

18 November 2024

Bruce Mackenzie  
Chair  
IFRS Interpretations Committee

Columbus Building  
7 Westferry Circus  
Canary Wharf  
London, E14 4HD  
United Kingdom

Dear Mr Mackenzie

## **Tentative agenda decision – Guarantees Issued on Obligations of Other Entities**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September 2024 *IFRIC Update* of the tentative agenda decision not to take onto the Committee's agenda the request about how an entity accounts for guarantees that it issues.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

However, because the tentative agenda decision provides examples of contracts that meet the definition of an insurance contract but to which an entity may choose not to apply IFRS 17 (IFRS 17:8-8A), we believe it would also be useful to make reference to IFRS 17:7(a) which scopes out of IFRS 17 warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer which are insurance contracts. The addition we propose below (underlined) would provide a more complete explanation of the contracts that meet the definition of an insurance contract but are (or may be) accounted applying another accounting standard.

*Is the guarantee an insurance contract?*

*If an entity concludes that the guarantee it issues is not a financial guarantee contract, the entity considers whether the guarantee is an insurance contract. IFRS 17 applies to all insurance contracts, regardless of the type of entity issuing them.*

*An entity considers the scoping requirements in paragraphs 3–13 of IFRS 17 and the definition of an 'insurance contract'. IFRS 17 defines an 'insurance contract' as 'a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'. IFRS 17 defines 'insurance risk' as 'risk, other than financial risk, transferred from the holder of a contract to the issuer'. Further application guidance on the definition of an 'insurance contract' and 'significant insurance risk' is provided in paragraphs B2–B30 of the Standard.*

Although some contracts meet the definition of an insurance contract, an entity is permitted to choose whether to apply IFRS 17 to those contracts. Paragraphs 7-8A of IFRS 17 specify contracts that meet the definition of an insurance contract that an entity is either required, or allowed, to account for applying another IFRS Accounting Standards.

For example, paragraph 7(a) of IFRS 17 specifies that an entity shall not apply IFRS 17 to warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer to which IFRS 15 applies.

In addition, Paragraphs 8-8A of IFRS 17 set out that:

- a. if a contract's primary purpose is the provision of services for a fixed fee (and all the conditions set out in paragraph 8 of IFRS 17 are met), an entity may choose to apply either IFRS 15 or IFRS 17 to that contract. The entity may make that choice contract by contract, but the choice for each contract is irrevocable.
- b. if a contract limits the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, an entity shall choose to apply either IFRS 9 or IFRS 17 to that contract. The entity shall make that choice for each portfolio of insurance contracts, and the choice for each portfolio is irrevocable.

If you have any questions concerning our response, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely



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