The Chair
22 May 2023
ESMA32-1188985980-272

Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London

Ref: Tentative Agenda Decision: Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)

Dear Mr Mackenzie,

The European Securities and Markets Authority (ESMA) would like to thank you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication of a tentative agenda decision relating to *Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9).* We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* to premiums receivable from an intermediary.

ESMA notes that the IFRS IC concluded that a standard-setting project would not result in an improvement in financial reporting that would be sufficient to outweigh the costs. This is because, in the Committee's tentative views, any such project would involve assessing whether changes to the Standards would have unintended consequences, which may take considerable time and effort. On the other hand, the Committee noted that the application of any of the two views proposed in its analysis would provide users of financial statements with useful information based on the requirements in IFRS 17 or IFRS 9.

While on practical grounds ESMA agrees with the Committee's conclusion, it would still like to suggest some adjustments to the text of the tentative agenda decision to improve consistent application of IFRS. In this respect, ESMA believes that, prior to undertaking standard-setting activity in this area, it would be useful to build on the experience from a few reporting cycles on the implementation IFRS 17 before drawing conclusions on the practical consequences of the divergence that will result from the application by insurers of any of the two views identified by the Committee.

Therefore, in ESMA's view, the agenda decision would benefit from clarifying that the Committee is not able to conclude on the extent to which such divergence and the resulting loss in comparability may ultimately impair the usefulness of the information provided by applying either IFRS 9 or IFRS 17 and that, in order to support comparability of financial information, insurers should provide disclosures on the adoption of one or the other view when the related information is material.

With regards to the type of disclosures to be provided, ESMA highlights that the Committee's tentative conclusion *de facto* indicates that an implicit scope option exists for the treatment of premiums receivable by an intermediary. ESMA, therefore, considers that it would be important that the final agenda decision highlights the need for disclosures on the exercise of this option and that it provides educational material on which disclosure requirements should apply to best support investors' analysis of information reported by different insurers and different portfolios of the same insurer.

ESMA also notes that the Committee was unable to identify any specific conditions based on which an entity would exercise judgement necessary to qualify the premiums receivable from an intermediary as within the scope of either IFRS 9 or IFRS 17. Therefore, ESMA notes that issuers will be confronted with a policy choice which, where material, will need to be adequately explained, as required by paragraph 117B of IAS 1 *Presentation of Financial Statements*. ESMA also notes that both the disclosure objective in paragraph 93 of IFRS 17 and the credit risk requirements in par. 131 of IFRS 17 are relevant for the fact pattern at hand.

Against this background, ESMA recommends that the Committee clarifies in the final agenda decision that, when the relevant amounts are subject to IFRS 17, entities place particular attention to the requirements on paragraph 122-132 of IFRS 17 and more specifically on the credit risks disclosure requirements in paragraph 131 of IFRS 17.

When premium receivables are accounted for under IFRS 9, it is important that the Committee clarifies that insurers should provide the relevant information required by IFRS 7 *Financial Instruments: Disclosures*. Particularly, we highlight the disclosures on the impact of credit risk that amounts related to premium receivables from an intermediary may have on an insurer's financial statements. In this respect, ESMA notes that, at present, IFRS 7 exclude from its scope insurance contracts and investment contracts with discretionary participation features within the scope of IFRS 17 (with some exceptions with regards to specific components or contracts). Therefore, it would be beneficial to clarify that when premiums receivable from an intermediary are treated in accordance with IFRS 9, the relevant disclosures in IFRS 7 also apply to these receivables.

Finally, ESMA notes that in its final re-deliberations the Committee may conclude that its intention is not to indicate that there is an accounting policy choice, nor that a scope option exists for premiums receivable from an intermediary. Nevertheless, ESMA recommends that the Committee clarify what disclosure requirements should apply to provide transparency on the adoption of either accounting treatment in the financial statements of insurers with the objective of promoting comparability of financial statements.

In case you have any questions or comments regarding this letter, please do not hesitate to contact me or Isabelle Grauer-Gaynor, Head of the Corporate Finance and Reporting Unit.

Yours sincerely,

[signed]

Verena Ross