



## Financial Reporting Advisory Board Paper *IFRS 17 Insurance Contracts – Work Plan*

<b>Issue:</b>	This paper provides the Board with HM Treasury's work plan to consider the public sector impacts of IFRS 17 and highlights some of the issues expected to be considered by the technical working group.
<b>Impact on guidance:</b>	None at this stage. The FReM will need to be updated in due course.
<b>IAS/IFRS adaptation or interpretation for the public sector context?</b>	This will be revisited in a later paper to the Board. IFRS 4 and related interpretations currently applies without public sector adaptation or interpretation.
<b>Impact on WGA?</b>	None at this stage but the changes in the FReM will affect WGA.
<b>IPSAS compliant?</b>	IPSASB is not planning to develop an IPSAS on insurance contracts in the public sector.
<b>Alignment with National Accounts</b>	To be determined.
<b>Impact on budgetary regime and Estimates?</b>	To be determined.
<b>Recommendation:</b>	The Board agree the approach and work plan
<b>Timing:</b>	No changes are expected to be made until 2022-23

## DETAIL

### ***Background***

1. The International Accounting Standards Board (IASB) has issued IFRS 17 *Insurance Contracts*, which replaces IFRS 4 *Insurance Contracts* and is expected to be effective for accounting periods beginning on or after 1 January 2022, following a decision to defer the effective date by one year.

2. This paper provides the Board with an overview of the new Standard and a consideration of the challenges it might present for the public sector. It also provides HM Treasury's proposed high level work plan to consider the public sector impacts of IFRS 17 and highlights some of the issues expected to be considered by the technical working group.

### ***Work Plan***

3. The IASB are considering amendments to IFRS 17 and, to allow time for insurers to implement any changes, the Board has voted to defer the implementation date of IFRS 17 for one year. This makes the Standard effective for accounting periods beginning on or after 1 January 2022.

4. HM Treasury's tentative work plan for considering IFRS 17 for the public sector can be found in Annex A. We plan to issue an Exposure Draft in late 2020 with final FReM extracts and any associated application guidance to be available in early 2021.

5. The format of the work plan is similar to that adopted for IFRS 16.

**HM Treasury would like the Board's agreement on the proposed work plan for considering the impacts and implementation in the public sector.**

### ***Issues for Consideration***

6. The introduction of IFRS 17 may seem irrelevant to many public sector bodies, as most do not have any contracts that are treated as insurance under IFRS 4. However, this impression is misleading. IFRS 17 redefines what constitutes an insurance contract extremely broadly, bringing many more situations in scope.

7. In IFRS 17, an insurance contract is "A 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 future event (the insured event) adversely affects the policyholder." The Standard further clarifies that insurance risk is any risk other than financial risk, and that the contract can be in writing, oral, or implied by an entity's usual business practice. A handful of exceptions are given, including (for example) manufacturer warranties which are covered under IFRS 15 *Revenue from Contracts with Customers*.

8. The first challenge for Relevant authorities and the technical working group is to identify the situations across the public sector where IFRS 17 could apply, and to work out which will be in scope. These are likely to fall into three categories:

- a) Situations where UK government bodies have identified insurance contracts under IFRS 4. These include the insurance provided by UK Export Finance, the Risk Protection Arrangement which the Department for Education provides for Academy Trusts, and

potentially GP and hospital indemnity cover provided by the Department for Health and Social Care.

- b) Situations where a UK government body has taken on insurance risk from another entity or individual but have not recognised an insurance contract. For example, the Ministry of Defence annual reports and accounts list a contingent liability for “Liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army, and Air Force”.
- c) Social benefits that might be considered a form of insurance. For example, unemployment benefits can be described as a transfer of some of the risk associated with not having a job from individuals to the government.

9. IFRS 17 applies to situations in the first category. The challenge of the second category is to decide which situations are outside the scope of IFRS 17. For the third category, we anticipate that close consideration will show that applying IFRS 17 is not appropriate, but we will need to provide solid reasoning to support that position.

10. When it is clear what is in scope of IFRS 17, the question of accounting treatment will vary from one organisation to the next. Some government bodies handle insurance contracts similarly to private sector insurance companies. Flood Re and UK Export Finance both have portfolios of contracts and both are already engaging with the challenges of IFRS 17.

11. Other public sector insurers have a single scheme, or a handful of relevant insurance contracts, that they may or may not currently recognise under IFRS 4. Most of these will be onerous contracts on recognition, with no associated income and no expectation of a contractual service margin. This simplifies the accounting treatment, but also makes it less likely that they have existing in-house expertise or have given much thought to IFRS 17 to date.

12. Due to the complexity of the contract revaluation necessary for existing insurers, and the new area of work for new insurers, it is likely that IFRS 17 will be time and resource intensive to implement.

13. The overall impact of IFRS 17 on the Whole of Government Accounts is hard to determine at this stage, but there is a possibility that a number of contingent or unrecognised liabilities might need to be brought onto the balance sheet.

HM Treasury would like to ask the Board for their views on which aspects of the Standard or implementation issues to prioritise when considering the impacts for the public sector.

### ***National Accounts, Budgets and Estimates***

14. There are no immediately obvious implications of IFRS 17 on National Accounts, Budgets and Estimates. The working group will continue to review potential impacts as it becomes clearer what the overall effect of IFRS 17 recognition criteria and accounting treatment is.

### ***IPSASB***

15. The IPSASB Proposed Strategy and Work Plan for 2019-23, published February 2018, acknowledges the potential applicability of accounting for insurance contracts in the public sector. However, they have not seen any demand for an insurance contracts IPSAS, or any reason to believe that one is needed in the public interest.

16. The IPSASB Exposure Draft 63, *Social Benefits*, includes an optional insurance approach for fully funded schemes that have the characteristics of insurance schemes and are managed like insurance contracts. This optional approach refers to an appropriate national or international insurance standard, such as IFRS 17 or a standard based on IFRS 17.

### ***Recommendation***

17. HM Treasury ask that the Board agree the work plan and seek their views on which aspects of the Standard to prioritise when reviewing the potential impacts on the public sector.

HM Treasury

22<sup>nd</sup> November 2018

## Annex A: High Level Work Plan

Date	Activities	
November 2018	FRAB	FRAB Paper – Overview of Standard, summary of existing insurance contracts, and work plan including potential key topics to consider for the working group
Mar 2019 – July 2019	Technical Working Groups	To work through the Standard and understand the application and risk profile across the public sector and potential adaptations or interpretations.  Informal public sector consultation
November 2019	FRAB	FRAB Paper - Update on technical working groups and informal consultation
Dec 2019 – March 2020	Technical Working Groups	To follow up on specific issues and consider adaptations and interpretations for the public sector
June 2012	FRAB	FRAB Paper – Update on technical working groups including potential interpretations/adaptations for the public sector
July - Oct 2020	Technical Working Groups	Consider Exposure Draft and Application Guidance
November 2020	FRAB	Exposure Draft and Application Guidance for approval for consultation (provided in advance of meeting)
Dec 2020 – Feb 2021	Exposure Draft Consultation	Issue Exposure Draft inviting comment from stakeholders
Feb/Mar 2021	Exposure Draft Responses	HMT consideration of responses to Exposure Draft
March 2021	FRAB	FRAB meeting to consider adoption of the Standard based on the exposure draft and response
April – Nov 2021	Publish FReM extract and Application Guidance or Further opportunity to consider any FReM changes	
June 2021	FRAB	FRAB meeting for further consideration if needed.
November 2021	FRAB	Approve 2021-22 FReM
December 2021	Publish 2022-23 FReM	
1 April 2022	UK public sector implementation of IFRS 17	