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Mr Jean-Paul Gauzès
European Financial Reporting Advisory Group
35 Square de Meeûs
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Our ref RD/288

2 September 2019

Dear Mr Gauzès

We appreciate the opportunity to comment on EFRAG's draft comment letter to the International Accounting Standards Board's (the Board) Exposure Draft ED/2019/4 *Amendments to IFRS 17* ('the ED' or 'the proposals').

While we have not commented on the individual questions raised by EFRAG staff, we would like to express our support of the standard as a whole and welcome the proposed amendments set out by the Board. We appreciate the Board's efforts in considering the implementation challenges and concerns identified by stakeholders. We believe that, overall, the proposals would ease implementation of IFRS 17 and would make it easier for companies to explain their results to investors and other stakeholders after applying IFRS 17.

Although narrow in scope, the proposals address many of the concerns and challenges raised by stakeholders. IFRS 17 brings considerable improvements to insurance accounting and provides a more consistent global standard compared to IFRS 4 today, as such it is important that the Standard is endorsed on a timely basis.

We appreciate EFRAG's development of the endorsement advice is time-consuming and time critical. We encourage all parties involved in the endorsement process to complete their responsibilities swiftly to permit timely application. We request that, in case of further deferral of the effective date of IFRS 17, European entities be permitted to early adopt IFRS 17 in order to accommodate entities that need to apply IASB-issued IFRS as well as EU-endorsed IFRS. Application in 2022 avoids undue prolongation of conversion projects by those entities that are further advanced in their plans, provides users with earlier access to IFRS 17 information and avoids additional costs in maintaining current accounting systems in addition to those supporting IFRS 17 and IFRS 9.

We are in the process of consulting within the KPMG network on the questions raised by the IASB. These consultations are continuing and our analyses remain subject to change. However, we have summarised draft key messages that we plan to submit to the Board as well as highlighting other areas on which we currently expect to provide comments. Our suggested improvements aim to assist in transition, mitigate potential diversity in application, and reduce operational complexity.

**Scope exclusions – credit card contracts and loan contracts that meet the definition of an insurance contract**

We generally support the Board's proposals to remove certain credit card contracts and loans that meet the definition of insurance contracts from the scope of IFRS 17. However, we believe the proposals for credit cards should be expanded by applying also to similar products such as debit cards and other consumer finance but only if the insurance coverage is limited to indemnities related to the use of the facility.

**Expected recovery of insurance acquisition cash flows**

We support the Board's proposal to allocate insurance acquisition cash flows that are directly attributable to future groups of insurance contracts. However, it is unclear how the transition requirements would be applied to the asset for insurance acquisition cash flows for future groups of contracts, and therefore we are considering providing suggestions for transitional relief for cases where full retrospective application is impracticable.

**Contractual service margin attributable to investment-return service and investment-related service**

We are supportive of the direction and intent of the proposals. However, we are aware of contracts that provide services related to investment activities but fall outside the scope of this amendment because they do not include an investment component or a right to withdraw an amount. We are considering providing proposals to scope these types of products into the amendment.

**Reinsurance contracts held – recovery of losses on underlying insurance contracts**

We agree with the intention of the proposed amendments, but consider the definition of reinsurance contracts held that provide proportionate cover too narrow. This results in the amendment not capturing certain types of reinsurance contracts held that, from an economic perspective, provide coverage for losses on onerous underlying contracts at initial recognition. Further, we are considering how to address concerns regarding contract boundaries for reinsurance contracts held.

**Applicability of the risk mitigation option**

We agree with the proposed amendments on the risk mitigation option. We believe the option should be extended to all financial instruments measured at fair value through profit or loss, rather than only for derivatives and reinsurance contracts held.

**Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4**

We agree that IFRS 17 is a Standard urgently needed to address many inadequacies in the existing accounting practices for insurance contracts. Nevertheless, we agree with the proposals to defer the effective date of IFRS 17 and the end of the temporary exemption from IFRS 9 by one year to annual reporting periods beginning on or after 1 January 2022.

We are concerned that, despite the efforts from a number of insurance companies, progress on the implementation of IFRS 17 by some preparers may not be as expected and software solutions may not be updated on-time. Therefore, we will encourage the Board to consider all feedback received from its constituents around this topic, including potentially revisiting the requirement for restatement of comparatives, to assess if further accommodation in this area could help preparers meet the revised effective date of 1 January 2022.

**Minor amendments and terminology**

We will ask the Board to clarify its intention as to which level the assessment for the variable fee approach should be performed. In addition, we believe that unintended consequences may have arisen related to the introduction of insurance contract services and the minor amendments to financial guarantee contracts and changes in underlying items that are not financial in nature.

**Additional key matters**

To achieve the revised effective date of 1 January 2022 in practice, we are considering suggesting further targeted changes that may help in the following key areas:

— While the annual cohort requirement is fundamental to the Standard as it provides useful information about trends in profitability of insurance contracts, we have concerns that it may result in unreasonable costs for certain mutualised1 insurance contracts relative to the enhanced information that it provides to users. We are exploring a simplified solution for these contracts for proposal to the Board. We

[1] *We refer to mutualised contracts which are defined in IFRS 17 as: “Contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts”. This will likely include certain participating contracts and universal life contracts, but exclude unit-linked contracts.*

acknowledge the concerns expressed by EFRAG and we intend to incorporate EFRAG's proposal in our thinking towards a solution.

— We will propose that the Board considers a principle-based simplification for entities that issue mutualised insurance contracts. This simplification would exempt such entities from the annual cohort requirement if the expected outcome does not differ significantly (as opposed to being the same as referred to in the basis for conclusions) from the outcome generated through the use of annual cohorts. Under this proposal, we envisage that this will give rise to groups of mutualised business consisting of a number of annual cohorts (rather than an open-ended group) without differing significantly from the measurement if annual cohorts were applied. We are considering proposing that entities perform a one-off test at initial recognition of a layer of new business that would not be revisited in subsequent periods, similar to the requirements of assessing the criteria for the premium allocation approach (PAA) or the variable fee approach (VFA). This means that the assessment would be required on an annual basis for the respective new business added to the group so that if facts and circumstances change, entities would be required to establish annual cohorts in respect of the current and future business. Entities would not be required to establish annual cohorts retrospectively for their historical groups of business.

— Paragraph B137 results in a difference that arises between how an entity calculates the CSM for annual financial statements if the entity also issues interim financial statements. We also note that the issue is prevalent in consolidated groups where only the listed legal entity issues IAS 34 financial statements (as required by listing regulations) and local subsidiaries are usually not required to. The requirement in B137 creates inconsistency between preparers, as the calculation of the CSM will differ for each company depending on whether and how frequently they prepare IAS 34 interim financial statements. In order to provide relief for preparers where this has become a burden to implement, but also limit disruption to implementation for those who have progressed in this area, on balance, we are considering proposing that the requirement in B137 is made optional.

— IFRS 17.B113(b) requires changes in the effect of the time value of money and financial risks not arising from the underlying items to adjust the CSM for contracts with direct participation features. The scope of this paragraph extends to all changes in the effect of the time value of money and financial risks. Some have interpreted this as including the effect of unwinding of the discounting of relevant fulfilment cash flows. We are concerned that this interpretation will cause distortions in the financial statements, particularly as a result of the unwinding of the discounting of the insurance contract liabilities being included in the CSM. We believe this interpretation is conceptually incorrect, as the time value of money effect arising purely as a result of the passage of time (i.e., unwinding of the discounting of the liability) relates to current service and should be included in insurance finance expense for the period. We suggest the IASB to amend B113(b) to require the unwinding of the discounting of the liabilities to be recognised in insurance finance income or expense.

If you have any questions about our comments or wish to discuss any of these matters further, please contact Reinhard Dotzlaw or Joachim Kölschbach with KPMG's International Standards Group in London at +44 (0)20 7311 1000.

Yours sincerely

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