HM Treasury

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Via email: stephen.bouvier@gmx.com

11 October 2017

Ref: FOI2017/15290

Dear Mr Bouvier

Freedom of Information Act 2000: IFRS 17

Thank you for your Freedom of Information enquiry of 13 September 2017.

You asked for the following information:

> *"Please supply information about requests or discussions involving anyone this year to block (or defer or change or something else) the new insurance-accounting standard IFRS 17, Insurance Contracts.*
>
> *In order to assist you, the information that I am requesting might be contained in a request from major insurers in the UK or somewhere else to the Chancellor (or other people at the Treasury). There again, it might not.*
>
> *The information I have requested should be delivered in electronic form. It should include all and any documents such as, but not exclusively, hand-written or typed notes, emails, letters or any other document or report."*

I can confirm that HM Treasury does hold information within the scope of your request, which can be found in the annexes at the end of this letter (ordered by relevant institution with which HMT has had communications in relation to IFRS 17). All information held by HM Treasury within the scope of this request has been released, apart from some personal data.

We are withholding the names and contact details of officials below senior civil service (SCS) grade and non-senior representatives of external organisations under section 40(2) (personal data) of the Freedom of Information Act 2000.

Section 40(2), with reference to section 40(3)(a)(i) provides an absolute exemption from disclosure for third party personal information, if its release would contravene one of the Data Protection principles set out in Schedule 1 of the Data Protection Act 1998 (DPA). In this case, disclosure of the information would contravene the first Data Protection principle, which states that personal information must be processed fairly and lawfully, and must comply with one of the conditions in Schedule 2 of the DPA. We do not consider that any of the relevant Schedule 2 conditions apply in this case.

If you have any queries about this letter, please contact us. Please quote the reference number above in any future communications.

Yours sincerely

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Information Rights Unit

Your right to complain under the Freedom of Information Act 2000

If you are not happy with this reply, you may request a review by writing to HM Treasury, Information Rights Unit, 3/Red, 1 Horse Guards Road, London SW1A 2HQ or by emailing us at the address below. Any review request must be made within 2 months of the date of this letter.

Email: foirequests@hmtreasury.gsi.gov.uk

It would assist our review if you set out which aspects of the reply concern you and why you are dissatisfied.

If you are not content with the outcome of the review, you may apply directly to the Information Commissioner for a decision. Generally, the Commissioner will not make a decision unless you have exhausted the complaints procedure provided by HM Treasury.

The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.

Annex A: Engagement between HM Treasury and Aviva

- A letter to the Chancellor on 14 July 2017, from the CEOs of Aviva, Legal & General, and Prudential, expressing concerns about IFRS 17 (enclosed in Annex E).

- A note, minuting the views expressed by Aviva, in a meeting with HMT officials, held on 30 August 2017, the relevant extract of which is:

  > *"IFRS 17 is a 'radical' proposal. Delivering it will likely impose a high cost on Aviva for almost no benefit. The current UK-value basis for insurers is preferred. The proposals have not been tried and tested and need a significant period of testing before being implemented. The costs of implementation would be lower than[1] those of Solvency II, which cost Aviva around £500m. The litmus test was that the new standard would need to improve the quality of a firms report – and there was no evidence that it would. Many parts of the draft standard were technical and difficult and did not reflect the business model of a large insurer. The US, China, Japan and many other countries were unlikely to adopt the standard, therefore, UK companies, which would be saddled with the costs of implementation, would be at a competitive disadvantage vis a vis eg US companies".*

- A note, minuting the views expressed by Aviva, in a meeting between the Economic Secretary and Andy Briggs (CEO, Aviva, UK Insurance) held on 11 September 2017, the relevant extract of which is:

  > *"AB said he'd shared quite a lot of information with officials regarding the impact of IFRS. AB felt investors did not see the potential benefit and it would cost insurers a significant amount".*

[1] *An error was made in the original note. The original text read "at least as high"*

Annex B: Engagement between HM Treasury and Legal & General

- A letter to the Chancellor on 14 July 2017, from the CEOs of Aviva, Legal & General, and Prudential, expressing concerns about IFRS 17 (enclosed in Annex E).

- A note, minuting the views expressed by Legal and General in a meeting between HMT officials and Legal & General on 31 August 2017, the relevant extract of which is:

  "L&G is concerned about IFRS 17. The costs are likely to be high and the benefits are unproven and unclear. It is likely to cost around the same as Solvency II (circa £200-300 million) to implement. The standard has not been properly road-tested and a (year-long) period of testing is required before implementation to identify and iron out the problems".

Annex C: Engagement between HM Treasury and Prudential

- A letter to the Chancellor on 14 July 2017, from the CEOs of Aviva, Legal & General, and Prudential, expressing concerns about IFRS 17 (enclosed in Annex E).

- A note, minuting the views expressed by Prudential in a meeting between HMT officials and Prudential on 15 August 2017, the relevant extract of which is:

> *"The Pru's CEO (Mr Wells) had co-signed a recent letter to the Chancellor setting out concerns relating to IFRS 17, specifically the costs. The Pru's concerns were general, including the timing (it coincides with uncertainty re Brexit) but it had not undertaken any specific assessment of the costs although they would likely to be comparable to those of Solvency II, and there is a non-trivial chance they will be higher. I suggested that the case against IFRS 17 would be strengthened if accompanied by a more detailed evidence base".*

Annex D: Engagement between HM Treasury and the Association of British Insurers (ABI)

- An email from the ABI to HMT on 1 June 2017, expressing concerns about IFRS 17:

  "Dear [name redacted],

  I wonder if you might be able to help and forward this to the relevant person in the Treasury, please. It's about the implications for UK insurers of the recent publication by the International Accounting Standards Board (IASB) of a new international financial reporting standard (IFRS) about insurance contracts (IFRS 17). The IASB has given IFRS 17 an effective date of 2021, but its use by UK insurers depends on its adoption in law, and that in turn depends on Brexit.

  Currently, IFRSs are required by the UK Companies Act to be used by UK listed insurers, and are permitted to be used by other UK insurers, specifically by reference to their adoption individually in law in Europe, as provided in the IAS Regulation 1606/2002. This legal adoption process in Europe includes a thorough evaluation to make sure that each IFRS delivers a fit-for-purpose cost/benefit outcome. The process overall can take some time, and we do not expect it to be completed for IFRS 17 by 29 March 2019. What happens after that depends on how Brexit is reflected in the Companies Act.

  We assume that the Companies Act will need to be changed so as to remove its dependence on the IAS Regulation. We consider that this change in company law should put in place a UK adoption framework which would include an evaluation process comparable to the current European one. To do without such a UK evaluation and instead simply adopt IFRSs as issued by the IASB would, in our view, amount to a change in policy that is incompatible with the aims of the Great Repeal Bill.

  We have raised this concern at the Financial Reporting Council's Brexit Stakeholder Forum, which the BEIS and DExEU also attend. However, given the importance of IFRS 17 to UK insurers - it will be costly to implement and will change significantly how they report to the financial markets - and given just how many other issues may need to be addressed in relation to the Bill, we thought it essential to alert the Treasury as well.

  We'd of course be happy to discuss this in more detail, for which I'd be the contact, please.

  The ABI position on IFRS 17 is summarised in our press release response to the IASB's publication - https://www.abi.org.uk/news/news-articles/2017/05/ifrs17-comment/ . We emphasised the need for testing the IFRS to ensure that it is fit for purpose - not just operationally but also in its ability to support adequate communication with the market, before it can be adopted for use in Europe and/or in the UK.

  On long-term insurers' distributable profits, incidentally, the last piece of the jigsaw was put in place in April with the ICAEW's publication of its revised guidance. Thank you again.

  With best wishes

  [name redacted]"

- A note, minuting the views expressed by ABI in a meeting between HMT officials and the ABI on 10 August 2017, the relevant extract of which is:

  "Consistent with public statements accompanying the publication of the draft IFRS 17 in May, the ABI expressed 'neutral to negative' views on IFRS 17 and noted that a thorough cost-benefit analysis was required. I asked whether they planned to complete such analysis and suggested that they were ideally placed to gather evidence on the costs from their members. The ABI stated that EFRAG should complete such analysis for the Commission. [name redacted] invited us to attend a seminar to be held by the ABI on the subject in October and also offered a 'deep dive' session with its experts".

Annex E: Letter to the Chancellor on 14 July 2017, from Aviva, Legal & General, and Prudential, expressing concerns about IFRS 17.

Attached.