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Patrick de Cambourg

Phone : 01 53 44 28 53
Mail. : patrick.de-cambourg@anc.gouv.fr
Internet : www.anc.gouv.fr

Mr Bruce Mackenzie
Chairman of the IFRS Interpretations Committee
Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD
United Kingdom

PDC n°28

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

Dear Bruce,

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

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

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

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

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

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

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

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

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

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

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

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

payments until death. In contrast, in this view, yearly payments would be no valid claim––they are only partial settlements of a unique claim occurring continuously over the coverage period that starts *at the beginning of the contract* and ends at the policyholder's death. Applying this view, Method 2 would be appropriate to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract[1].

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

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

- ***Other drafting comment***

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

- **Other observations**

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

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

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

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

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

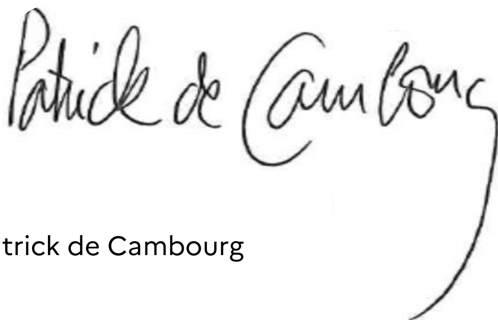
As a final note, we think there is an overall inconsistency in how to deal with application questions on IFRS Standards not yet effective. Absent any provision in the existing DPH stating otherwise, the Committee may address such questions and thus, is acting within its remits by answering application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

- the Transition Resource Group (TRG) for IFRS 17 has not been convened since 2019––this was '*to allow for a period of stability prior to the mandatory effective date of IFRS 17*'[2,3].
- when deciding on which topics to undertake standard-setting in the context of the June 2020 *Amendments to IFRS 17*, the Board specifically considered that '*…any amendments to IFRS 17 must not… unduly disrupt implementation already under way*'[4].

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

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

Yours sincerely,



Patrick de Cambourg

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

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

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