



HM Treasury

# **IFRS 17: Insurance Contracts Update**

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HM Treasury update

# IFRS 17: Background

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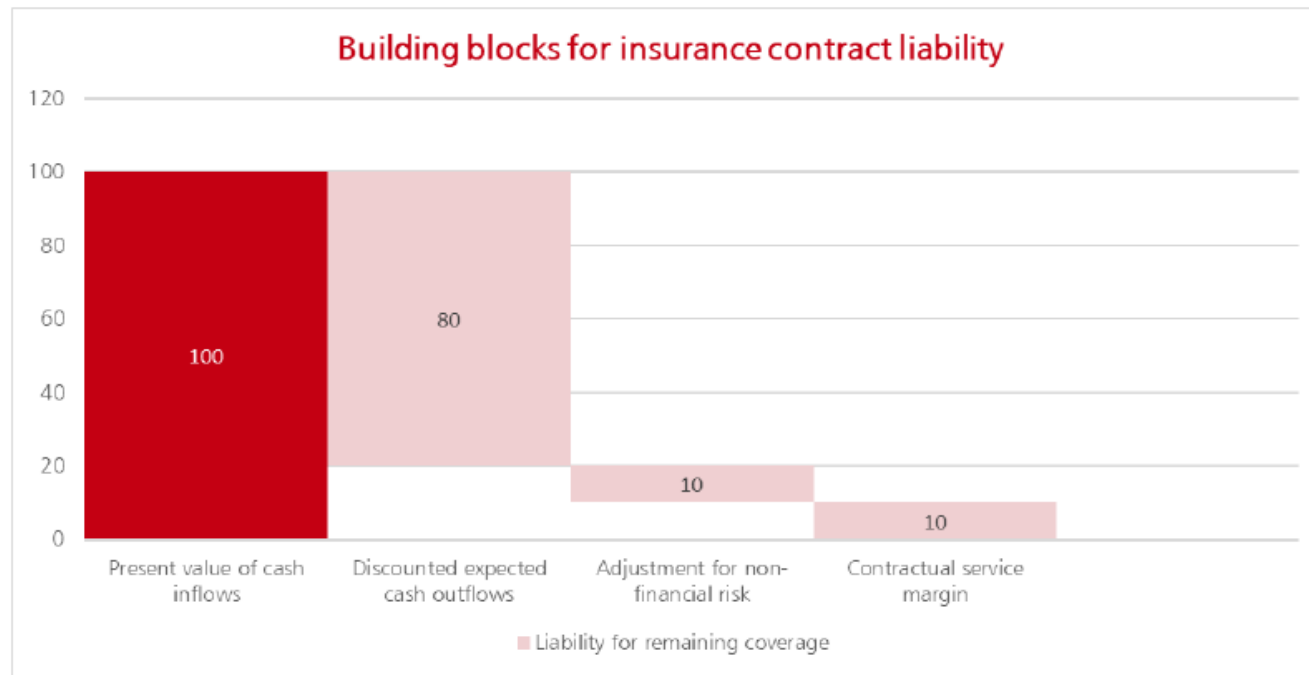
- IFRS 17 (the Standard) is a new insurance contracts accounting standard replacing IFRS 4. It provides a detailed accounting treatment for contracts issued within scope of the Standard.
- The planned financial year for adopting the Standard in central government is **2025-26**, which is two years after the private sector adoption date of 2023.
- Insurance contracts within government may be more common than one thinks. Government currently includes insurers such as UK Export Finance, but also regulated insurers such as Flood Reinsurance Ltd. Additionally, some entities provide insurance-type services to their subsidiaries. Finally, entities may issue contracts for policy reasons, e.g. indemnities to suppliers, which may be insurance contracts.
- HM Treasury set up a technical working group (TWG) to discuss the implementation of the Standard in the public sector.
- Work on drafting IFRS 17 guidance for the public sector has been ongoing since 2018 and is drawing to a close.
- The indicative timetable is to send out an exposure draft (ED) of the draft guidance in **Winter 2023**, with publication in **April 2023**. This gives reporting entities two years with finalised application guidance to prepare for the Standard.

# IFRS 17: Building Blocks Method- Recap

On 1 April 2023 the entity has issued 100 insurance contracts charging £1k each.

- Discounted expected future cash outflows are £80k
- The risk adjustment for non-financial risk has been calculated at £10k
- The CSM is therefore £10k on 1 April 2023 ( $£100k - £80k - £10k$ )

N.B. 'CSM' is the contractual service margin, which is unrecognised profit.



# IFRS 17: Areas of Discussion at the TWG

- **Scope**- the scope of IFRS 17 is broad; guidance has been drafted on how legislation interacts with the definition of an insurance contract per the Standard.
- **Accounting policy choices**- there are a number of accounting policy choices in the Standard. Certain choices have been mandated to strike an appropriate balance between best practice financial reporting and non-burdensome compliance.
- **Transition**- there are 3 transition methods. Discussion centered around which transition methods to use for consistency across central government and a less burdensome transition process.
- **Discounting**- we are looking to provide a central discount rate for insurance contracts- this is currently being discussed with FRAB.
- **Risk adjustment**- We have made the risk adjustment requirements in central government less burdensome by proposing to remove the disclosure requirement regarding confidence levels. (IFRS 17 para 119)

## IFRS 17: Other Issues

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- **Experts-** do you have the internal corporate finance and actuarial expertise to implement the Standard?
- **Users-** do users understand how IFRS 17 will impact the entity's financial performance and financial statements?
- **Audit-** have preparers engaged with their audit team on IFRS 17?
- **Technology and data-** do entities have the processes, procedures and systems to capture the data needed for IFRS 17 reporting?
- **Change and governance-** implementation of IFRS 17 will require a structured programme with strong governance structures.

# IFRS 17: Timeline

