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Via email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Dear team

### Exposure Draft: Amendments to IFRS 17

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the exposure draft: Amendments to IFRS 17 issued June 2019.

Responses to the questions raised in the exposure draft are set out below.

#### 1. Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30)

- a. Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. Do you agree with the proposed amendment? Why or why not?

**CRUF comment:** The CRUF supports this scope exclusion. We believe it to be a helpful simplification and we support the fact it is a requirement and not an option.

- b. If not excluded from the scope of IFRS 17 by paragraphs 7(a)–(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable. Do you agree with the proposed amendment? Why or why not?

**CRUF Comment:** The CRUF supports this proposed amendment, and in particular, we support the rule that the choice should be irrevocable once made.

#### 2. Question 2—Expected recovery of insurance acquisition cash flows (paragraphs 28A–28D, 105A–105C, B35A–B35C and BC31–BC49)

Paragraphs 28A–28D and B35A–B35C propose that an entity:

- a. allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups

- that include contracts that are expected to arise from renewals of the contracts in that group;
- b. recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and
  - c. assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired. Paragraphs 105A–105C propose disclosures about such assets. Do you agree with the proposed amendments? Why or why not?

**CRUF Comment:** The CRUF supports these proposed amendments as a pragmatic way to allow companies to avoid showing losses on the initial contract when they expect the acquisition costs to be covered by subsequent renewals. We recognise the challenges it may present to some companies from a systems perspective, but we believe the option to expense acquisition costs available under the Premium Allocation Approach will help to reduce the number of companies negatively impacted by this.

Some participants of the CRUF have commented that they would like to emphasise that this point does create one more element of subjectivity in application for IFRS 17 which will lead to a lack of comparability. The CRUF believes that several areas of acquisition costs should be carefully considered for further clarification in the standard and in the basis for conclusions to improve comparability and consistency of information regarding the determination of the extended period, the scope of insurance acquisition cash flows recognised as an asset and the measurement of the asset. In particular there is potential subjectivity regarding likelihood of renewal, scope of qualifying acquisition cash flows in the group and a definition of net cash flow for determining impairment.

However there are clearly many areas of the standard where preparers will need to use judgement leading to greater subjectivity and thus to diversity in practice. The CRUF recognises that any principle based standard, almost by definition, means there is a lack of specificity, but we believe that potential lack of comparability between insurers should be a particular focus to consider as part of the post implementation review.

**3. Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44–45, 109 and 117(c)(v), Appendix A, paragraphs B119–B119B and BC50–BC66)**

- a. Paragraphs 44, B119–B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Paragraph B119B specifies criteria for when contracts may provide an investment-return service. Do you agree with the proposed amendment? Why or why not?
- b. Paragraphs 45, B119–B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance

coverage and investment-related service. Do you agree with the proposed amendment? Why or why not?

- c. Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c)(v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service. Do you agree with the proposed disclosure requirements? Why or why not?

**CRUF comment:** We reluctantly support the approach suggested in the amendment and the limitations the amendment includes. We recognise that there is a continuum of policy types where some will now qualify, such as UK Annuities and some will not, such as Spanish Annuities, purely based on some contractual terms, whilst the policies might, in day to day operation be largely identical. This does raise the issue of a challenge to “substance over form” which might argue for some further relaxation. Having said that, CRUF’s initial view was that UK Annuities in substance have no material investment service for the beneficiary as the investment risk is held by the shareholder and many participants argue that allowing the standard to diverge from the original principles, to solve a problem for one group of preparers, has simply created more problems which will not go away. These compromises must ultimately rest with standard setters and potentially regulators but our general preference is to avoid them in the first place.

#### **4. Reinsurance contracts held—recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B, B119C–B119F and BC67–BC90)**

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

- a. the loss recognised on the group of underlying insurance contracts; and
- b. the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held. Do you agree with the proposed amendment? Why or why not?

**CRUF comment:** The CRUF supports this amendment as a pragmatic way to ensure the reinsurance relationship is recognised in the accounts. However, the CRUF understands that in practice many reinsurance situations will not be covered by the amendment which suggests that the amendment itself is less useful than might otherwise be the case. Reinsurance contracts are complex and are frequently used as a “macro-hedge” and we believe the principles which determine which types of reinsurance, outside this tight definition, should have their accounting amended to reflect management risk mitigation strategies, would be best considered in a wider project which would be relevant for banks as we see little in principle that makes the insurance industry a special case in this regard. Any “rules” would be quickly structured around.

**5. Presentation in the statement of financial position (paragraphs 78–79, 99, 132 and BC91–BC100)**

The proposed amendment to paragraph 78 would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities. Do you agree with the proposed amendment? Why or why not?

**CRUF comment:** The CRUF supports this amendment and do not think it will affect analysis undertaken by our participants.

**6. Applicability of the risk mitigation option (paragraphs B116 and BC101–BC109)**

The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features. Do you agree with the proposed amendment? Why or why not?

**CRUF comment:** The CRUF supports this amendment.

**7. Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs C1, [Draft] Amendments to IFRS 4 and BC110–BC118)**

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date.

- a. The proposed amendment to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022. Do you agree with the proposed amendment? Why or why not?

**CRUF comment:** The CRUF would like to see IFRS 17 taking effect as soon as possible. We believe that the accounting approaches used across the insurance industry have lacked consistency for far too long, creating unnecessary challenges for the users of financial statements, and unnecessary costs in the capital markets. However, we recognise the challenges associated with moving to IFRS 17 and the costs for insurance companies associated with changing systems and practices so we are supportive of the proposed one year deferral. However, where companies are in a position to adopt IFRS 17 earlier than 1 January 2022 we would strongly encourage that.

- b. The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022. Do you agree with the proposed amendment? Why or why not?

**CRUF comment:** The CRUF argued against making the exception for insurance companies over the timing of IFRS 9 and continues to believe it was neither necessary nor appropriate. Given that it has happened, the CRUF can live with this amendment in the context of the overall arguments in favour of a one year deferral.

**8. Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119–BC146)**

- a. Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired. Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims. Do you agree with the proposed amendments? Why or why not?

**CRUF comment:** The CRUF supports this amendment.

- b. The proposed amendment to paragraph C3(b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option. Do you agree with the proposed amendment? Why or why not?

**CRUF comment:** The CRUF supports this amendment.

- c. Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation. Do you agree with the proposed amendment? Why or why not?

**CRUF comment:** The CRUF supports this amendment.

**9. Minor amendments (BC147–BC163)**

**This Exposure Draft also proposes minor amendments (see paragraphs BC147–BC163 of the Basis for Conclusions). Do you agree with the Board's proposals for each of the minor amendments described in this Exposure Draft? Why or why not?**

**CRUF comment:** No comment.

**10. Terminology**

**This Exposure Draft proposes to add to Appendix A of IFRS 17 the definition 'insurance contract services' to be consistent with other proposed amendments in this Exposure Draft.**

In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. If that change is made, those terms would become 'service units', 'service period' and 'liability for remaining service', respectively, throughout IFRS 17.

**Would you find this change in terminology helpful? Why or why not?**

**CRUF comment:** The CRUF supports this proposed amendment. We agree that 'service' is likely to be clearer for users to understand than 'coverage' (although we recognise the marginal nature of this change).

### 11. Annual Cohorts

**CRUF comment:** The CRUF was pleased that the IASB reviewed the requirement for the unit of account to be based on groups of contracts underwritten in the same year as it was important for a full debate. We agree with the conclusion that it is fundamental for the standard to work - and aligns with the information owners of businesses need to see. Clearly annual cohorts were already a compromise from contract level accounting and so the IASB have gone a long way to reduce industry costs already.

Whilst BC138 does make reference to fully mutualised contracts, where intergenerational risk and value transfers take place, the IASB did not include reference to these in the standard and that was probably a mistake - but fully mutualised contracts are very rare.

CRUF is aware that many preparers think of portions of the business as one big group where the contracts are inter-linked and where they can smooth returns between stakeholders at their discretion with such smoothing being the "business model" and justifying different accounting to a normal company. For various policy types management clearly transfer value between policyholders, shareholders and management over time and, to date, have not typically had to report with any clarity about this. CRUF understands there are therefore very different views of when some level of 'mutualisation' should change the way policies are accounted for and if we start to draw lines we will get more problems. CRUF shares the IASB view that it only works when there is 100% sharing of profits and losses (i.e. everything is shared). Any blurring of the lines would allow management too much discretion and then to avoid showing wealth transfers which give material information for all stakeholders - shareholders, existing policyholders, regulators and potential new policyholders.

In CRUF's view annual cohorts are needed in order to identify when something is going wrong in the business and to identify trends. CRUF believes, that in order to obtain an understanding of how good an insurance company is, it is necessary to understand how good the management is at managing risks (i.e. underwriting decisions), balancing competing stakeholder rights and investing funds. Annual cohorts would go some way to enable this understanding. We would encourage the IASB to withstand calls to relax it.



## About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

**Peter Elwin**

**Crispin Southgate**  
Institutional Investment Advisors

**William Hawkins**  
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