



**Meeting Summary**  
**Hong Kong Insurance Implementation Support Group (HKIISG)**  
**10 May 2018**

**Attendance**

***HKICPA representatives***

Sanel Tomlinson, Member, Financial Reporting Standards Committee (FRSC)  
Kam Leung, Associate Director, Standard Setting

***HKIISG members***

Timothy Wong (representing Sai-Cheong Foong), AIA Group Limited  
Kevin Lee, AXA China Region Insurance Company Limited  
Ronnie Ng, China Overseas Insurance Limited  
Kevin Wong, FWD Life Insurance Company (Bermuda) Limited  
Alexander Wong, Hang Seng Insurance  
Kenneth Dai, Manulife Asia  
Candy Ding, Ping An Insurance (Group)  
Nigel Knowles, Prudential Hong Kong Limited  
Joyce Lau, Target Insurance Company, Limited  
Doru Pantea, EY Hong Kong  
Francesco Nagari, Deloitte Hong Kong  
Erik Bleekrode, KPMG China  
Chris Hancorn, PwC Hong Kong

***Apologies***

Sally Wang, China Pacific Life Insurance Co., Ltd

**Discussion objectives:**

Readers are reminded that the objective of the HKIISG is not to form a group consensus or decision on how to apply the requirements of HKFRS/IFRS 17 *Insurance Contracts*. The purpose of HKIISG is to share views on questions raised by stakeholders on the implementation of HKFRS 17. Refer to HKIISG [terms of reference](#).

The meeting summaries of HKIISG discussions are solely to provide a forum for stakeholders to follow the discussion of questions raised. Stakeholders may reference HKIISG member views when considering their own implementation questions—but should note that the meeting summaries do not form any interpretation or guidance of HKFRS 17.

**1. Debrief of 2 May IASB TRG meeting**

IASB TRG members Mr. Francesco Nagari and Mr. Sai-Cheong Foong provided a debrief relating the IASB TRG meeting on 2 May, as outlined in [Paper 02: IFRS 17 TRG Summary](#).

*AP01: Combination of insurance contracts*

- Readers should refer to pages 3 and 4 of [Paper 02: IFRS 17 TRG Summary](#).
- Members noted the principles outlined in the IASB staff analysis, and commented that it is consistent with the principles discussed for the separation of insurance components in an insurance contract. It was not expected that the question of combining contracts will be a frequent occurrence.
- Members also noted that this topic is not expected to be brought back to future TRG meetings.

*AP02: Determining the risk adjustment for non-financial risk in a group of entities*

- Readers should refer to pages 5 to 7 of [Paper 02: IFRS 17 TRG Summary](#).
- Members noted that what "charged by the entity" means in IFRS 17 paragraph B87 was debated at the TRG meeting. Based on the TRG debate, HKIISG members questioned the clarity of the text in the standard.
- One HKIISG member commented that the risk appetite of the entity that issues

financial statements would be different from the entity that issues the contracts, and that paragraph B91(c) of IFRS 17 supports this view.

- HKIISG members noted the outcome—that the aggregation of the risk adjustment for all subsidiary entities would be the consolidated group risk adjustment—was reasonable on an operational basis, because it would simplify keeping track the contractual service margins for subsidiary entities and the consolidated group. To this point, one HKIISG member noted that the IASB had asked TRG members for an example of any other IFRS standard where the financial results of the subsidiary entity does not flow through to the financial results of the consolidated group. A HKIISG member commented that having the same risk adjustment at the subsidiary and group would impact the disclosures related to the confidence level—effectively there would be different confidence levels disclosed in the subsidiary and group financial statements.
- HKIISG members noted that there are diversity in views on this topic and no specific indication of what the next steps were in relation to this topic.

*AP05: Determining the quantity of benefits for identifying coverage units*

- Readers should refer to pages 8 to 12 of [Paper 02: IFRS 17 TRG Summary](#).
- One member commented that the IASB had asked TRG members if the standard as written would lead them to the IASB staff conclusion on CSM amortization for contracts meeting the VFA criteria. TRG members generally commented that an amendment to IFRS 17 was needed to clarify the IASB staff conclusion in the standard.
- Members noted that the narrow amendment proposed by the IASB staff would be brought to the IASB Board, and that this topic is not expected to be discussed again at future TRG meetings.
- Members commented that this is an important topic for Hong Kong because there are many participating contracts which have minimal insurance cover. Therefore, members suggested that HKIISG should prepare a submission for the September IASB TRG meeting (which has a submission deadline of 20 July).
- One member noted that the potential submission should cover the impact of different amortization for those contracts that meet the criteria for the variable fee approach, and those that do not.
  - A few members noted that the impact could be illustrated by providing more examples across Asia, covering both direct and indirect participating contracts.
  - Another member responded that the IASB staff are aware that there are differences in direct and indirect participating contracts, and that providing more examples may not help influence the discussion.
- A few members commented that they generally agreed with the IASB staff analysis on possible considerations for estimating the quantity of benefits in determining the CSM (outlined in IASB TRG meeting paper AP05 paragraph 30). However, they thought that paragraph 30(g)(iii) and 30(g)(iv) could be reworded so that it is incorporated as part of a broader range of factors to consider.

*AP03: Cash flows within the contract boundary*

- Readers should refer to page 13 to 16 of [Paper 02: IFRS 17 TRG Summary](#).
- Members noted that the majority of TRG members were agreeable to the IASB staff analysis.
- One member commented that there was quite a lot of discussion at the TRG on what 'substantive rights and obligations' means. IASB staff acknowledged that the fact pattern contained in AP03 presumed that the substantive rights and obligations were present. However, entities would have to assess whether substantive rights and obligations are present for their individual fact pattern. TRG members noted that assessing what a substantive obligation is in different fact patterns may lead to different outcomes.
- One member commented that the flowchart at the back of the IASB TRG meeting paper AP03 presumed an entity already has a substantive obligation, and that TRG

members had suggested IASB staff to make it clear in the flowchart that one has to consider a substantive obligation.

*AP04: Boundary of reinsurance contracts held with repricing mechanisms*

- Readers should refer to pages 17 and 18 of [Paper 02: IFRS 17 TRG Summary](#).
- Members noted that the submission contained a narrow example, and that TRG members generally had no issue with the conclusion.
- One member commented on the practical challenge in respect of the requirement for a cedant to project the future cash flows arising from future contracts not yet issued (but are covered by a reinsurance treaty). This member noted that most entities would probably not project the future cash flows beyond 3 months (relying on the 3 month break clause from the reinsurer's perspective).

*AP06: Implementation challenges outreach report*

- Readers should refer to pages 19 to 22 of [Paper 02: IFRS 17 TRG Summary](#).
- Members noted that these top three implementation challenges were raised by composite insurers, and that IASB staff would report these issues back to the IASB Board. However, any amendments to IFRS 17 are not likely.
- Members noted that IASB staff had asked TRG members to articulate why they thought that the:
  - IFRS 17 requirement for the level of aggregation for presentation in the statement of financial position not useful to users of financial statements?
  - tracking of premiums received so challenging for insurers?It appeared that explanations received were not sufficiently robust.
- A few members noted the challenges of tracking the premium received, in particular for general insurers.
- Members suggested that HKIISG should prepare a submission to the IASB relating to top implementation challenges in Hong Kong and suggested solutions.

*AP07: Reporting on other questions submitted*

- Readers should refer to page 23 of [Paper 02: IFRS 17 TRG Summary](#).

Action/Conclusion:

- Refer to summary of discussion in agenda item 5 below for details.

**2. Consider HKIISG submissions received prior to 2 May**

Mr. Kevin Wong of FWD Life Insurance presented [paper 03](#). The submission observed that IFRS 17 distinguishes contracts expected to be profitable or loss making at initial measurement date, in that:

- CSM will be established for a profitable contract as a measure of unearned profit;
- a loss component is an equivalent item when a loss is expected; and
- this relationship between the two is illustrated by the fact that CSM will only be re-established when loss component becomes zero.

However, the submission notes that the requirement relating to the unlocking of loss component in paragraph 50(b) is not equivalent to the unlocking of CSM in paragraph B96. The view expressed in the submission is that the unlocking for CSM and loss component should be equivalent.

One view was that it is clear in the standard that paragraph B96 applies to the loss component as well, and that there is no asymmetry in the requirements.

Another view is the text of the standard relating to the unlocking of both the CSM and the loss component are asymmetrical, and therefore not clear.

Members suggested that the submission could be elaborated by referencing to the other paragraphs in the standard and the Basis for Conclusions (for example, the IASB's intent and rationale relating to the unlocking of the loss component and its relationship to the

unlocking of the CSM); as well as dissecting the example further by analyzing how each relevant requirement of the standard would be applied in the example.

### **3. Update on Paper 5C of the 20 March HKIISG meeting**

HKICPA staff presented [paper 04](#), which was an update on [paper 5C](#) of the 20 March HKIISG meeting:

*If an entity elects the disaggregation option for insurance finance income or expenses, and the amount of insurance finance income or expenses included in profit or loss (P&L) is determined by a weighted-average discount rate over the period that contracts in the group are issued (not exceeding one year):*

- a) *What discount rate (current or weighted-average) should be used at initial recognition of a group of contracts?*
- b) *There is a difference between the locked-in discount rate for changes and interest accretion of the Contractual Service Margin (CSM) and the discount rate for fulfilment cash flows (FCF)—where is this difference recognized?*
- c) *Is the weighted-average discount rate only used for the calculation of insurance finance income or expense (IFIE) for the whole group?*

*These questions apply to contracts with no direct participating features.*

Relating to a) and c), members wanted to further clarify paragraph B73: "to determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)–B72(e), an entity may use weighted-average discount rates over the period that contracts in the group are issued...". Members think that paragraph B73 can be applied whenever contracts are recognized during the year—that is, a weighted average discount rate is applied for initial recognition of contracts issued during the year. On balance sheet date, the current discount rate will be applied in measuring a group of contracts (paragraph B72(a)). Therefore, HKICPA staff were further requested to clarify this understanding with IASB staff.

Relating to b), HKICPA staff noted that the difference will be recognized in the P&L or OCI—depending on the accounting policy choice an entity makes for the presentation of insurance finance income and expenses.

### **4. Consider potential Hong Kong submissions to IASB TRG**

Members noted that the focus of the HKIISG meetings on June 27 and July 4 would be to discuss potential submission for the IASB TRG meeting in September. The submission deadline is July 20.

Members decided on the next step for following topics (which had previously been raised by HKIISG members as possible TRG submissions):

#### To discuss at June meeting

- Coverage units: a paper on coverage units related to how CSM would be amortised under the variable fee approach (that covers multiple services), as well as how CSM would be amortised under the general measurement model (that covers multiple services). Mr. Francesco Nagari and Mr. Alexander Wong volunteered to prepare a draft for discussion.
- Unlocking of loss component (paper 03): a revised paper would be prepared by Mr. Kevin Wong. At the June meeting, it would be decided whether or not further action is warranted.

#### For July meeting, if possible

- Top implementation challenges: Hong Kong Federation of Insurers is conducting a survey for general insurers, and would help coordinate a survey for life insurers. Ms. Joyce Lau volunteered to liaise with HKFI and work together with HKICPA staff to gather and collate these implementation challenges from the industry.

- Guidance on applying of modified retrospective and full retrospective approaches: Previous TRG submissions relating to application of the modified retrospective approach were not discussed because IASB staff thought that it could be answered by applying the words in IFRS 17. HKICPA staff was requested to understand from IASB staff what these previous submissions focused on, in order to avoid duplication, should HKIISG submit a paper.

Other topics previously raised but not to prepare a submission for IASB TRG

- Cedant reinsurance accounting: Members noted the concern regarding paragraph 62 of IFRS 17 whereby the cedant has to estimate all future contracts under its reinsurance treaty. Members noted that this requirement would be quite onerous for small-medium sized entities in the Hong Kong market.
- Separation of insurance components in an insurance contract and combination of insurance contracts (base policy and additional rider—papers 5A and 5B at the 20 March HKIISG meeting): Members seemed to be comfortable with the outcome of the TRG discussion, and no additional submissions would be prepared on this topic.

## 5. Any other business

HKICPA staff reported that in terms of understanding what other jurisdiction's implementation challenges were, the following would be done:

- attend the IFRS 17 conference jointly held by the Malaysian Accounting Standards Board and the IASB in Malaysia; and
- liaise with Asian-Oceanian Standard-Setters Group insurance working group.

*[Post-meeting notes:*

- *One member asked if it is possible to have a reinsurer participate in HKIISG meetings. HKICPA staff commented that the reinsurer could submit a paper re: implementation issues. They would then be invited to present their submission, and join in the discussion at HKIISG. Should future topics re: reinsurance from the reinsurer's perspective arise, HKIISG members can consider if inviting a reinsurer would be helpful for that discussion.*
- *One member provided an update that the results of the HKFI survey sent to general insurers may not be ready by 29 June, and that HKFI is considering other industry engagements. The HKFI survey is adapted from Part A of the [EFRAG IFRS 17 simplified case study](#) and focuses on assessing what is the impact of IFRS 17 requirements to: product trends and pricing of products; future one-off and ongoing costs; perceived impact to investors and capital providers; performance indicators and asset-liability management.*
- *HKICPA staff noted from a representative of HKFI that it will be taking steps to understand IFRS 17 implementation concerns from their life insurer members. Given this development, the representative of HKFI questioned the appropriateness of HKFI coordinating a separate high level survey on implementation challenges for their life insurer members as it may duplicate efforts. HKICPA staff will reach out to the HKFI representative in mid-June to understand any updates related to this development.]*