual service margin should be considered in the context of the multiple currencies of the group. These may or may not include the functional currency. The accounting for the contractual service margin should take in to account the requirement of IFRS 17:B97. Finally, we believe that the outcome of that choice in the financial statements should be aligned with all of the IFRS 17 requirements as it would be when an entity determines that the contractual service margin *"is denominated in a single currency"*.

We are conscious that the absence of guidance in the IFRS Accounting Standards on the denomination of contracts with multiple currencies would still result in accounting diversity. However, consideration of the points above would limit the diversity in this area.

Finally, we believe that a clear direction on this issue from the Committee would benefit related areas of accounting under IFRS 17 and IAS 21. In particular, the accounting for the risk adjustment for non-financial risks included in the carrying amount of a group of insurance contracts for which the currency denomination would be similarly assessed. While the risk adjustment for non-financial risks is not bound by the prescribed level of aggregation in IFRS 17 that applies to the contractual service margin, the clarity on the interplay between IFRS 17 and IAS 21 that would be obtained from this tentative agenda decision would benefit users, preparers and their auditors.

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

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Jakarta, 19th of August 2022

IFRS Interpretations Committee
Columbus Building, 7 Westferry Circus
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E14 4HD

Dear Sir/Madam,

In response to the IFRIC **Tentative Agenda Decision (TAD): Multi-currency Groups of Insurance Contracts (IFRS 17 Insurance Contracts and IAS 21 The Effects of Changes in Foreign Exchange Rates)**, please accept our comment submission for the issue.

Our consulting company PT Hamilton Indonesia provides IT solution for IFRS implementation including IFRS 17. We conducted exercise for the two alternatives on our Hamilton CSM Engine and we believe this exercise is beneficial for IFRIC in its deliberation.

Although we agree with the IFRIC Tentative Agenda Decision on the first question, we urge IFRIC to deliberate the impact of multi-currency groups in choosing the discount rate based on the IFRS 17. Currency is one of the considerations for the entity to define the discount rate for every group of contracts. At this point, we observe that IFRIC Tentative Agenda Decision only focuses on the cash flow of the multiple-currency contract.

Our comment is presented in the attachment of this letter. Should you need further clarification, please do not hesitate to contact us in ersawahyuni@hamiltonpi.co.id

Sincerely Yours,

Dr. Ersa Tri Wahyuni
Subject Matter Expert of IFRS 17
PT Hamilton Prima Indonesia

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Nur Muhammad Yasin
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Submission to IFRIC Tentative Agenda Decision: Multi-Currency Group of Insurance Contracts

By Baskoro Suryo Pinuji and Ersa Tri Wahyuni

PT Hamilton Prima Indonesia

Aim and Purpose

This document is the comment letters in response for IFRC Tentative Agenda Decision on Multi-Currency Group of Insurance Contract. This comment is submitted by Baskoro Suryo Pinuji and Ersa Tri Wahyuni of PT Hamilton Prima Indonesia (HPI), a consulting firm in Jakarta, Indonesia who specialised in IFRS IT solution including IFRS 17 Hamilton CSM Engine.

Specifically, IFRIC has made tentative agenda decisions for these two issues:

a. whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and
b. how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts)

We are at HPI agrees with the IFRIC tentative agenda decision for the first question. We agree that the risk for financial risk should not be the main consideration for the aggregation of insurance contract. The aggregation of insurance contract should be based mainly on the non-financial risk (or insured risk)

However, we expect IFRIC will also make a clarification on how to decide on the discount rate of a group if there are multiple currencies. Discount Rate in IFRS 17 need to be decided based on the liquidity, timing and the currency of the group. Should an entity ignore this fact and only focus on the functional currency of the group when deciding the interest rate?

In regard with the second question, we run several scenarios on our Hamilton CSM Engine. We identify the advantages and disadvantages of those two alternatives. We believe that our exercise will be beneficial for IFRIC as well as other Stakeholders in the Insurance Industry.

Exercise on the IAS 21 Application with IFRS 17.

Background

IFRS 17: *Insurance Contracts* is an accounting standard that will override the old standard IFRS 4 along with all amendments and updates. In the old IFRS 4 applications, the accounting standard has not been appropriately structured, therefore the recording of insurance contracts did not promptly reflect the economic characteristics and risks (IAI, 2020c). IFRS 17 will help the insurance companies in the long term because of its new accounting standard that includes the factors of various uncertainties that might be faced. Although of its merits, its application will take much effort because the company needs to overhaul all its calculation systems.

Surat Edaran Bank Indonesia (SEBI) stated that the insurance companies can issue their contacts under foreign currency if the insurance component has a risk in foreign currency. Additionally, this is also applicable for reinsurance companies to conduct their activities under foreign currency (https://bicara131.bi.go.id/knowledgebase/article/KA-01022/en-us). When economic transaction occurs in a foreign currency, IAS 21: *The Effect of Changes in Foreign Exchange Rates* must be applied. Hence, IFRS 17 Applications will become more complex when insurance companies include foreign exchange factors in their contracts.

How does an entity apply IAS 21 in conjunction with IFRS 17 for measuring a group of insurance contracts with cash flows in more than one foreign currency?

IAS 21 requires that an entity must measure its transactions using the functional currency and allows the entity to present its financial statements using its functional currency. IAS 21 paragraph 38 emphasizes that the reporting currency in Indonesia is generally Rupiah. If an entity conduct transactions in a currency different from its functional currency, it must "calculate the transaction in its functional currency". The functional currency is the currency of the primary economic environment in which the entity operates and primarily generates and dispenses cash (paragraph 08 and 09).

The report for converting foreign exchange transactions into functional currency refers to paragraph 21 of IAS 21. At initial recognition, foreign exchange transactions are recorded in the functional currency. The amount of foreign currency is converted into the functional currency at the spot rate (between the functional currency and the foreign currency) on the transaction date. Additionally, according to IAS 21, the transaction date is when the transaction first meets the recognition criteria following SAK (paragraph 22) and an exchange rate close to the actual exchange rate on the transaction date is often used.

Assumption for the Exercise

For this transaction, further applications that must be carried out at the end of each reporting period based on paragraph 23 of IAS 21 is:

a. Foreign currency monetary items are calculated using closing rates.
b. Non-monetary items measured at historical cost in foreign currencies are calculated using the exchange rate at the date of the transaction, and
c. Non-monetary items that are measured at fair value in a foreign currency are calculated using the exchange rate on the date when the fair value is measured.

A monetary item is a unit of currency held or assets and liabilities that will be received or paid in a fixed and determinable amount of currency. On the other hand, non-monetary items do not have a fixed amount and cannot be determined (IAS 21 Paragraph 16).

Based on IFRS 17 paragraph 30 and IAS 21, an entity shall treat the contracts as monetary items when a group of insurance contracts generates foreign currency cash flows. In this case, all IFRS 17 journal components, including CSM, BEL, and RA, are all monetary items. Finally, in the financial position report, an entity shall choose to include the exchange rate differences of the carrying amount in the income statement or OCI (applying paragraph 90).

The following are two methods that can be used when performing subsequent measurements for insurance contracts with in foreign currencies:

Exercise for Alternative 1

Method 1 – Revaluate Expected Cash Flows

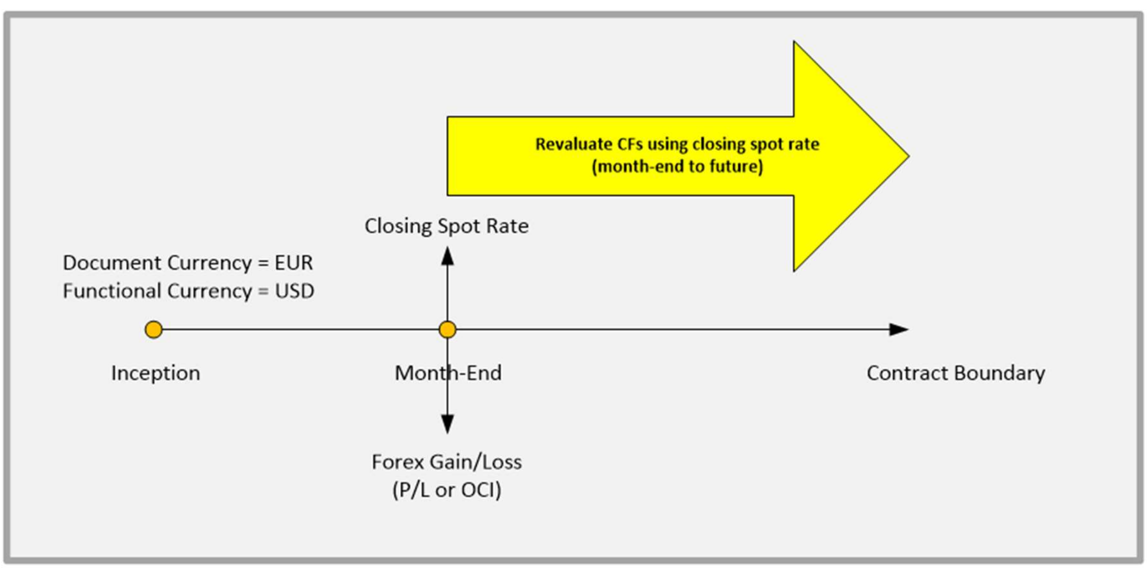

Figure 1.1 Method 1 – *Revaluate Cash Flows*

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When applying method 1:

- During *inception*, the insurance contract in a foreign currency will be measured at the exchange rate when the insurance contract was formed.
- During *subsequent measurements* at the end of each reporting period (in accordance with IAS 21), the insurance contract is revalued using the closing rate (spot rate) for the month-end and future cashflows.

When measuring using spot rate at the end of the reporting period, all insurance contract components will be recalculated using the spot rate at the time of reporting. There would be a difference between transactional date foreign exchange and spot rate foreign exchange because all insurance contract components are monetary items.

Method 1 Illustrative Example

The Insurance Company issues insurance contracts using a foreign currency, namely EUR, where the Entity's functional currency is USD. Characteristics on insurance contracts issued are as follows:

- LoA: Portfolio: Marine Cargo; Cohort: 2021; profitability: Profitable
- Coverage period three years, from 01.01.2021 until 31.12.2023
- Total Earned Premium EUR 6.757.292, the premium will be received evenly for three years, (payable EUR 2.252.431 at the beginning of each year)
- Total Expected Claims EUR 2.294.158, the claims are expected to be equally distributed within the coverage period (payable EUR 764.719 at the end of each year)
- Acquisition cost EUR 1.858.255, paid at the time when the group of contracts was created
- Risk Adjustment (RA) EUR 38.239, RA will be amortized equally into the income statement at the end of each reporting period until the contract expires.
- Discount Rate 5,222 %
- Assumptions: CSM Amortized using straight line method.

Exchange Rate 01.01.2021: 1.51 USD = 1 EUR

Exchange Rate 31.01.2021: 1.50 USD = 1 EUR

Accounting journals for insurance contracts will be calculated and recorded using the help of Hamilton Engine (CSM Engine). The results are as follows:

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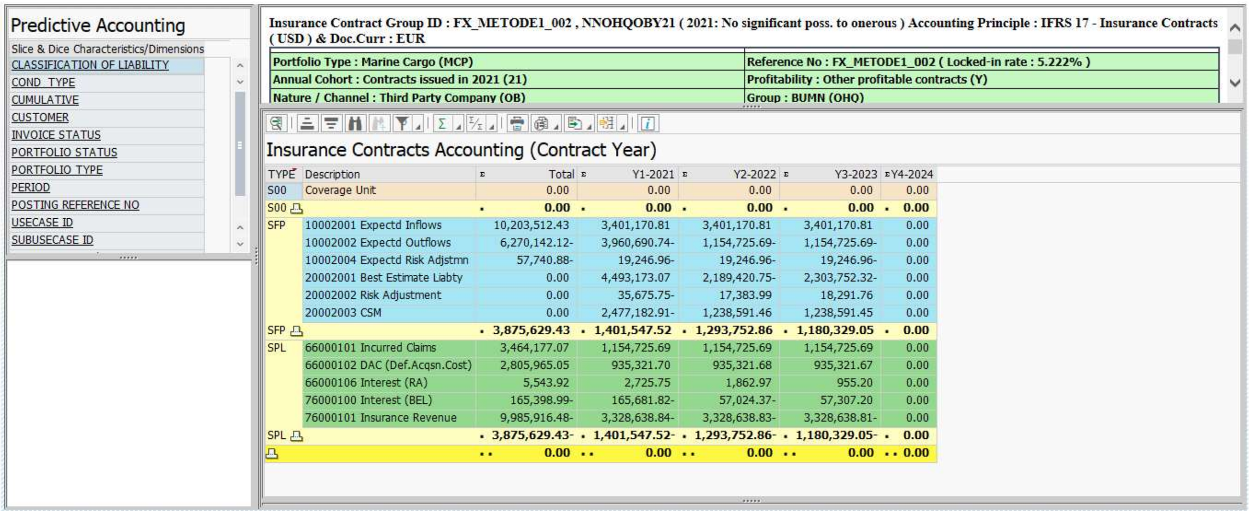


Figure 1.2 Method 1 - *Journal Entry at Inception*

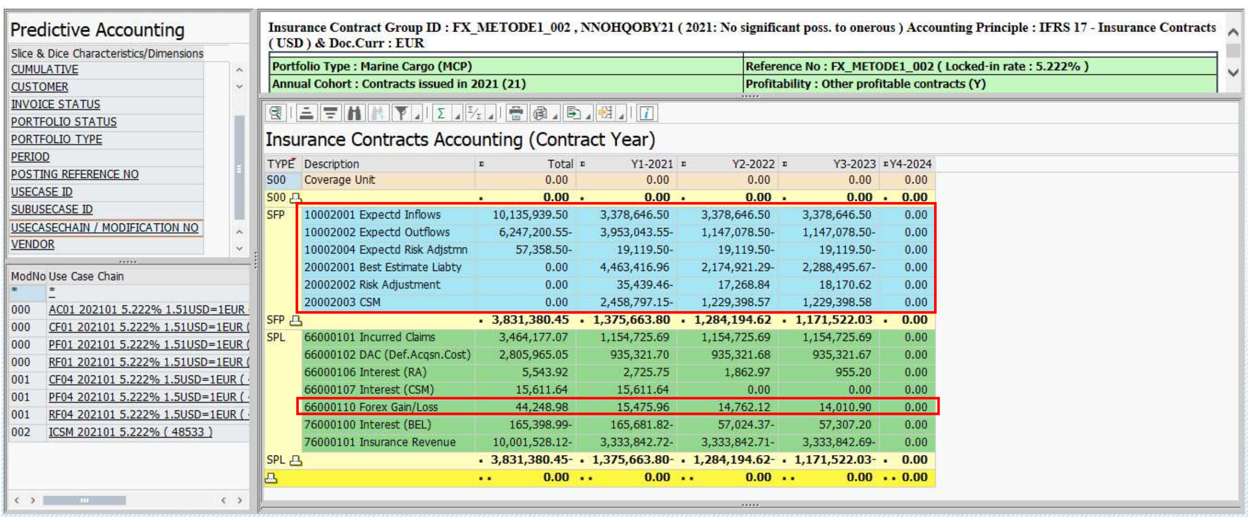


Figure 1.3 Method 1 - *Journal Entry (Year) at Subsequent Measurement* (31.01.2021)

Figure 1.2 shows the accounting records for insurance contracts at the time of *inception* and accounting records for *subsequent measurements* at 31.01.2021 are shown in Figure 1.3.

When calculating *subsequent measurements* using the Method 1 approach, *foreign currency revaluation* components only consist of *insurance liability*, BEL, CSM, and RA, which were *recalculated* for the period until the contract boundary using the *closing spot rate* as of 31.01.2021. Hence, at the end of 31.01.2021, there will be a foreign exchange gain/loss of 44,248.98 due to the difference between the transactional date exchange rate (exchange rate when the contract was formed) and the *closing spot rate*.

Since *insurance liability* components are *recalculated* with respect to the exchange rate at the end of the reporting period, the *expected* inflows and outflows for **future cashflows** will also reflect the conditions at 31.01.2021. Thus, the foreign exchange gain/loss difference of Rp 44,248.98 are considered as an impact of spot rate at 31.01.2021 for the whole period (Y1, Y2 and Y3). In the journal projection, the Rp 44,248.98 amount will be distributed each month to reflect the impact independently. Therefore, the independent foreign exchange differences recorded in January 2021 are Rp. 1,287.56 (as per Figure 1.3). The amount recorded in each subsequent period will always change in accordance with the exchange rate at the end of reporting period.

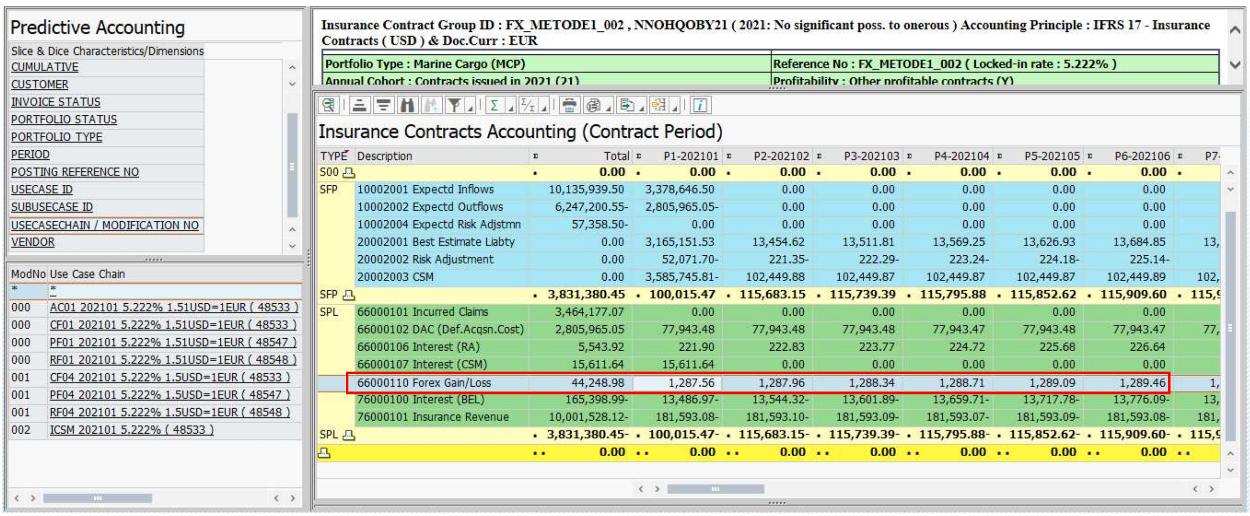


Figure 1.4 Method 1 - *Journal Entry (Month) at Subsequent Measurement* (31.01.2021)

The application of Method 1 has advantages and disadvantages, as follow:

Advantages:

- The insurance contract liability will reflect the actual economic conditions during the period because the components are recalculated using the *Spot rate* closing for every *insurance liability* component.

Disadvantages:

- The remeasurement process becomes more complex and complicated because it has to be re-measured every period using the spot rate at the end of the reporting period.
- At the time of remeasurement, the uncertainty still exists in deciding whether to use the *"lock in rate" (for GMM)* or *"market rate" (for VFA)* discount rate at the end of the reporting period.

Exercise for Alternative 2

Method 2 – Revaluate Balances at Month-End

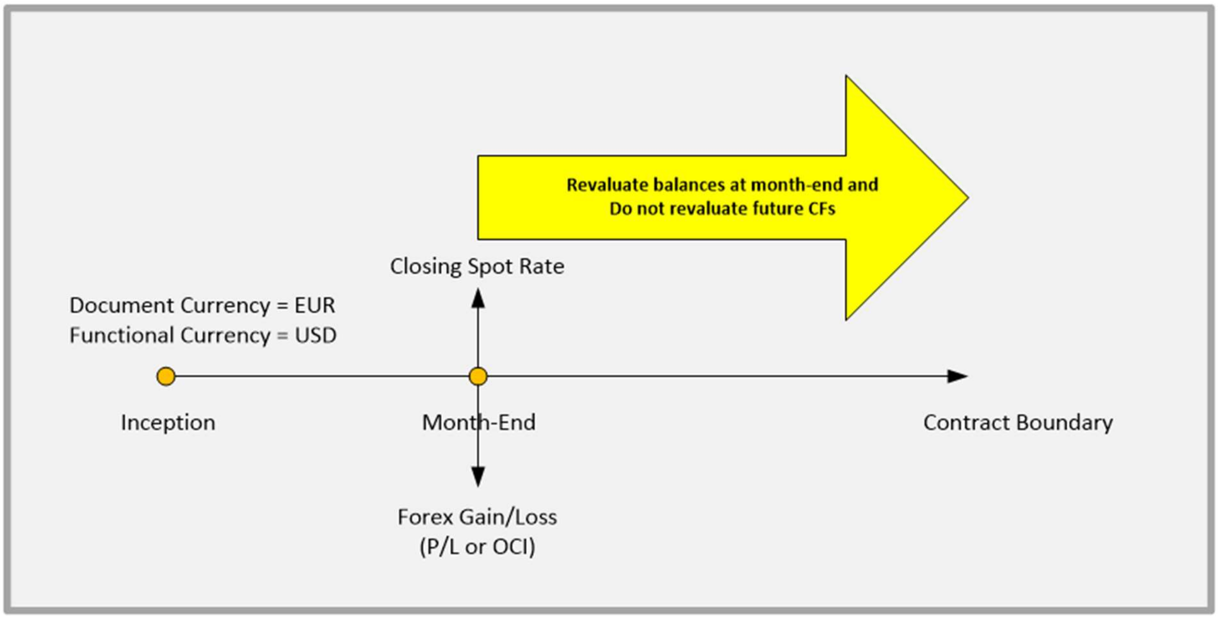


Figure 1.5 Method 2 – *Revaluate Balances at Month-End*

When applying method 2:

- During *inception*, the insurance contract in a foreign currency will be measured at the exchange rate when the insurance contract was formed.
- During *subsequent measurements* at the end of each reporting period (in accordance with IAS 21), the insurance contract is revalued using the closing rate (spot rate) only for month-end and not applicable for future cashflows.

The difference between Method 2 and Method 1 is during its subsequent measurement, whereas method 2 did not revaluate future cashflow When measuring using *closing spot rate*, only the month-end ending balance will be adjusted. The future calculations will not change and still reflects the exchange rate characteristics at the time of inception. So, there will be a difference in profit/loss on the exchange rate *(Forex Gain/Loss ≠ 0).*

Method 2 Illustrative Example

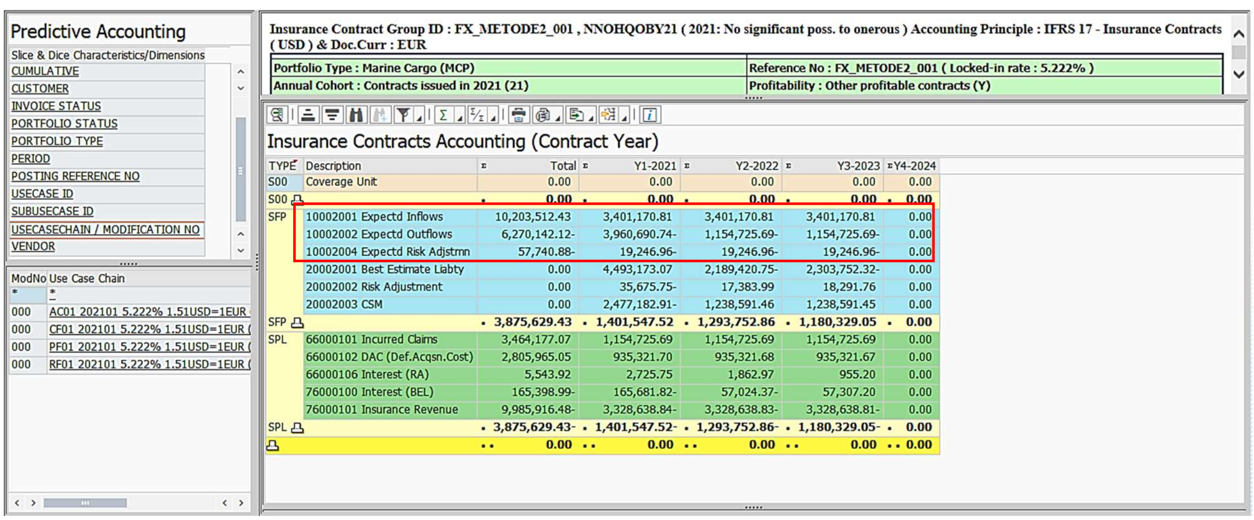
The Insurance Company issues insurance contracts using a foreign currency, namely EUR, where the Entity's functional currency is USD. Characteristics on insurance contracts issued are as follows:

- LoA: Portfolio: Marine Cargo; Cohort: 2021; profitability: Profitable
- Coverage period three years, from 01.01.2021 until 31.12.2023
- Total Earned Premium EUR 6.757.292, the premium will be received evenly for three years, (payable EUR 2.252.431 at the beginning of each year)
- Total Expected Claims EUR 2.294.158, the claims are expected to be equally distributed within the coverage period (payable EUR 764.719 at the end of each year)
- Acquisition cost EUR 1.858.255, paid at the time when the group of contracts was created
- Risk Adjustment (RA) EUR 38.239, RA will be amortized equally into the income statement at the end of each reporting period until the contract expires.
- Discount Rate 5,222 %
- Assumptions: CSM Amortized using straight line method.

Exchange Rate 01.01.2021: 1.51 USD = 1 EUR

Exchange Rate 31.01.2021: 1.50 USD = 1 EUR

Accounting journals for insurance contracts will be calculated and recorded using the help of Hamilton Engine (CSM Engine). The results are as follows:



Predictive Accounting

Slice & Dice Characteristics/Dimensions

CUMULATIVE
CUSTOMER
INVOICE STATUS
PORTFOLIO STATUS
PORTFOLIO TYPE
PERIOD
POSTING REFERENCE NO
USECASE ID
SUBUSECASE ID
USECASECHAIN / MODIFICATION NO
VENDOR

ModNo	Use Case Chain
*	*
000	AC01 202101 5.222% 1.51USD=1EUR
000	CF01 202101 5.222% 1.51USD=1EUR (
000	PF01 202101 5.222% 1.51USD=1EUR (
000	RF01 202101 5.222% 1.51USD=1EUR (

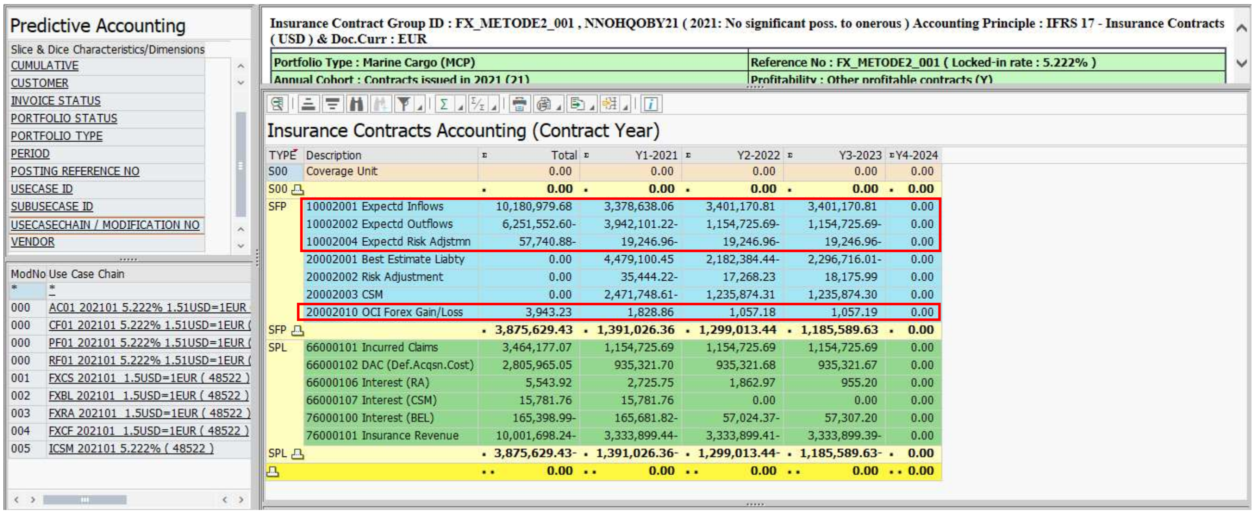
Insurance Contract Group ID : FX_METODE2_001 , NNOHQOBY21 (2021: No significant poss. to onerous) Accounting Principle : IFRS 17 - Insurance Contracts (USD) & Doc.Curr : EUR

Portfolio Type : Marine Cargo (MCP)	Reference No : FX_METODE2_001 (Locked-in rate : 5.222%)
Annual Cohort : Contracts issued in 2021 (21)	Profitability : Other profitable contracts (Y)

Insurance Contracts Accounting (Contract Year)

TYPE	Description	Total	Y1-2021	Y2-2022	Y3-2023	Y4-2024
S00	Coverage Unit	0.00	0.00	0.00	0.00	0.00
S00		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
SFP	10002001 Expectd Inflows	10,203,512.43	3,401,170.81	3,401,170.81	3,401,170.81	0.00
	10002002 Expectd Outflows	6,270,142.12-	3,960,690.74-	1,154,725.69-	1,154,725.69-	0.00
	10002004 Expectd Risk Adjstmn	57,740.88-	19,246.96-	19,246.96-	19,246.96-	0.00
	20002001 Best Estimate Liabty	0.00	4,493,173.07	2,189,420.75-	2,303,752.32-	0.00
	20002002 Risk Adjustment	0.00	35,675.75-	17,383.99	18,291.76	0.00
	20002003 CSM	0.00	2,477,182.91-	1,238,591.46	1,238,591.45	0.00
SFP		**3,875,629.43**	**1,401,547.52**	**1,293,752.86**	**1,180,329.05**	**0.00**
SPL	66000101 Incurred Claims	3,464,177.07	1,154,725.69	1,154,725.69	1,154,725.69	0.00
	66000102 DAC (Def.Acqsn.Cost)	2,805,965.05	935,321.70	935,321.68	935,321.67	0.00
	66000106 Interest (RA)	5,543.92	2,725.75	1,862.97	955.20	0.00
	76000100 Interest (BEL)	165,398.99-	165,681.82-	57,024.37-	57,307.20	0.00
	76000101 Insurance Revenue	9,985,916.48-	3,328,638.84-	3,328,638.83-	3,328,638.81-	0.00
SPL		**3,875,629.43-**	**1,401,547.52-**	**1,293,752.86-**	**1,180,329.05-**	**0.00**
		0.00	**0.00**	**0.00**	**0.00**	**0.00**

Figure 1.6 Method 2 - *Journal Entry at Inception*



TYPE	Description	Total	Y1-2021	Y2-2022	Y3-2023	Y4-2024
S00	Coverage Unit	0.00	0.00	0.00	0.00	0.00
S00		0.00	0.00	0.00	0.00	0.00
SFP	10002001 Expectd Inflows	10,180,979.68	3,378,638.06	3,401,170.81	3,401,170.81	0.00
	10002002 Expectd Outflows	6,251,552.60-	3,942,101.22-	1,154,725.69-	1,154,725.69-	0.00
	10002004 Expectd Risk Adjstmn	57,740.88-	19,246.96-	19,246.96-	19,246.96-	0.00
	20002001 Best Estimate Liabty	0.00	4,479,100.45	2,182,384.44-	2,296,716.01-	0.00
	20002002 Risk Adjustment	0.00	35,444.22-	17,268.23	18,175.99	0.00
	20002003 CSM	0.00	2,471,748.61-	1,235,874.31	1,235,874.30	0.00
	20002010 OCI Forex Gain/Loss	3,943.23	1,828.86	1,057.18	1,057.19	0.00
SFP		3,875,629.43	1,391,026.36	1,299,013.44	1,185,589.63	0.00
SPL	66000101 Incurred Claims	3,464,177.07	1,154,725.69	1,154,725.69	1,154,725.69	0.00
	66000102 DAC (Def.Acqsn.Cost)	2,805,965.05	935,321.70	935,321.68	935,321.67	0.00
	66000106 Interest (RA)	5,543.92	2,725.75	1,862.97	955.20	0.00
	66000107 Interest (CSM)	15,781.76	15,781.76	0.00	0.00	0.00
	76000100 Interest (BEL)	165,398.99-	165,681.82-	57,024.37-	57,307.20	0.00
	76000101 Insurance Revenue	10,001,698.24-	3,333,899.44-	3,333,899.41-	3,333,899.39-	0.00
SPL		3,875,629.43-	1,391,026.36-	1,299,013.44-	1,185,589.63-	0.00
		0.00	0.00	0.00	0.00	0.00

Figure 1.7 Method 2 - *Journal Entry (Year) at Subsequent Measurement* (31.01.2021)

Figure 1.6 shows the accounting records for insurance contracts during *inception* and Figure 1. 7 shows the journal entry for *remeasurement* at the end of the reporting period, 31.01.2021.

In method 2, the *foreign currency revaluation* at *subsequent measurement* is carried out by adjusting the insurance liability balance with the closing spot rate only on the month-end period (in accordance with IAS 21). This approach differs from Method 1, where we will *recalculate* for the month-end period until the *contract boundary.*

Foreign currency revaluation only conducted for monetary items in the financial statements. The difference between the insurance liability ending balance using the transactional date exchange rate and closing spot rate will be considered as foreign exchange gain/loss. In accordance with IFRS 17, upon applying IAS 21, foreign exchange gain/loss can be presented in the income statement or OCI. When applying method 2, there would be a significant difference in the foreign exchange gain/loss *(Forex Gain/Loss ≠ 0)* in each period. Thus, to overcome the problem, the difference in profit/loss on foreign exchange is recognized in OCI.

The difference in the exchange rate adjustment at 31.01.2021 was 3,943.23 for the whole reporting period. This value can be allocated and amortized to each reporting period (monthly, quarterly, etc.), and its value will fluctuate at the end of each reporting period according to the closing spot rate used to measure it. From Figure 1.7, we can see that adjusted value with the respect to the closing spot rate is only the ending balance at the end of reporting, and the expected future cashflow **does not change**.

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The application of Method 2 has advantages and disadvantages, including:

Advantages:

- The calculation is more straightforward because it does not require us to *recalculate* the closing spot rate adjustment for future cashflow but only to adjust the ending balance at the end of the reporting period.

Disadvantages:

- The recorded transactions do not reflect the existing economic conditions. It only describes a condition at a certain point at the end of the reporting period, while the *future* value does not change.

In applying IAS 21 in the IFRS 17 implementation, the problems that might arise during re-measurement *(foreign currency revaluation)* is related to the *level of aggregation* for insurance contracts which have multiple document currencies. IFRS 17 requires to group insurance contracts into at least three criteria: Portfolio, annual cohort, and profitability. This problem will arise if, for example, a group under these conditions has contracts issued in multiple foreign currencies that are different from the functional currency. This will make the revaluation process more difficult and complex because revaluation has to be done at individual contract level rather than in a group level and moreover currency is one of the considerations for the entity to define the discount rate for every group of contracts. The solution that the entity can take in solving this issue is to add additional classifier in insurance contract groups, which is based on *foreign currency.*

Conclusion

Accounting techniques for applying IAS 21 in the IFRS 17 implementation have not been described in detail in IFRS 17. However, IFRS is an accounting standard based on principles *(principle-based).* This means that the accountant will make several estimates that must be accounted for and require professional judgment. In both Method 1 and Method 2, the application of Hamilton Engine as a CSM Engine does not pose a problem, as it has provided both solutions with different techniques

We believe that alternative one would be more complex in practice that alternative two.

Should you have any questions, please send email to ersawahyuni@hamiltonpi.co.id

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18 August 2022

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

Tentative Agenda Decision: Multi-Currency Groups of Insurance Contracts

Dear Mr Mackenzie,

Moody's Analytics is a segment of Moody's Corporation. We provide a range of financial intelligence and analytical tools to support our customers' growth, efficiency and risk management. Among others, this includes a solution to help insurance firms measure and disclose insurance contracts under the new IFRS 17 Standard.

We welcome the opportunity to comment on the tentative agenda decision of the IFRS Interpretations Committee (**IFRIC**) as published in the June 2022 Update, Agenda Paper 6 ("**AP 6**"). Specifically, our comments have regard to item b of the request addressed to IFRIC, in respect of the application of IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (multi-currency groups of insurance contracts).

In AP 6, the staff analysis identified the following two possible approaches to the measurement of multi-currency groups of insurance contracts:

- **Approach 1**: single contractual service margin (**CSM**): the group of insurance contracts (including contractual service margin) is considered to be denominated in a single currency.
- **Approach 2**: multiple CSMs: the group of insurance contracts (including contractual service margin) is considered to be denominated in multiple currencies, reflecting the currencies of the fulfilment cash flows.

IFRIC's considerations around these two approaches maintain that both approaches are valid and envisages no further work on the matter. We would like to offer an alternative perspective.

Specifically, in our work with clients we have found that the two approaches can lead to significantly different outcomes. We have come to the conclusion that Approach 1 has clear advantages over Approach 2, for the following two reasons:

1. A movement in foreign exchange rates can change the onerosity of an IFRS 17 group under Approach 2, where the CSM is denominated in multiple currencies. We believe this contradicts paragraphs 48, B96 (b) and B97 (a) of the IFRS 17 Standard.

2. Interest accretion on the CSM can be negative under Approach 2, even if all interest rates are positive for all currencies.

We set out each of these observations below.

1. **A movement in foreign exchange rates can change the onerosity of an IFRS 17 group under Approach 2**

We have taken the fact pattern in Appendix B of AP6 and changed the exchange rates at the end of Year 1 to show the impact of the CSM on the carrying amount under more extreme movements in foreign currency exchange rates.

B6: The rounded exchange rates applicable for the application of both IFRS 17 and IAS 21 are:

	Original		Revised	
	At recognition	End of Year 1	At recognition	End of Year 1
US$1	£0.86	£0.85	£0.86	£0.50
US$1	€0.95	€1.00	€0.95	€1.00
£1	€1.11	€1.18	€1.11	€2.00

Using the revised foreign exchange rates, we have reproduced the table of results in Appendix B12 of AP6 showing the change in carrying amount of the CSM under the two approaches:

	Approach 1				**Approach 2**			
	Transaction currency		**Functional currency**		**Transaction currency**			**Functional currency**
	$		**€**		**$**	**£**		**€**
Opening Balance	-		-		-	-		-
Contracts issued (paragraph B8)	200.0		190.4		900.0	-600.0		190.4
Amount allocated to profit or loss for services provided	-66.7		-65.1		-300	-200.0		-5.1
Sub-total (A)	**133.3**		**125.3**		**600.0**	**-400.0**		**185.3**
Exchange			8.0					-385.3

differences								
Closing balance			133.3					-200

In this scenario, the CSM has increased by 6% under Approach 1, reflecting the appreciation of the US Dollar relative to the Euro. Under Approach 2 the CSM has decreased by 208% and has become negative, with the size of the move being very significant relative to the size of the CSM. In other words, the CSM has switched from being a liability to being an asset and the group has become onerous over the period. This is because of unfavourable movements in the value of the CSM denominated in Pounds Sterling relative to the movements in the value of the CSM denominated in US Dollars.

Paragraph 44 of IFRS 17 states the adjustments to be made to the carrying amount of the CSM, including adjustments due to "*the effect of any currency exchange differences on the CSM*" (paragraph 44 (d)). This paragraph does not provide any guidance in the situation where these exchange rates lead to the CSM balance becoming negative.

Paragraph 48 of the IFRS 17 Standard states that "*a group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if the following amount exceeds the carrying amount of the contractual service margin:*

(a) unfavourable changes relating to future service in the fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk; and

(b) for a group of insurance contracts with direct participation features, the decrease in the amount of the entity's share of the fair value of the underlying items."

In this scenario, part (b) is not relevant because there are no direct participation features in this example. For Approach 2, the CSM has become onerous due to the movement in foreign exchange rates, which is a financial risk (as per the definition of financial risk in Appendix A of the IFRS 17 Standard). Paragraph 48 (a) of the IFRS 17 Standard states that the CSM can become onerous due to unfavourable changes in non-financial risk but does not include any circumstances where movements in foreign exchanges rates can lead to an IFRS 17 group becoming onerous. Moreover, paragraph B97 (a) of the IFRS 17 Standard states that an entity shall not adjust the CSM for the effect of financial risk and changes in financial risk in relation to changes in fulfilment cash flows due to future service.

We do not think it was the intention of the IFRS 17 Standard for the CSM to become onerous due to a movement in a financial risk such as a movement in foreign exchange rates. Note, under Approach 1 it is not possible for the CSM to become negative from movements in foreign exchanges rates alone, so a group cannot change onerosity status due to foreign exchange rate movements. Also note that under Approach 2, in an alternative scenario where a group is onerous at initial recognition, it is possible that movements in foreign exchange rates lead to a negative loss component. That is, a group can switch to being profitable due to movements in exchanges rates.

We therefore believe that Approach 1 is more appropriate than Approach 2 for the purpose of calculating the CSM for a group. If Approach 2 is considered appropriate in some circumstances, we would welcome further guidance on the scenarios where foreign exchange rate movements lead to a CSM becoming a loss component or vice versa.

2. **Interest accretion on the CSM can be negative under Approach 2, even if all interest rates are positive for all currencies**

We have taken the original fact pattern in Appendix B of AP6 and introduced the time value of money, that is interest accretion, on the CSM over the reporting period. For simplicity and ease of comparison, we have not changed the value of the fulfilment cash flows or CSM on initial recognition and have assumed the new contracts are written at the start of the period. No consideration has been given to the real world interaction of interest rates and exchange rates over the period.

The discount rates are as follows:

	Nominal annual spot rate per annum at initial recognition
$	1%
£	2%

Using the new discount rates, we have reproduced the table of results in Appendix B12 showing the change in carrying amount of the CSM under the two approaches with an additional row for the interest accretion:

	Approach 1				Approach 2			
	Transaction currency		Functional currency		Transaction currency			Functional currency
	$		€		$	£		€
Opening Balance	-		-		-	-		-
Contracts issued (paragraph B8)	200.0		190.4		900.0	-600.0		190.4
Interest accretion	2.0		2.0		9.0	-12.0		-4.9
Amount allocated to profit or loss for services provided	-67.3		-65.7		-303.0	204.0		-62.5
Sub-total (A)	**132.7**		**124.7**		**597.0**	**-396.0**		**127.9**
Exchange differences			8.0					3.2
Closing balance			**132.7**					**131.1**

In this scenario the interest accretion on the CSM under Approach 2 is negative because, when translated to functional currency, the negative interest accretion on the CSM denominated in Pounds Sterling outweighs the positive interest accretion on CSM denominated in US Dollars. This result appears counterintuitive when both the US Dollar and Pound Sterling interest rates are positive. Note, under Approach 1 with a single CSM it is not possible for interest accretion to be negative if interest rates are positive.

We believe that this provides further rationale as to why Approach 1 is preferable to Approach 2.

* * *

We thank you for your consideration of our response and would be pleased to discuss the matter further, as may be helpful to your work.

Yours sincerely,

/S/ Kevin Lake

Kevin Lake
Director – Product Management

Date: August 19, 2022

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 Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

We welcome the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

In this regard, while we agree with the analysis in the TAD on how to account for a multi-currency group of insurance contracts under IFRS 17 and IAS 21, it would be helpful if the Agenda Decision provides greater clarity on the application and justification of the two approaches. Our specific comments on two aspects dealt in the TAD are as below:

Identifying portfolios of insurance contracts

We agree with tentative conclusion that an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. In this regard, determination of 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

Measuring a multi-currency group of insurance contracts

The TAD states that for measuring a multi-currency group of insurance contracts, an entity develops an accounting policy to determine on initial recognition the currency or currencies in which the group is denominated. It would be helpful if the agenda decision clarifies the following aspects:

1) Paragraphs 36 and 46 of the staff paper explain that an entity can apply two approaches depending on the terms of the contracts in the group. However, the exact basis/terms to be considered for applying either of the approaches are not very clear from the TAD. We feel that the factors that may be considered for applying the two approaches may be included in the Agenda Decision in order to provide greater understanding to the stakeholders.

   For instance, Approach 1 may be appropriate because, in identifying portfolios of insurance contracts, an entity considers currency exchange rate risks to be 'similar risks' and where one of the currencies is a predominant currency in a group, the currency risk in that group is similar. Thus, this Approach is aligned with the conclusion under Issue 1 above. If that be so, it may be appropriate to reflect the impact of currency risk and resulting gain or loss as insurance finance income/expense in line with IFRS 17. However, where both/all the currencies in a group of contracts are of equal predominance, Approach 2 may be more appropriate. If that understanding is correct, the same may be clearly stated in the agenda decision as that would be helpful in developing accounting policy by a preparer.

2) On a plain reading of IAS 21, it appears that IAS 21 does not explicitly envisage selection of any intermediate foreign currency as permitted in Approach 1 of TAD at the group level. Therefore, It may be useful if the Agenda Decision deals with this aspect of IAS 21. It will be helpful to apply the said two Approaches in accounting for contracts other than Insurance Contracts covered by other IFRS Accounting Standards. We understand that these two approaches are being currently followed for certain contracts, such as, portfolio of derivative contracts in multi-currency for the purposes of IFRS 9.

3) The TAD indicates that an entity develops an accounting policy using judgement based on its specific facts and circumstances and the terms of the contracts in the group. It will be helpful to avoid diversity in practice if the agenda decision clarifies that accounting policy choice is to be exercised at the level of group of insurance contracts based on certain factors (refer point 1 above), i.e., it may be appropriate to follow different Approaches for different groups.

Please feel free to contact us for any clarification on the above comments.

With kind regards,

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

Date: August 19, 2022

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

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3) The TAD indicates that an entity develops an accounting policy using judgement based on its specific facts and circumstances and the terms of the contracts in the group. It will be helpful to avoid diversity in practice if the agenda decision clarifies that accounting policy choice is to be exercised at the level of group of insurance contracts based on certain factors (refer point 1 above), i.e., it may be appropriate to follow different Approaches for different groups.

Please feel free to contact us for any clarification on the above comments.

With kind regards,

CA. Pramod Jain
Chairman,
Accounting Standards Board
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Mr Bruce Mackenzie International
Chair of the IFRS Interpretations
Committee
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Our ref RD/288

19 August 2022

Dear Mr Mackenzie

Tentative Agenda Decision: *Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)*

We appreciate the opportunity to comment on the IFRS Interpretations Committee (the Committee) tentative agenda decision (TAD) *Multi-currency Groups of Insurance Contracts* (IFRS 17 and IAS 21). We have consulted with, and this letter represents the views of, the KPMG network.

Overall, we support the TAD. However, we have identified two issues related to cases where an entity determines that the contractual service margin (CSM) is denominated in multiple currencies for the purpose of applying IAS 21 that we believe should be further addressed in the TAD.

Allocation of currency amounts to coverage units

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. The TAD notes that the entity would "b. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future." However, a "single method of determining the coverage units" might be misinterpreted as allowing an approach that inappropriately allocates different amounts of currency to different coverage units. We believe that it is important to emphasise that, at the end of the reporting period, an entity needs to allocate the CSM equally to each coverage unit provided in the current period and expected to be provided in the future periods as required by IFRS 17.B119(b) and the TAD should be amended to make this clear. For example, if the CSM is denominated as 100 units of currency A and 200 units of currency B, and there are 100 coverage units, then each coverage unit is allocated 1 unit of currency A and 2 units of currency B.

We suggest updating the wording as follows: “b. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future. <u>Such a method should be consistent with the requirement of IFRS 17.B119(b) to allocate the CSM equally to each coverage unit provided in the current period and expected to be provided in future periods.</u>"

Contract expected to be loss-making because of currency exchange rate changes

When an entity determines that the CSM is denominated in multiple currencies for the purpose of applying IAS 21, the CSM denomination may represent positive amounts or credit balance(s) in one or more currencies and negative amounts or debit balance(s) in another currency or currencies, initially representing an overall credit balance in the functional currency. A subsequent change in currency exchange rates, without any other changes in assumptions or changes to the measurement of the CSM, might result in the debit balance(s) outweighing the credit balance(s). This would mean that the CSM would become an overall debit balance, which does not appear to be in line with IFRS 17.BC219 which says the CSM cannot depict unearned losses and the definition of the CSM in Appendix A which states that it represents unearned profit.

We do not think this issue is adequately addressed by the statement in the TAD that an entity would “a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount, after translation into the functional currency.” Under IFRS 17.48, a contract (without direct participating features) becomes onerous if unfavourable changes in the fulfilment cash flows arising from changes in estimates of future cash flows relating to future service exceed the carrying amount of the CSM. However, the change in currency exchange rates appears not to cause the group of insurance contracts to become onerous in accordance with that paragraph because the change in exchange rates is not a change relating to future service, but instead relates to financial risk. Similarly, it does not appear possible for an entity to recognise a loss component under IFRS 17.49 in such a case because a loss component reflects only losses recognised under IFRS 17.48.

We recommend that the TAD be amended to state that the translation requirements of IAS 21 cannot lead to a negative CSM (i.e. a debit balance) in the entity’s functional currency. This is because we believe a negative CSM would be inconsistent with the definition of the CSM representing only unearned profit in accordance with IFRS 17.

We suggest adding the following wording to the TAD: “Currency exchange differences adjusting the CSM on translation to the functional currency would not be recognised to the extent that recognising them would be inconsistent with the requirement of IFRS 17 that a CSM cannot be negative”.

Please contact Reinhard Dotzlaw (Reinhard.Dotzlaw@KPMGIFRG.COM) or Joachim Kölschbach (jkolschbach_extcolab@kpmg.es) if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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19 August 2022

Dear IFRS Interpretations Committee members,

Invitation to comment – Tentative Agenda Decision: Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) that was published in the June 2022 *IFRIC Update*.

Given the cross-cutting nature of accounting for insurance contracts and foreign currency effects for certain types of insurance products, both IFRS 17 *Insurance Contracts* (IFRS 17) and IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21) are relevant. As acknowledged in the material for the June Committee meeting, we observe that neither IFRS 17 nor IAS 21 (or any other IFRS) includes specific requirements on how to account for groups of insurance contracts that generate cash flows in more than one currency (i.e., a multi-currency group of insurance contracts). Based on the submission, the Committee addressed the following two questions regarding how to account for such groups:

- When establishing groups of insurance contracts, how should foreign currency risk be considered in determining 'similar risk'?
- And
- When measuring a multi-currency group, how should entities deal with the foreign currency exposure (which would be particularly relevant in determining how to calculate the contractual service margin (CSM) of the multi-currency group)?

Given the lack of specific guidance regarding the treatment of multi-currency groups in both IFRS 17 and IAS 21, it is not obvious how to measure such groups within the context of a relatively complex accounting model (i.e., IFRS 17) that deals with products that could be relatively complex in nature (i.e., insurance contracts), with the fundamental unit of account for measurement under IFRS 17 being the group of contracts.

In our view, this context results in an inherent challenge of how to make both standards work together in a suitable way that reflects the requirements of both IFRS 17 and IAS 21. Therefore, we agree with the direction of the tentative agenda decision:

- To reiterate the objectives of both standards that should be met
- Not to provide any detailed requirements on how these objectives should be met And
- To reflect that there may be more than one way to achieve these objectives by allowing two possible approaches for measuring multi-currency groups

Impact on 'similar risk'
The Committee concluded that under IFRS 17 an entity is required to consider all risks — including currency exchange rate risks — when identifying portfolios of insurance contracts but that 'similar risks' do not mean 'identical risks'. The Committee argues that an entity could, therefore, identify portfolios of contracts that include contracts subject to different currency exchange rate risks within the same portfolio, if it judges these to be similar risks.

Given that currency risk is a financial risk arising from an insurance contract, we acknowledge that it should be considered (i.e., it cannot be ignored) in determining whether contracts have similar risks or not. However, deciding whether contracts have similar risks, and how this would be affected by currency risk, is a matter of judgement. As such, we agree with the Committee's observation that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts. As per paragraph 124 of the Basis for Conclusions of IFRS 17, future cash flows of contracts in the same group should be expected to respond similarly in amount and timing to changes in key assumptions. Judgement is required by an entity in determining the key assumptions for a particular portfolio or group. Given the principles-based nature of identifying portfolios, we understand the Committee's decision not to provide any detailed guidance on how such an assessment should be performed in the tentative agenda decision. Furthermore, we note that any additional detailed guidance on this matter at this stage may also have an important impact on the ongoing IFRS 17 implementation project for some entities.

Measuring multi-currency groups of insurance contracts
As multi-currency groups of insurance contracts will occur in practice under IFRS 17, it is necessary to consider how to measure such groups under that standard, whilst at the same time taking into account the requirements of IAS 21. Key elements to bear in mind are:

- In applying IFRS 17, a single CSM (or loss component) exists for the group of insurance contracts.
- An entity measures a group of insurance contracts as the total of the fulfilment cash flows and the CSM. IFRS 17 specifies that the entire carrying amount of a group of contracts, including the CSM, should be regarded as a monetary item[1].

[1] Paragraph 30 of IFRS 17 is clear that treatment as a monetary item applies to the entire carrying amount of a group of insurance contracts, including the CSM. The standard is also clear that this does not change if an entity measures a group of insurance contracts using the premium allocation approach. The standard is, in our view, unclear whether, within the context of the application of the two approaches mentioned in the tentative agenda decision, the treatment as a monetary item also extends to the asset for insurance acquisition cash flows.

- IAS 21 is applied to translate the carrying amount of the group of insurance contracts, including the CSM, at the end of the reporting period at the closing rate (or rates).

Given the lack of clarity in IFRSs on this matter and the relatively complex nature of the products accounted for, we agree with the Committee that there may be more than one way to apply the above consideration to multi-currency groups.

Policy choice

The Committee proposes that the entity develops an accounting policy to determine on initial recognition the currency (or currencies) in which the group—including the CSM—is denominated. The tentative agenda decision identifies, broadly, two approaches for measuring multi-currency groups of contracts: measuring the group as either denominated in a single currency or in the multiple currencies of the cash flows in the group. We observe that each of these two approaches has its pros and cons in terms of alignment with the objectives and requirements in the standards and consequently there would not, in our view, be one 'perfect fit'.

Even though we have some specific observations regarding the application of these two approaches- see below – we do not disagree with the tentative agenda decision referring to both of these approaches as the suitable methods under a policy choice, and so permitting these two approaches for measuring multi-currency groups. We agree that in applying this policy choice, judgement should be used in determining the policy based on the specific circumstances following the guidance in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8). We also agree that the selected policy should be applied consistently following the guidance in paragraph 13 of IAS 8.

Measuring the group as denominated in a single currency of the group

In applying the approach where the group – including the CSM - is measured as denominated in a single currency of the group, we note the following matters:

- According to the wording of the tentative agenda decision, the entity should develop an accounting policy to determine on initial recognition the currency in which the group of contracts is denominated. This suggests that the entity would determine the single currency in which the group is denominated at initial recognition of the group and not revisit it subsequently. If this is, indeed, the intent of the Committee, we suggest clarifying this intent when finalising the agenda decision by adding the requirement that this single currency is not reassessed subsequently.
- Based on the explanation in the underlying staff paper, this method follows two currency translation steps, notably (i) measuring the groups of insurance contracts - including the CSM – in the single currency applying the requirements of IFRS 17; and (ii) translating the resulting carrying amount of the group of contracts in any foreign currency into the entity's functional currency at the end of each reporting period applying IAS 21. Even though we understand – and do not disagree with – the concepts of this approach, we note it is based on an explicit distinction between the application of IFRS 17 in the first step and IAS 21 in the second step. This distinction has important

implications for how changes in currency risks are disaggregated and presented, especially when applying the other comprehensive income option given the difference in impact between IFRS 17 and IAS 21 on disaggregation. It is, therefore, important for the Committee to confirm whether this explicit distinction between the two steps has to be applied as written in the tentative agenda decision, or whether another application of these two steps would be possible as well. In particular, would it be possible to apply IAS 21 as part of translating foreign currency items under both steps (instead of applying IFRS 17 to the first step and treating all foreign currency translation effects as insurance finance income and expense).

- The tentative agenda decision specifies that an entity cannot simply deem the CSM for the group to be denominated in the functional currency, as simply deeming such a denomination would, in effect, fail to treat the CSM as a monetary item. As such, the tentative agenda decision does not rule out the use of the entity's functional currency as the single currency. We recommend that the Committee emphasises this point when finalising the agenda decisions by confirming that there may be situations in which the entity, using judgement based on the specific circumstances, validly selects the functional currency as the single currency within the context of the overall objective of treating the CSM as a monetary item.

Measuring the group as denominated in the multiple currencies of the cash flows in the group

In applying the approach where the group of contracts – including the CSM - is measured as denominated in the multiple currencies of the cash flows in the group (multi-currency approach), the tentative agenda decision makes clear that the group would still have a single CSM (or loss component). We acknowledge that complexities arise when determining this single CSM (or loss component) based on the multi-currency approach. Such complexities would typically be a matter for preparers to deal with if they were to choose to apply this approach.

However, there is one important aspect to observe related to the key principles of IFRS 17: when applying this multi-currency approach, the overall CSM (or loss component) and related amounts (e.g., CSM release in a period) would be affected by the effects of changes in foreign currency rates. This could even result in a CSM becoming a loss component or vice versa. This is because the entity would assess whether the group of contracts is onerous considering the CSM as a single amount, *after* translation into the functional currency. This effect, in itself, would not be reflective of the principle in IFRS 17 that changes in financial variables should not affect the CSM or loss component[2].

This effect could, in our view, be seen as a consequence of applying the guidance in IAS 21 to foreign currency translation effects in determining the CSM (or loss component) for the group of contracts as a whole when using an approach that measures the group as denominated in multiple currencies. We do, however, believe that this effect, and any

[2] For an insurance contract with direct participation features, additional consideration may be necessary as, applying IFRS 17, the CSM is also adjusted for changes in financial risks, which include changes in foreign currency rates.

fundamental considerations necessary for dealing with it (e.g., how to apply the overall CSM release based on a single amount for the group, and whether to treat any overall loss consistent with a loss component under IFRS 17 or in another way) should be made clear in the final agenda decision.

Agenda decision

We agree with the intention of the Committee not to add a standard-setting project to the work plan. We also note that there would not, in our view, be sufficient guidance in the applicable standards to further narrow down the methods mentioned in the tentative agenda decision.

In the event that significant issues were to emerge or practice diverge significantly around the measurement of multi-currency contracts after IFRS 17 becomes effective, the matter could be re-considered as part of a Post Implementation Review of IFRS 17.

Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof on +31 88 407 1030.

Yours faithfully

Ernst + Young Global Limited