HFMA response
February 2023

Response to the HM Treasury consultation on the IFRS 17 exposure draft

Introduction

IFRS 17 *Insurance contracts* was published in 2017, it is effective for reporting periods starting on or after 1 January 2023. For public sector bodies, it is being applied by HM Treasury in the Financial reporting manual (FReM) from 1 April 2025.

In the proposed changes to the FReM 2025/26, the exposure draft sets out how the standard will be adapted and interpreted for the public sector, including the NHS.

Consultation response

Question 1: Do you agree with the interpretation for the definition of a contract? If so, why? If not, why not and what alternatives do you propose? [Section E.2]

We agree with the interpretation of the definition. The NHS example provided in the exposure draft is particularly welcome.

We assume that the interpretation in the box above paragraph E2.3 will be included in the FReM. If this is the case, the second sentence is not clear without the example provided in paragraph E2.2. Without that example, it is not clear whether 'they' refers to legislation and regulations or insurance contracts. We suggest that the interpretation would be clearer as follows (we have used strikethrough and red text to highlight the amendments we have made):

> Central government interpretation: For the purpose of applying IFRS 17 in central government, legislation and regulations, in isolation, are not equivalent to insurance contracts – legislation and regulations do not fall within the scope of the definition. Legislation and regulations can
>
> - include binding rights or obligations
> - facilitate the creation of arrangements that fall within the definition of a contract and
> - form part of the implied terms of a contract,
>
> but in themselves are not agreements between parties and, therefore, do not meet the definition of an insurance contract under IFRS 17.

Alternatively, paragraph E2.2 could be used as the interpretation.

Question 2: Do you agree the requirement to disclose and include insurance liabilities in both the remote contingent liabilities note and the financial statements- where the insurance liabilities meet the definition of both a remote contingent liability and insurance contract under IFRS 17- is the right approach to maintain high quality parliamentary reporting? If so, why? If not, why not and what alternatives do you propose? [Section E.4]

We agree with the requirement. However, we suggest that this is reviewed after the standard is applied in order to determine whether the additional workload that the dual reporting requirements is necessary to inform the supply estimates. If the IFRS 17 information is sufficient then the remote contingent liability disclosure requirement can be dropped.

Question 3: Does the proposed wording explaining the difference between the value of insurance liabilities included in the remote contingent liabilities note and in the financial statements provide sufficient clarity on the difference between these values? If so, why? If not, why not and what alternatives do you propose? [Section E.4]

We agree that the proposed wording explains why there is a difference between the values. However, the final sentence relies on the reader understanding of the accounting standard and is not clear to the non-finance reader. We suggest that something that explains that the two disclosures have different objectives should be included. It would explain that the remote contingent liabilities disclosure is to inform Parliament of the highest level of exposure it has to any liabilities however remote while IFRS 17 is intended to provide an assessment of the liability that is comparable to all other entities applying the standard. IFRS 17's assessment is based on the full range of cash flows, adjusted for probability and risk factors.

Question 4: Do you agree with the interpretation for contracts meeting the criteria set out in IFRS 17 paragraph 8 to be accounted for under IFRS 15? If so, why? If not, why not and what alternatives do you propose? [Section E.6]

We agree with the interpretation – for consolidation, it is important that all government entities follow the same accounting policies.

Question 5: Do you agree with the interpretation to account for all financial guarantee contracts under IAS 32, IFRS 7 and IFRS 9? If so, why? If not, why not and what alternatives do you propose? [Section E.7]

We agree with the interpretation to account for all financial guarantee contracts under IAS 32, IFRS 7 and IFRS 9 because credit risk is a *financial* risk - expressly excluded from IFRS 17.

Question 6: Do you agree with the adaptation to include a rebuttable assumption that the financial instrument discount date (as stated in PES papers) is to be used to discount IFRS 17 liabilities? If so, why? If not, why not and what alternatives do you propose? [Section F.2.3]

We agree with the adaptation as this will ensure consistency in between the accounts of all NHS bodies and other WGA bodies as well as the accounting arrangements for other liabilities such as provisions.

Question 7: Do you agree with the adaptation to withdraw the requirement to disclose the confidence level used to determine the risk adjustment for non-financial risk? If so, why? If not, why not? [Section F.2.4]

We agree with the adaptation - otherwise the costs of preparing this disclosure are likely to outweigh the benefits derived.

Question 8: Do you agree with the interpretation to mandate accounting for insurance finance income and expenses for the period in the SoCNE? If so, why? If not, why not? [Section F.2.7]

We agree with the interpretation on the basis of ensuring consistency. Also, because the costs of devising and applying a systemic process to split the incomes and expenditure between SoCNE and other comprehensive income are likely to outweigh the benefits derived.

Question 9: Are there any disclosure requirements which you believe are not applicable to central government? If so, why? If not, why not and what alternatives do you propose? [Section F.3]

We believe the need to disclose the composition of underlying items for variable fee approach does not apply to central government or its departments including DHSC because (F.4.3) 'such contracts are unlikely to be common in central government entities'.

(Note: the link to the IFRS materials does not work)

Question 10: Do you agree with the decision to keep the accounting policy choice of either using the PAA or GMM where the criteria to use the PAA are met? If so, why? If not, why not? [Section F.4]

We agree with the decision. Some contracts may be for a period greater than one year so organisations may benefit from being able to apply a simplified PAA approach.

Question 11: For each of the accounting policy choices listed in the table in section F.5, do you agree with the decision of whether to mandate an approach or not? If so, why? If not, why not? [Section F.5]

For each of the accounting policy choices listed in the table in section F.5, we agree with the decision of whether to mandate an approach or not. NHS bodies are not expected to have many, if any, material insurance contracts so mandating an approach simplifies the impact of applying the standard.

Question 12: For each of the accounting policy choices mandated in the table in section F.5, do you agree with the choice mandated? If so, why? If not, why not? [Section F.5]

As above, we agree with the choice mandated.

Question 13: Do you agree with the proposed date of initial application and transition dates for the central government implementation of IFRS 17? If so, why? If not, why not and what alternatives do you propose? [Section G.1]

As paragraph G.1.2 sets out there is a list of key assessments that need to be undertaken before the standard can be adopted. The most difficult of these will be the identification of contracts that meet the definition of insurance contracts. It is unlikely that NHS bodies will have many, if any, insurance contracts that meet the definition but, in some ways, this makes this task more difficult as NHS bodies will be trying to establish the absence of insurance contracts.

Based on the experience of applying IFRS 16, it will take time to identify the examples of insurance contracts that NHS bodies may be party to. Engaging with non-finance colleagues who are involved in agreeing contracts takes time as everyone becomes familiar with the requirements of the standard.

1 April 2025 is the earliest that the standard could be adopted in the NHS.

Question 14: Do you agree with the interpretation to mandate transitioning to IFRS 17 using the full retrospective approach where practicable, and then using the fair value approach if full retrospective restatement is impracticable? If so, why? If not, why not and what alternatives do you propose? [Section G.2]

We agree with the interpretation to mandate transitioning to IFRS 17 using the full retrospective approach where practicable, and then using the fair value approach if full retrospective restatement is impracticable.

Question 15: Do you agree with the adaptation to measure the Contractual Service Margin (CSM) at £nil and the insurance liability at fulfilment cash flows where the liability calculated under IFRS 13 would result in an excessive premium? If so, why? If not, why not and what alternatives do you propose? [Section G.3]
We agree with the adaptation.

Question 16: Do you agree with the rationale for the potential practical expedient to measure the insurance contract liability at fulfilment cashflows when using the fair value transition approach? If so, why? If not, what are the reasons for this? [Section G.3]
We agree with the rationale for the potential practical expedient as it is unlikely that NHS bodies will provide insurance products.

Question 17: If you agree with the rationale and inclusion of the practical expedient, should it be mandated or be included as an optional practical expedient? What are the reasons for your choice? [Section G.3]
We feel that the practical expedient should be included as an optional practical expedient. However, if NHS bodies have to apply this approach, we expect that they would elect to use fulfilment cash flows. Fulfilment cash flows should be easier and less contentious to measure than the fair value approach. The latter may require the engagement of specialist/ experts and costs are around likely to be outweighed by any potential benefits.

Question 18: Do you agree with the interpretation to mandate the transition reliefs stated in section G.4? If so, why? If not, why not? [Section G.4]
We agree with the interpretation to mandate the transition reliefs stated in section G.4 This will ensure consistency of central government accounts and entities within WGA.

Question 19: Do you have any comments on the impacts IFRS 17 will have on consolidation (either at the individual reporting entity level or Whole of Government Accounts level)? Please explain any comments, including providing alternatives HM Treasury should consider. [Section H]
We have no comments.

Question 20: Do you agree with the proposed budgetary regime for insurance contracts within the scope of IFRS 17? If so, why? If not, why not and what alternatives do you propose? [where entities already have an agreed budgeting approach for their groups of insurance contracts it will be assumed that this will continue; the budgeting approach described in this Exposure Draft will apply to all other insurance contracts and new insurance contracts issued]. [Section I]
We agree with the proposed budgetary regime for insurance contracts within the scope of IFRS 17.

Question 21: Are there any other areas not covered by the questions which you would like to comment on? Please explain any comments, including providing alternatives HM Treasury should consider.
It will be important to stress to preparers that this standard applies to material contracts only. International financial reporting standards are written with commercial organisations in mind with investors as one of the key users of the accounts. We are concerned that NHS accounts include a lot of disclosure around areas, such as financial instruments and now insurance contracts, that do not

necessarily add value to the reader and user of the accounts. These areas are not well understood within the finance community and even less so by non-finance readers of the accounts.

HM Treasury needs to consider the importance of following best practice (IFRS) against the disclosures that are of use to the reader of public sector accounts.

As we said in our answer to question 13, the most difficult part of applying this standard will be identifying contracts that meet the definition of insurance contracts. It is expected that NHS bodies will have few, if any, such contracts but it will take a lot of work for preparers of the accounts to satisfy themselves, and their auditors, that they have reached the right conclusion.

Any guidance on the types of contracts that might fall within the scope of the standard would be gratefully received. Alternatively, a list of questions that could be used to assess contracts against IFRS 17 would also be very useful.

As entities across the public sector apply this standard, it would also be helpful if there was a regularly updates list of the types of contracts that have been identified as insurance contracts that other entities may have entered into.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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