



Financial Reporting Advisory Board

IFRS 17 – scope additional guidance

Issue:	This paper provides the Board with HM Treasury's additional guidance on how to apply IFRS 17 paragraph B11 and determine whether transactions fall within the scope of IFRS 9 rather than IFRS 17.
Impact on guidance:	If supported by the Board, HM Treasury will release this additional guidance on gov.uk in June or July 2025, subject to any revisions requested by Board members.
IAS/IFRS adaptation or interpretation for the public sector context?	As explained in the main body of the paper, HM Treasury are of the view this additional guidance does not require further adaptations or interpretations in the FReM.
Impact on WGA?	N/A for this paper.
IPSAS compliant?	N/ A.
Alignment with National Accounts	N/A- no impacts on budgeting or accounting.
Impact on budgetary regime and Estimates?	None.
Recommendation:	The Board support publication of this additional guidance.
Timing:	HM Treasury plan to release the guidance in June or July 2025.

DETAIL

Background

1. At FRAB 155 in March 2025 HM Treasury presented a paper outlining significant concerns raised by several government entities about applying IFRS 17 to remote contingent liabilities. The concern was that more remote contingent liabilities are in scope of IFRS 17 than previously expected and accounting for these types of liabilities under IFRS 17:
 - a. may be misleading;
 - b. has significant budgetary implications which could undermine good financial management as, due to the significant estimation uncertainty of one-off remote contingent liabilities with a lack of data, they can be very challenging to estimate to bid for taut and realistic budgetary cover; and
 - c. is very costly to comply with and may be poor VfM.

2. Feedback from the Board was that there wasn't clarity on how many and what types of remote contingent liabilities are in scope of IFRS 17. It was also not clear how a principles-based approach could be developed to distinguish between 'normal insurance arrangements' and one-off insurance-type arrangements which are unique to government.
3. Given this feedback and further engagement with reporting entities, HM Treasury have identified further guidance is needed in two areas:
 - a. How to apply IFRS 17 paragraph B11; and
 - b. Determining whether an arrangement is in scope of IFRS 9 or IFRS 17.
4. The guidance developed can be found in **Annex 1** to this paper.
5. The HM Treasury view is that this further guidance should allow entities to make better judgements on whether an arrangement is within the scope of IFRS 17 and alleviate the concerns raised that too many remote contingent liabilities fall within the scope of IFRS 17.

IFRS 17 paragraph B11

6. The first section of the guidance in **Annex 1** covers how to apply IFRS 17 paragraph B11, which states '*Insurance risk is the risk the entity accepts from the policyholder. This means the entity must accept, from the policyholder, a risk to which the policyholder was already exposed. Any new risk created by the contract for the entity or the policyholder is not insurance risk.*'
7. What IFRS 17 paragraph B11 means in practice has been subject to considerable debate and discussion within central government. This is a key part of IFRS 17 for central government arrangements. This is because it is relatively common practice for entities to issue a contract to a supplier and provide an indemnity to cover high impact-low probability risks related to that contract the commercial insurance market would not cover (e.g. incidents at nuclear sites).
8. Following engagement with government departments and reflecting on the Board's discussions on the IFRS 17 agenda item at FRAB 155 in March 2025, HM Treasury have developed further application guidance on IFRS 17 paragraph B11.
9. The guidance in **Annex 1** on the application of IFRS 17 paragraph B11 covers 3 specific scenarios:
 - a. Scenarios where the reporting entity awards a contract to a supplier and provides an indemnity/ other insurance contract to that supplier connected to the work on the contract.
 - b. Scenarios where the reporting entity awards a contract to a supplier, the supplier already has insurance, but the reporting entity provides additional insurance to the supplier, covering risks related to the contract awarded.
 - c. Professional indemnity insurance (PII) contracts.

IFRS 17 vs IFRS 9

10. The second section of the guidance in **Annex 1** covers how to determine whether an arrangement is within scope of IFRS 9 rather than IFRS 17. The reason this has been included is that, through engagement with government reporting entities, there have been some arrangements the entity thought were in scope of IFRS 17, but did not fully consider whether the substance was a financial guarantee or other financial instrument and therefore in scope of IFRS 9.
11. Within the guidance in **Annex 1** we have highlighted the definition of financial risk in IFRS 17 and also the definition of a financial guarantee contract in IFRS 9. By highlighting these two definitions, reporting entities should be more aware of the possibility that their arrangements may fall within scope of IFRS 9 depending on their substance.

Are further adaptations or interpretations required in the FReM?

12. The HM Treasury view is that this additional guidance does not require further adaptations or interpretations to IFRS 17 in the FReM. The analysis in **Annex 1** on IFRS 17 paragraph B11

and whether an arrangement falls within the scope of IFRS 9 can be achieved through the application of IFRS 17 and the 2025-26 FReM as currently drafted.

13. The guidance in **Annex 1** instead provides further practical guidance and examples for IFRS 17 paragraph B11 and IFRS 9 vs IFRS 17 to assist preparers with making judgements on whether an arrangement is in scope of IFRS 17 or not. HM Treasury are not making further changes to the requirements in IFRS 17 for the central government context, and therefore no further adaptations or interpretations are needed in the FReM.

Questions for the Board:

14. Do you have any comments on the additional guidance in Annex 1 to this paper.
15. Do you agree this additional guidance does not require further adaptations or interpretations to IFRS 17 in the FReM?
16. Do you support HM Treasury publishing this guidance, subject to any amendments, in June or July 2025?

HM Treasury
19 June 2025

Annex 1 – Draft guidance

Purpose

1. This paper provides additional guidance for:
 - a. applying IFRS 17 paragraph B11 to common types of contractual arrangements between reporting entities and other external entities; and
 - b. assessing whether the substance of a contract meets the definition of a financial guarantee contract as defined in IFRS 9.

How to apply IFRS 17 paragraph B11 in central government

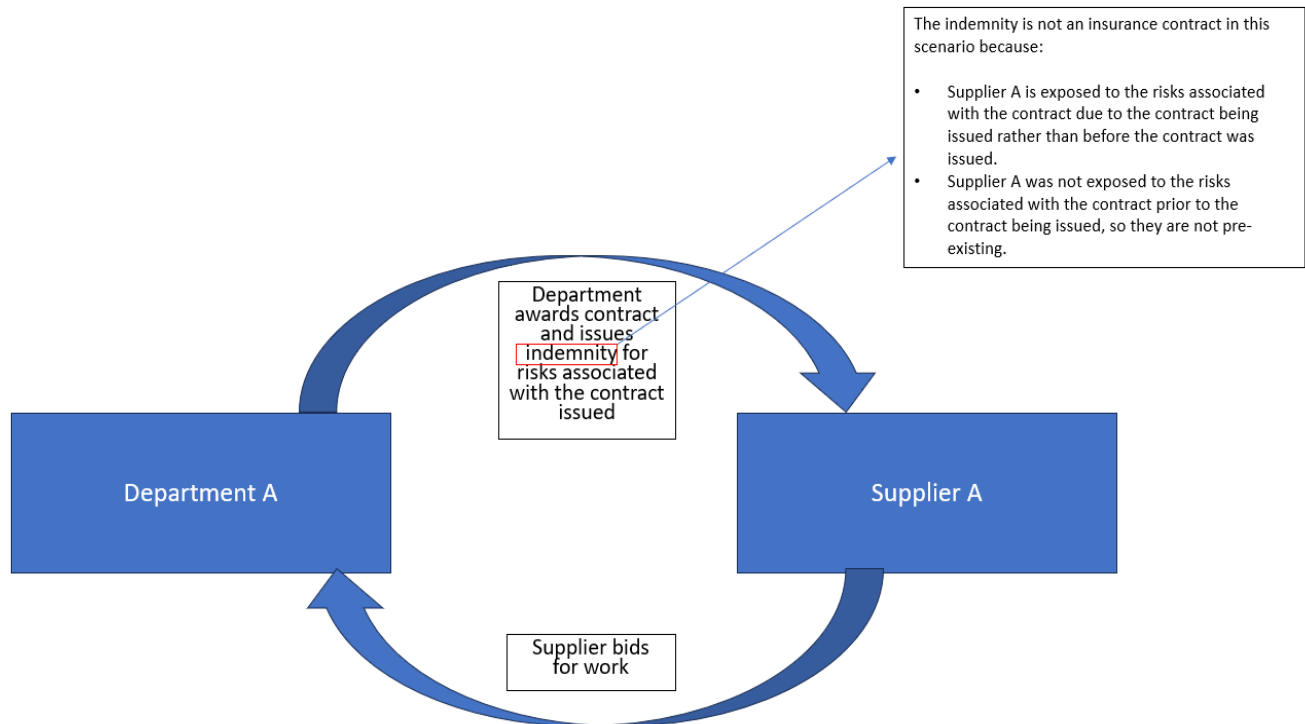
2. Whether a contract is within the scope of IFRS 17 is a key first judgement entities must make when transitioning to IFRS 17. HM Treasury released application guidance in 2023, setting out how IFRS 17 is adapted and interpreted in the public sector context, including guidance on how to judge whether a contract is in place or not.
3. IFRS 17 paragraph B11 states: *'Insurance risk is the risk the entity accepts from the policyholder. This means the entity must accept, from the policyholder, a risk to which the policyholder was already exposed. Any new risk created by the contract for the entity or the policyholder is not insurance risk.'*
4. Commentary on the application of this paragraph in IFRS 17 is somewhat limited. IFRS 17 provides one example at paragraph B21.b, which discusses whether a waiver of premium provided by an insurer is considered when assessing whether insurance risk is significant: *...additional amounts exclude 'a waiver, on death, of charges that would be made on cancellation or surrender. Because the contract brought those charges into existence, their waiver does not compensate the policyholder for a pre-existing risk. Consequently, they are not relevant when assessing how much insurance risk is transferred by a contract.'*
5. Common examples of contracts entities may need to apply IFRS 17 paragraph B11 to are:
 - a. The reporting entity awards a contract to a supplier to provide services and also provides an indemnity to the supplier. The indemnity is provided to incentivise the supplier to do the work, otherwise they would not do so as it is too risky (e.g. working on nuclear sites or with nuclear materials).
 - b. The reporting entity awards a contract to a supplier and the supplier has existing liability insurance of a certain level with a commercial insurer (e.g. £20m). The reporting entity provides an indemnity to the supplier covering risks in excess of £20m

due to the higher risks the supplier is now exposed to from the contract awarded to the supplier.

6. To summarise the question being tackled in this section, **when a reporting entity issues a contract to a supplier and provides an indemnity to the supplier for work on that contract, is that a transfer of insurance risk and in scope of IFRS 17?**

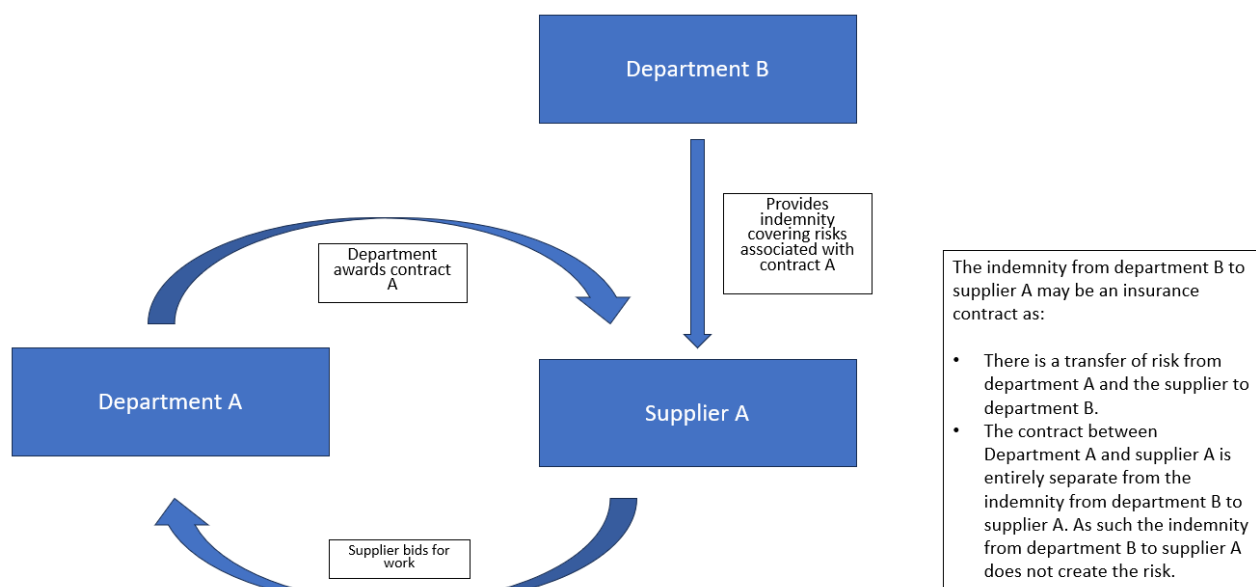
Scenarios where the reporting entity awards a contract to a supplier and provides an indemnity/ other insurance contract to that supplier connected to the work on the contract

7. The HMT view is that, where the reporting entity contracts a supplier to deliver work and provides an indemnity to that supplier for that work, then the indemnity does not result in the reporting entity accepting insurance risk as defined in IFRS 17. This is because:
 - a. The supplier was not exposed to those specific risks prior to entering the contract with the reporting entity. For example, the reporting entity indemnifies a supplier from losses from mishandling nuclear material- in this scenario the supplier is not exposed to the risks of handling the nuclear material before the contract; as such these risks for the supplier are created by the contract.
 - b. Linked to the above, it may be the case the risks transferred are the reporting entity's own risks to begin with. Taking the nuclear example above, risks associated with nuclear materials are the reporting entity's to begin with- external entities do not specifically bear these risks beforehand. As such there is no transfer of pre-existing risk from an external entity to the reporting entity.
8. Whether the indemnity is within the same supplier contract or a separate contract issued by the reporting entity to the supplier does not make a difference to whether there is a transfer of insurance risk. A timing difference between awarding the supplier contract and the indemnity covering activity in that same contract does not create insurance risk.
9. This view is shown diagrammatically below:



10. However, these risks could be insurance risk where the reporting entity is a **3rd party in the arrangement**. Taking the nuclear example above, say Department A contracts a supplier to handle nuclear material, but an indemnity is provided by Department B. In this case, the HMT view is that there is an insurance contract issued by Department B, as Department B is taking on the nuclear mishandling risks from the contract between Department A and the supplier, and the indemnity issued by Department B does not create the risk- it already exists.

11. This view is shown diagrammatically below:



12. There may be scenarios where an entity is indemnified from risks created by a contract but the risks do not appear to be created by the contract. For example, the reporting entity issues an indemnity covering both damage from nuclear incidents and employees tripping and injuring themselves when carrying out activity related to that contract.
13. The HMT view is that the risk of employee injury is specifically related to carrying out work on the given contract. The supplier is not exposed to their employees injuring themselves on nuclear sites before the contract was awarded. As such this is not a transfer of pre-existing insurance risk from the supplier to the reporting entity. The indemnity is therefore outside of the scope of IFRS 17 as there is no transfer of risk from one entity to another.
14. There are also scenarios where an indemnity is provided to a supplier when awarding a contract, the supplier sub-contracts the work and the indemnity flows down the chain to the sub-contractor. Assuming the risks to the supplier and subcontractor are created by the contract, the HM Treasury view is that indemnities which flow down the supply chain to the sub-contractor would also not be insurance risk as the risks to the sub-contractor are created by the contract- the sub-contractor was not exposed to these specific risks prior to the contract being issued.
15. When making judgements on whether the risks to the policyholder are created by the contract, reporting entities should carefully consider the boundary between risks created by the contract and risks which go beyond the contract issued. Where a reporting entity issues an indemnity to a supplier, but the indemnity covers risks

which go beyond the boundary of the contract, this may be a transfer of pre-existing insurance risk from the supplier to the reporting entity and therefore may be an insurance contract in scope of IFRS 17.

16. To summarise the HMT view. Where the reporting entity:
- Awards a contract to a supplier/ other external body; and
 - Issues an indemnity covering risks the supplier now faces on delivering that contract; then
 - This is not insurance risk.

Scenarios where the reporting entity awards a contract to supplier, the supplier already has insurance, but reporting entity provides additional insurance to the supplier

17. In this scenario the reporting entity awards a contract to a supplier. The supplier already has employer liability insurance with an insurer with a limit of £10m. The reporting entity provides an overlaying indemnity for claims above £10m for employer liability claims related to work on the contract.
18. The HMT view is that, as the employer claims are linked to the underlying contract being awarded, the employer is being exposed to higher levels of risk to which it was not previously exposed to. Applying IFRS 17.B11, the HMT view is that the contract between the reporting entity and the supplier created the risk for the supplier, and there is no transfer of insurance risk from supplier to the reporting entity. It also may be the case these risks are the reporting entity's risks before and after the contract is awarded as explained above.
19. These types of contracts are therefore outside of the scope of IFRS 17.
20. It is important to note that the increase of employer liability insurance would not be insurance risk if the risks covered by the indemnity were created by the contract. If the extension of the employer liability insurance covered risks not related to the contract awarded by the reporting entity and was pre-existing to the supplier, this may be a transfer of insurance risk and therefore an insurance contract in scope of IFRS 17.

Professional indemnity insurance (PII) contracts

21. Some government departments issue professional indemnity contracts to non-executive directors (NEDs) appointed to boards/ committees/ other governance groups of that department. PII contracts are available on the insurance market, but some government departments may give these to NEDs at no charge for their work on these governance groups.

22. Applying IFRS 17.B11 the HMT view is that these indemnities are not insurance contracts. This is because the appointment of the NED onto the governance group created the risk for the NED. Though the NED is exposed to professional negligence risks more generally, they are not exposed to the specific professional negligence risks associated with being on a government department's governance group.
23. These specific risks are not pre-existing to the NED and as such there is no transfer of risk from NED to the government department.
24. These types of contracts are therefore not in scope of IFRS 17.
25. If however, the indemnity issued to the NED covered risks outside of the work the NED does with the reporting entity, then these risks may not be created by the contract and may be insurance risk.

Financial risk, financial guarantees and insurance contracts

26. Where there is a transfer of risk from an entity to the reporting entity, the reporting entity should carefully consider whether the risk being transferred is a financial risk or meets the definition of a financial guarantee contract.
27. Financial risk is defined in IFRS 17 as: *'The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.'* Whether a risk is a financial risk should be clear in most cases so is not discussed any further in this guidance.
28. A financial guarantee contract is defined in IFRS 9 as *'A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.'*
29. Interpretation 2 to IFRS 17 in the FReM requires financial guarantee contracts to be accounted under IFRS 9, IAS 32 and IFRS 7 and not IFRS 17.
30. Within the definition of a financial guarantee contract in IFRS 9, the term 'debt instrument' is not defined. Entities will therefore need to exercise professional judgement as to whether the substance of the contractual arrangements transferring risk to the reporting entity meet the definition of a financial guarantee contract.
31. If a contract results in payments being made to another entity as they are not receiving payments, or a certain amount of payment, then the substance of this arrangement may be a financial

guarantee contract to be accounted for under IFRS 9 rather than IFRS 17.

Summary

32. When assessing contracts, reporting entities should carefully consider whether there is a transfer of insurance risk from an external entity to the reporting entity. It may be the case that the risks the reporting entity is indemnifying only exist due to the contract being awarded. As such this would not qualify as a transfer of insurance risk from an external entity to the reporting entity.
33. Reporting entities should carefully consider whether the substance of the risks transferred meet the definition of a financial guarantee contract, and therefore be accounted for under IFRS 9 rather than IFRS 17.