

# Report

**To:** CIPFA LASAAC

**From:** Steven Cain, CIPFA Secretariat

**Date:** 10 June 2021

**Subject:** CIPFA LASAAC Implementation of IFRS 17

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## Purpose

**The purpose of this report is to consider and approve the Project Plan for Project 5 Implementation of IFRS 17 Insurance Contracts**

## Report

### 1. Introduction

- 1.1 IFRS 17 *Insurance Contracts* is expected to be adopted and implemented in the 2023/24 Code. The Code currently does not set out detailed requirements on IFRS 4 *Insurance Contracts*. Previous consultations have explored the extent to which local authorities have arrangements which are within scope and might warrant more these.
- 1.2 The number of responses to these consultations was low, and the responses do not provide convincing evidence that detailed requirements need to be set out in the Code. Indeed, the more convincing responses were from preparers who suggested that the scope exemptions in IFRS 17 or other factors mean that it will not need to be applied.
- 1.3 The attached project plan gives an overview of the project. It includes:
- Objectives of the Project
  - Introduction and background
  - Project approach
  - Project Milestones, and
  - Staff and Resources

## **2. Anticipated Options for the ED/ITC**

2.1 The suggested approach for this year's ITC is to

- propose continuation of the current 'Appendix A' approach to the standard on insurance contracts
- allow respondents to challenge this, by providing explanation of the insurance contract they considered might be in place, the nature of the insurance risk, and confirmation (with explanation) that the arrangement is not in the scope of other standards such as IFRS 15.

2.2 In addition to this, the Secretariat would pursue enquiries directly with those respondents to the 2021/22 Codes who indicated that IFRS 17 might be applicable.

### **Recommendations**

**CIPFA LASAAC is invited to consider and approve the attached project plan**

## Issues around measurement of property, plant and equipment

The working group agree that there is a materiality issue, and it may be worth considering this having regard to arguments around precise valuation being less relevant for assets being used to deliver a service.

### **Questions for CIPFA LASAAC**

Does CIPFA LASAAC agree with the logic set out in this part of the paper around the approach to current value and materiality – does it capture a key feature of public sector reporting, or does it reflect a degree of wishful thinking?

If so, how would this be best progressed in the Invitation to Comment?

If it is possible to pursue this, it would have ramifications for all government sectors.

In practice, obtaining agreement from the auditor, regulator and standard setter community (including FRAB and other UK public sectors) would be as important as obtaining support from preparers.

## Issues around measurement of pensions assets and liabilities

The working group agree that there is a materiality issue, and it would be beneficial for the case for less revaluation to be explored?

### **Questions for CIPFA LASAAC**

Does CIPFA LASAAC agree with the logic set out in this part of the paper?

Do CIPFA LASAAC consider that the case for less revaluation of pension assets and liabilities should be explored?

If so, how would this be best progressed in the Invitation to Comment?

If it is possible to pursue this, it could have ramifications for all government sectors.

In practice, obtaining agreement from the auditor, regulator and standard setter community (including FRAB and other UK public sectors) would be as important as obtaining support from preparers.

## Review of IFRS Practice Statement 2 and related CIPFA guidance

The working group agreed that the excerpted material from the publication *Streamlining the Accounts* was useful.

Some working group members were less clear whether providing such an extract in the Code would be beneficial, given that this material is already available.

### **Questions for CIPFA LASAAC**

Does CIPFA LASAAC agree that the material in this part of the paper is useful?

Would it be helpful to include material based on this in the Code, despite its non-mandatory status, perhaps as an Appendix?

## Review of XX Council streamlining

Can particular types of disclosure be expected to be less material?

### **Questions for CIPFA LASAAC**

Should we explore with this topic with Councils which have recently carried out streamlining projects

Should we seek to apply the 'less prescriptive language' approach in the development of the 23/24 Code, signalling this in the 22/23 ITC

## Project 5 – Implementation of IFRS 17 Insurance Contracts

### Objective of the Project

The objective of the project is to implement IFRS 17 in the Code, providing appropriate material having regard to the needs of local authority preparers.

### Project Introduction and Background

IFRS 17 *Insurance Contracts* is expected to be adopted and implemented in the 2023/24 Code. It will supersede IFRS 4 *Insurance Contracts*. IFRS 4 *Insurance Contracts* is one of the small number of IFRSs which are only expected to apply to local authorities in limited circumstances. The Code does not include detailed accounting requirements for such standards, which are simply listed in Appendix A (IFRSs with limited Application to Local Authorities), with a brief explanation.

The IASB is clear that IFRS 17 is designed for insurance companies. In its fact sheet it indicates: 'IFRS 17 applies to insurance contracts. Although this means that IFRS 17 affects any company that writes insurance contracts, such contracts are generally not written by companies outside of the insurance industry.' IASB, May 2017

IFRS 17 provides definitions of insurance contracts and insurance risks. Under these definitions there are many situations where non-insurance companies will be subject to insurance risk, but the transactions or contracts are explicitly excluded from the scope of IFRS 17. They may fall, for example, within the scope of provisions in IFRS 15 *Revenue from Contracts with Customers* which specifically covers matters such as manufacturers' warranties and other standard features of contracts for the sale of goods and services.

In line with the above, it is still necessary for entities to consider whether there are contracts which involve insurance risk and which are not scoped out; there is scope to do this mainly as a one-off exercise on UK adoption of IFRS 17, subject to periodic review of whether the entity has entered into any new types of contract which involve insurance risk.

From the perspective of the Code, a key question is whether contracts which are not scoped out of IFRS 17 are sufficiently commonplace in local authorities to warrant the development of Code material which goes beyond inclusion in Appendix A of the Code.

Consultations on the 2020/21 and 2021/22 Codes have not provided evidence of a significant need for additional material. Problematically, the poor level of response to questions on IFRS17 did not provide a strong basis to be confident either way.

Key areas noted in the review of 2021/22 responses were:

- Local Government Mutual: a mutual insurance company owned by its (local government) members which offers insurance products. There were 14 founder members
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- Pension guarantees: some local authorities are accounting for pension guarantees under IFRS 4 and are expected to move to IFRS 17.
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- Other local authority activities where the need for insurance accounting has been considered (Economic development support, insurance where authority acting as intermediary, guarantees, and warranties)

**Local Government Mutual.** Further consideration of Local Government Mutual indicates that it will use FRS 102 together with FRS 103 *Insurance Contracts*. Local authority interests in the mutual are expected to be reported in the same way as other investments. Prima facie there is no IFRS 17 issue to address.

**Pension Guarantees.** Only one consultation response related to pension guarantees reported on under IFRS 4 providing no other detail. Other responses suggested that IFRS 17 would not generally be applicable. It may be that the number of cases where IFRS 4 is used is small. Perhaps more pertinently, if this has been done in the absence of Code material on IFRS 4, there may be no need for Code material on IFRS 17.

**Other categories.** For each of the other categories, there were 3 to 5 responses. The majority of responses suggested that IFRS 17 was not appropriate because variously there was no insurance contract, there was no insurance risk, or there was an insurance risk but the transaction was scoped out of IFRS 17 because it was covered by IFRS 15. The smaller number of responses which did not rule out the application of IFRS 17 mainly explained that there was an exposure, but provided no other details.

The Secretariat reading of the position underlying the responses is that

- while economic development support may involve guarantees, it is not clear that it involves something corresponding to an insurance contract;
- insurance where an authority is acting as an intermediary does not look to be in scope;
- academy school guarantees in CTAs seem quite likely to be in the scope of IFRS 15;
- warranties seem generally likely to be in the scope of IFRS 15.

The above provide support for retaining the current approach, but because of the poor evidence base, this needs further testing.

## **Project Approach**

Suggested approach is as follows:

- Set out proposals for the 22/23 Code ITC/ED which propose continuation of the current 'Appendix A' approach to the standard on insurance contracts
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- Set ITC questions which allow respondents to challenge this, requiring explanation of the insurance contract which is considered to be in place, the nature of the insurance risk, and the confirmation (with explanation) that the arrangement is not in the scope of other standards such as IFRS 15.
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- Pursue enquiries directly with those respondents to the 2021/22 Codes who indicated that IFRS 17 might be applicable

This project will also coordinate with the overarching project on IFRS 17 for the UK public sector in case there are matters raised in that project which need to be reflected in the Code.

### Project Milestones and Resources

Project Milestones	Dates
<b>CIPFA LASAAC agree project brief and discuss issues arising</b>	June 2021
<b>Review issues arising</b>	June 2021
<b>Develop consultation material for inclusion in the 22/23 Code ITC/ED</b>	June-July 2021
<b>Pursue enquiries with previous ITC respondents</b>	August-September 2021
<b>Review comments on consultation paper and other information obtained</b>	November 2021
<b>Develop material for inclusion in the 23/24 Code ITC/ED</b>	March 2022

### Staff and Resources

Volunteers:

Staff:

Steven Cain

*CIPFA Technical Manager*