

## Potential implementation question

Question:

whether the discount rate used for initial recognition should be the same as the one used when calculating the insurance finance income and expense in profit or loss under BBA approach if choosing OCI option? Or whether an entity can use a weighted average discount rate at the initial recognition of the contracts?

If not, there will be inconsistency between two parts at the initial recognition.

Background:

We understand that the FCF calculation should be based on the current estimates which implies that discount rate used at initial recognition and subsequent measurement should be current.

We also noticed that IFRS17 provides a simple way (e.g. average) to define the discount rate used in insurance finance income and expense.

Then, naturally it will exist inconsistency (or mismatch ) for these two discount rates used at initial.

Reasons for raising the question:

We found inconsistency or unclear instruction regarding to the discount rates applied in the initial recognition and insurance finance income and expense afterwards.

## Paragraph of HKFRS/IFRS 17 *Insurance Contracts*

Paragraph 36 of IFRS17 states how the discount rate should be determined. Under IFRS17, discount rate applied to the estimates of the future cash flows should be consistent with observable current market prices.

Paragraph B72(a) of IFRS17 states that "to measure the fulfilment cash flows—current discount rates applying paragraph 36".

Paragraph B72(e)(i) of IFRS17 states how discount rate should be applied if OCI option has been chosen as a accounting policy . To determine the amount of the insurance finance income and expense included in profit or loss, for groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders, applying paragraph B131—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36.

Paragraph B73 of IFRS17 states how to determine the discount rates at the date of initial recognition of

a group of contracts described in paragraphs B72(b)–B72(e), it further indicates that an entity may use weighted-average discount rates over the period that contracts in the group are issued.

### **Analysis of the question**

According to the IFRS17, the FCF should be discounted at current rate both at initial recognition and subsequent measurement period.

For the entity choose OCI options, the discount rate should be the locked-in discount rate applied at initial recognition and will be recognized in profit or loss. Also, the discount rate at the date of initial recognition may be the weighted-average discount rate over the period.

We confused about the determination of the discount rate at date of initial recognition. Whether it should be current or weighted-average? We found that could cause the diversity of practice based on the different understanding of the IFRS17 content.

And also, we concerned that different discount rate used for FCF at initial recognition (e.g. current) and discount rate (e.g. weighted-average) used for calculating insurance finance income and expense in profit or loss, will further cause mismatch at the initial recognition date.