



Our Ref.: C/FRSC

Sent through electronic mail

19 December 2016

Mr Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

**Forthcoming insurance contracts standard:
November IASB Board tentative decisions**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong.

The HKICPA is of the view that the forthcoming insurance contracts standard will improve significantly the quality of financial reporting for the insurance sector if it introduces new requirements that are principle-based, understandable and implementable. The HKICPA appreciates the IASB's efforts in working towards the finalization and publication of the standard over the past several years and its drive to complete the standard setting activity in the near future with the publication of its forthcoming insurance contracts standard.

The HKICPA is pleased with the tentative decisions made by the IASB in its November meeting. They appear to have responded to feedback received from participants of the IASB's 2016 field testing. The HKICPA and our stakeholders consider these tentative decisions a much welcomed step forward to make the forthcoming standard both understandable and implementable.

With this letter we invite you to consider two key areas as you finalise the drafting of the forthcoming standard and that relate to your recent tentative decisions.

Level of aggregation for mutualised contracts versus non-mutualised contracts

Given the IASB's tentative decisions on mutualised contracts, the HKICPA and our stakeholders would like to invite the IASB to reflect on what is the fundamental economic difference between mutualised contracts and non-mutualised contracts when it comes to accounting for changes in future cash flows and the determination of whether an insurer has onerous contracts.

The HKICPA understands that the policyholders' rights and obligations arising from mutualised contracts and non-mutualised contracts may not be the same, but insurers would assemble portfolios for both types of these contracts through the same pooling of risks approach. Generally, this pooling of risks approach is not limited to twelve months and would be more fluid, depending on the duration of the contract portfolios. Based on this fact we would like to suggest that the presence of mutualisation clauses



in the contract is not the relevant conceptual basis to conclude on this critical accounting requirement. In fact, the HKICPA and our stakeholders view the same arguments articulated for mutualised contracts in paragraphs 36-39 of the November 2016 Paper 2C as equally valid for non-mutualised contracts which are pooled together by the insurer and are subject to similar risks.

Additionally, in issue 10 of its November 2016 Paper 2G, the IASB tentatively decided to add guidance on how to reflect mutualisation in determining the cash flows of a group and the implications on the level of aggregation. The HKICPA would hope to have the opportunity to comment on a final draft of the standard that reflects the additional guidance.

Meaning of contractual terms in the scope of the variable fee approach

The HKICPA is supportive of the IASB's tentative decision relating to issue 12 of its November 2016 Paper 2G where it clarified that if a 'participating contract' creates a constructive obligation that is enforceable, that contract would meet the first criterion of the variable fee approach definition.

The HKICPA is also supportive of the guidance that the notion of "enforceable" should be consistent with the requirements in paragraph 10 of IFRS 15 *Revenue from contracts with customers*. Many Hong Kong 'participating contracts' do not contain explicit contractual terms that stipulate that the policyholder participates in a share of a clearly identified pool of underlying items although the Hong Kong regulator may have imposed similar requirements via regulatory guidance which would be enforceable if not complied with.

The HKICPA intends to encourage insurance companies in Hong Kong to carefully assess, from a legal and regulatory perspective, the enforceability of their obligations in the absence of explicit contractual terms to make their policyholders participate in a clearly defined pool of underlying items.

Implementation support post-issuance of the standard

The HKICPA notes that only in special cases, such as if a new standard introduces many new concepts, would the IASB form a Transition Resource Group ("TRG"). The HKICPA considers that the forthcoming standard meets this special case status as it represents a fundamental change to current practice for many insurers in different jurisdictions. Insurers in these jurisdictions are therefore expected to have significant implementation implications, including but not limited to substantial investment in new systems being necessary.

To ensure that there is limited diversity in the application of the forthcoming standard, and to facilitate a smooth implementation process; the HKICPA strongly recommends that the IASB forms a time-limited TRG. The HKICPA believes that forming a TRG will provide a useful support to all insurers and will inform the IASB on any implementation issues on a timely basis. The reason for the time limitation (e.g. one year) on the TRG work is so that any support or clarifications arising from the TRG discussion can be properly incorporated into the first year of the implementation period.

The HKICPA and our stakeholders would be very grateful if you would action the points made above before finalising the forthcoming standard.



If you have any questions regarding the matters raised in this letter, please contact me, or Kam Leung (kamleung@hkiipa.org.hk), Associate Director of our Standard Setting Department.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'CNg'.

Christina Ng
Director, Standard Setting Department