

Submitted electronically via www.ifrs.org web-site

25 September 2019

Dear Sir / Madam,

Response to the International Accounting Standards Board's Exposure Draft ED/2019/4 Amendments to IFRS 17

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the **Exposure Draft ED/2019/4 Amendments to IFRS 17 ("ED")** issued by the International Accounting Standards Board's (IASB or the Board).

In this letter, AFME responds to questions related to scope exclusions and minor amendments to other standards (Questions 1 and 9) as follows.

Question 1—Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30)

(a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. **Do you agree with the proposed amendment? Why or why not?**

(b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)–(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable. **Do you agree with the proposed amendment? Why or why not?**

AFME Response:
Question 1(a)

AFME generally supports the proposed amendment to exclude from the scope of IFRS 17 credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. We believe that this amendment would help reduce IFRS 17 implementation costs for many entities by allowing for the continuation of existing accounting practices (for example, where loan commitments in credit card contracts are accounted for under IFRS 9 or IAS 37 where the exposure does not meet the definition of a loan commitment) and without a significant loss of useful information for users of financial statements compared to information that would be provided by IFRS 17.

However, we believe it is necessary to establish principles that would allow preparers to exclude from the scope of IFRS 17 products which provide ancillary insurance coverage (similar to credit cards) and not to focus on a specific product. Below we have provided examples of fact patterns demonstrating the

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existence of such obligations. We believe it is not the intention of IFRS 17 to capture these types of arrangements. In addition, we believe the current accounting requirements of IFRS 9 and IAS 37 jointly provide an adequate framework for the presentation and measurement of these products and the associated insurance risk, to the extent present.

Obligation that exists for credit providers

Under certain customer protection regulations and laws, where a customer enters into a financing arrangement that is directly linked to the purchase (e.g. by using a credit card or entering into a point of sale loan), both the merchant and financing company are jointly liable for breaches in the agreement. As such, if there is a breach in contract the customer can make a claim to the finance provider for the loss incurred. The compensation the customer will be entitled to will be the purchase price and could also include any reasonable incidental costs. To the extent there is any insurance risk present in these products, we believe that IAS 37 would provide adequate accounting guidance.

Obligation that exists under the Card scheme rules

The card scheme rules operated by various providers cover credit and debit cards as well as prepaid cards, charge cards and virtual payments (payments made through the card scheme but without a physical card). Under the card schemes rules an entity (the merchant acquirer) acts as a payment processing intermediary between two parties (e.g. the credit card issuer and the merchant). In the event the merchant fails to fulfil its contractual obligations to the consumer, or the transaction is otherwise established as invalid, the merchant acquirer will initially refund the transaction value to the card issuer. The merchant acquirer is then contractually entitled to reimbursement from the merchant. To the extent that such a contractual obligation does not qualify to be accounted for by the merchant acquirer as a loan commitment in accordance with IFRS 9, the resulting obligation should be scoped out of IFRS 17.

Obligation that exists for deposit takers

Under certain customer protection regulations and laws, in the event of fraudulent or invalid transactions on a customer's deposit account, the customer can make a claim to the deposit taker for compensation for the loss incurred. The compensation the customer will be entitled to will be equal to the loss incurred on the customer's account.

Additionally, we note that according to IFRS 17.7(a) warranties provided in connection with contracts in the scope of IFRS 15 would be excluded from the scope of IFRS 17. It is unclear whether other types of warranties which are not in the scope of IFRS 15 (e.g. warranties provided in connection with the sale of businesses) could bring these contracts in the scope of IFRS 17. We think that a clarification would be required to confirm that the intention is not to result in insurance accounting when warranties are provided as part of normal commercial arrangements. We believe this could be achieved via widening the application of the exemption in IFRS 17.7(a) by removing the reference to IFRS 15 or providing additional educational material.

Question 1(b)

AFME also supports this proposal. We consider that such amendments would help maintain the continuation and consistency of current accounting practice under which preparers can choose between IFRS 4 and IFRS 9, which does not result in a substantial loss of useful information to users. We would therefore anticipate that replacing IFRS 4 with IFRS 17 would not lead to a different conclusion but would prevent increased operational costs for implementation of IFRS 17 by entities who apply IFRS 9 and not IFRS 4.

Question 9—Minor amendments (BC147–BC163)

This Exposure Draft also proposes minor amendments (see paragraphs BC147–BC163 of the Basis for Conclusions). **Do you agree with the Board’s proposals for each of the minor amendments described in this Exposure Draft? Why or why not?**

AFME Response:

AFME welcomes the IASB’s intent to address cases in which the drafting of IFRS 17 does not achieve the IASB’s intended outcome via proposing minor amendments to other standards.

However, we would like to highlight an issue regarding some of the proposed amendments to IFRS 9 *Financial Instruments*. Specifically, the amended paragraphs 2.1 (e) (iii), as currently worded, would bring in scope of IFRS 9 all financial guarantee contracts, including purchased financial guarantees.

Such contracts, if accounted for in accordance with IFRS 9, would most likely fail the existing requirements in IFRS 9 in respect of contractual cash flow characteristics, and result in all purchased financial guarantees being accounted for at fair value through profit and loss. A further consequential change in practice and existing interpretations resulting from bringing purchased financial guarantees into the scope of IFRS 9 could be that paragraph B.5.5.55 in IFRS 9 may become redundant in situations when the credit enhancement for a lending instrument is a financial guarantee contract that is integral to that lending arrangement. This would be a significant change in current practice which we believe was not intended by the proposed consequential amendments to paragraph 2.1 in IFRS 9. Instead, we understand that the intention was to state that IFRS 9 should be applied to insurance contracts that meet the definition of a financial guarantee contract issued. We thus suggest that the wording in the final amendments be clarified accordingly.

If the intention were to include all financial guarantees within IFRS 9, then AFME would consider this a substantial rather than minor amendment. Such a significant amendment would in the first instance require proper due consideration, which the IASB has noted it does not consider a priority in the basis of conclusions. Consideration for such a substantial modification should, as a minimum, both take into account the impact on all preparers and whether or not to align with US GAAP.

We would be pleased, of course, to discuss the content of this letter or to provide any further clarity with regard to the statements made.

Yours faithfully,

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About AFME

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe’s wholesale financial markets, providing expertise across a broad range

of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.