AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.™

May 23, 2022

Bruce Mackenzie
Chair
Interpretations Committee
International Financial Reporting Standards (IFRS) Foundation
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
UK

Dear Chair Mackenzie:

The IFRS 17 Work Group (Work Group) of the American Academy of Actuaries (Academy)[1] welcomes the opportunity to comment on the tentative agenda decision "Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)"—March 2022 Agenda Paper 2.

Work Group members have had considerable insight into IFRS both through their experience in the United States with entities with parent companies that report under IFRS and as parent companies of foreign subsidiaries that will be required to report under IFRS. As a result, the Work Group has been involved with commenting on IFRS 17 prior to adoption.

As stated in the Interpretations Committee March 2022 consultation, "IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in paragraph B119 of reflecting the insurance contract services provided in each period. Different methods may achieve that principle depending on the fact pattern."

In the response below, the Work Group supports a broader view of insurance contract services than what is described in the tentative decision. Rather than ask for an amendment to the tentative decision, the Work Group requests a withdrawal of the tentative decision. The Work Group is concerned about unanticipated consequences to IFRS 17 implementation of setting out a rule to narrow the interpretation of "insurance contract services" at this moment immediately before the implementation of the standard.

There are several reasons to consider the period prior to the initiation of payments to be part of the insurance period, or coverage unit, for which the contractual service margin (CSM) should be

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

amortized. As the International Accounting Standards Board (IASB) considered in amending IFRS 17, Insurance Contract Services now include the generation of investment returns. The premium paid for these deferred payment annuities anticipates both the generation of investment returns and expected mortality among the covered individuals. Also, the individuals who will receive the payment have insurance from the beginning of the contract.

For life insurance, the insurance payment commences if one dies during the period. For these contracts, the insurance is for if one survives the period. From the date the contract is issued, the insurer is subject to the risk of higher survival rates. The fact that these two risks offset each other makes the deferred income annuity a natural hedge for insurance companies to sell.

The coverage unit, over which CSM would be amortized, could be based on the number of lives insured. Like life insurance, the coverage unit could be based on the scheduled amount of the future payment, which represents the amount of survival insurance. In U.S. generally accepted accounting principles (GAAP) there is precedence for using the present value of payments, such as described in the provided sample case and which represents both the amount of survival insurance and the generation of investment returns, to amortize a similar concept—deferred profit liability.

Paragraphs BC140 and BC141 do not appear to be appropriate comparisons for the following reasons. In those paragraphs, the coverage period has not started. If something happens prior to the coverage period, the premium, if any has been received, will be returned. In the example, the coverage period has started. There is no refund if the insured dies prior to first payment.

If the tentative decision is unable to be withdrawn, the Work Group suggests an amendment to allow the entity that has sold the insurance contract to determine the coverage units that are appropriate for the insurance contract once the coverage under the insurance contract has begun. The Work Group acknowledges that it is often difficult to divide an insurance policy into distinct pieces, and for that reason it supports a principle-based approach be adopted by the standard.

If you have any questions about this letter or seek additional information from the Academy, please contact Sam Owen, risk management & financial reporting policy analyst, at owen@actuary.org.

Sincerely,

Douglas S. Van Dam

Douglas S. Van Dam, MAAA, FSA
Chairperson
IFRS 17 Work Group
American Academy of Actuaries