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M. Jean-Paul Gauzès  
EFRAG Board President  
EFRAG  
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Belgium

29 January 2021

Dear M. Gauzès

**EFRAG Draft Endorsement Advice on IFRS 17 *Insurance Contracts* as amended in June 2020**

We are pleased to write in response to the draft endorsement advice issued by the EFRAG Board on 30 September 2020 (the endorsement advice).

We believe that IFRS 17 as issued by the IASB and amended in June 2020 meets all of the technical endorsement criteria. Currently, significant diversity in practice exists where insurers apply a wide variety of different accounting policies in accounting for similar insurance contracts. IFRS 17, which is a principles-based standard, provides a set of requirements to be applied consistently, which satisfies the qualitative characteristics of relevance, reliability, comparability and understandability.

Specific to ‘the annual cohort requirements’ of IFRS 17, we observe that while a majority of EFRAG board members agreed that these requirements satisfy the technical endorsement criteria, a significant minority considered that applying IFRS 17 would produce information that is neither relevant nor reliable.

The annual cohort requirements establish that groups of insurance contracts (i.e. the unit of account in IFRS 17) must not include insurance contracts issued more than one year apart in the same group. We agree with the view taken by the IASB in drafting IFRS 17 (and confirmed again during the amendment process in 2020) that this requirement is necessary in order to provide users of financial statements with relevant information. Some insurers currently apply accounting policies that results in them accounting for insurance contracts at a highly aggregated level with cash flows arising from some contracts effectively subsidising others. Limiting the unit of account in the manner specified in IFRS 17 was intentional by the IASB, and we believe the benefits of the annual cohort requirements outweigh the costs.

We also believe that it is not feasible for the annual cohort requirements of IFRS 17 to be modified for entities that apply IFRS as endorsed by the European Union without altering the fundamental requirements of IFRS 17. The annual cohort requirements establish the unit of account at which IFRS 17 is applied, we do not believe that it is possible to appropriately scope a change to the annual cohort requirements that would address the concerns of some constituents without the fundamental benefits of these requirements being reduced significantly.

Insurance is a highly international business with entities operating in dozens of jurisdictions worldwide. An EU 'carveout' to the requirements of IFRS 17 could result in significant costs incurred by entities with operations in the EU as well as other jurisdictions. Such entities may be required to produce financial statements under two different versions of IFRS 17, which would be costly due to the operational complexity of IFRS 17. Additionally, creating a difference between IFRS 17 as applied globally versus in the EU would introduce transaction costs for entities considering entering, or expanding operations in, the EU market. This could result in a disincentive for entities and others to invest in European insurance entities and operations, and would result in a significant lack of comparability in amounts reported by entities in the EU in comparison with other jurisdictions, which we believe are not conducive to the European public good.

In conclusion, BDO strongly supports the endorsement of IFRS 17 as issued by the IASB with no adjustments to any requirements, including the annual cohort requirements. A further key consideration in making this recommendation is the urgency of the need for clarity on the part of preparers, as the mandatory effective date of IFRS 17 as issued by the IASB (annual reporting periods beginning on or after 1 January 2023) is fast approaching.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at [abuchanan@bdoifra.com](mailto:abuchanan@bdoifra.com).

Yours faithfully

Andrew Buchanan

*Global Head of IFRS and Corporate Reporting*