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Mr Bruce Mackenzie
International Chair of the IFRS
Interpretations Committee
Columbus Building
7 Westferry Circus
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Our ref RD/288

19 August 2022

Dear Mr Mackenzie

Tentative Agenda Decision: *Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)*

We appreciate the opportunity to comment on the IFRS Interpretations Committee (the Committee) tentative agenda decision (TAD) *Multi-currency Groups of Insurance Contracts* (IFRS 17 and IAS 21). We have consulted with, and this letter represents the views of, the KPMG network.

Overall, we support the TAD. However, we have identified two issues related to cases where an entity determines that the contractual service margin (CSM) is denominated in multiple currencies for the purpose of applying IAS 21 that we believe should be further addressed in the TAD.

Allocation of currency amounts to coverage units

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. The TAD notes that the entity would "b. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future." However, a "single method of determining the coverage units" might be misinterpreted as allowing an approach that inappropriately allocates different amounts of currency to different coverage units. We believe that it is important to emphasise that, at the end of the reporting period, an entity needs to allocate the CSM equally to each coverage unit provided in the current period and expected to be provided in the future periods as required by IFRS 17.B119(b) and the TAD should be amended to make this clear. For example, if the CSM is denominated as 100 units of currency A and 200 units of currency B, and there are 100 coverage units, then each coverage unit is allocated 1 unit of currency A and 2 units of currency B.

We suggest updating the wording as follows: “b. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future. <u>Such a method should be consistent with the requirement of IFRS 17.B119(b) to allocate the CSM equally to each coverage unit provided in the current period and expected to be provided in future periods.</u>"

Contract expected to be loss-making because of currency exchange rate changes

When an entity determines that the CSM is denominated in multiple currencies for the purpose of applying IAS 21, the CSM denomination may represent positive amounts or credit balance(s) in one or more currencies and negative amounts or debit balance(s) in another currency or currencies, initially representing an overall credit balance in the functional currency. A subsequent change in currency exchange rates, without any other changes in assumptions or changes to the measurement of the CSM, might result in the debit balance(s) outweighing the credit balance(s). This would mean that the CSM would become an overall debit balance, which does not appear to be in line with IFRS 17.BC219 which says the CSM cannot depict unearned losses and the definition of the CSM in Appendix A which states that it represents unearned profit.

We do not think this issue is adequately addressed by the statement in the TAD that an entity would “a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount, after translation into the functional currency.” Under IFRS 17.48, a contract (without direct participating features) becomes onerous if unfavourable changes in the fulfilment cash flows arising from changes in estimates of future cash flows relating to future service exceed the carrying amount of the CSM. However, the change in currency exchange rates appears not to cause the group of insurance contracts to become onerous in accordance with that paragraph because the change in exchange rates is not a change relating to future service, but instead relates to financial risk. Similarly, it does not appear possible for an entity to recognise a loss component under IFRS 17.49 in such a case because a loss component reflects only losses recognised under IFRS 17.48.

We recommend that the TAD be amended to state that the translation requirements of IAS 21 cannot lead to a negative CSM (i.e. a debit balance) in the entity’s functional currency. This is because we believe a negative CSM would be inconsistent with the definition of the CSM representing only unearned profit in accordance with IFRS 17.

We suggest adding the following wording to the TAD: “Currency exchange differences adjusting the CSM on translation to the functional currency would not be recognised to the extent that recognising them would be inconsistent with the requirement of IFRS 17 that a CSM cannot be negative”.

Please contact Reinhard Dotzlaw (Reinhard.Dotzlaw@KPMGIFRG.COM) or Joachim Kölschbach (jkolschbach_extcolab@kpmg.es) if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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