Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Hong Kong Insurance Implementation Support Group - Submission Log

#	Meeting	Topic	Extract of the Question	Outcome	Action as at 29 May 2019	Status as at 29 May 2019
1	20/3/18 Paper 05A	Unit of account – separation and combination of contracts	Whether the lowest level of the unit of account used in IFRS17 must be the legal form of the contract after separating non-insurance components? We observe the following business practices in the China market which may result in impractical implementation when applying the legal form of contract as lowest level unit of account under IFRS17. Example 1. A new whole life participating contract with a one-year accidental rider. Example 2. A new 20-year term life contract also with the same one-year accidental rider. Example 3. A 20-year term life (already inforce for 10 years) newly attached with the same one-year accidental rider.	<u>Unit of account</u> • If insurance components in the same legal contract are considered to have different substance, then it can be treated as separate contracts. • However, there is a high hurdle to cross before overriding the legal contract as the lowest unit of account. <u>Coverage units</u> The May IASB TRG meeting summary (paragraphs 26 to 39) discussed how to determine coverage units. Specifically, paragraph 35(h) of the May IASB meeting summary outlined possible methods to reflect the services provided. The June IASB meeting proposed a tentative narrow amendment on the definition of coverage period in determining coverage units. <u>Overall</u> • Members confirmed that they were comfortable with the IASB TRG meeting outcomes in February and May which discussed these topics.	Staff will include this topic in future training seminars and educational materials.	Closed
2	20/3/18 Paper 05B	Determining coverage units for a unit of account – base contract and additional riders	#1. Under IFRS 17, there might be circumstances where the legal form of a single contract does not reflect the substance of its contractual rights and obligations and hence permits insurers to separate different insurance components of a single contract for measurement purposes. Do the common features of riders in HK market provide sufficient evidence to permit or prohibit the separation of insurance components? #2. If a contract with different rider coverage is considered as a single contract for measurement purposes, how should the coverage unit of this contract be determined? For example, how should we determine the coverage unit of a contract that offers a death benefit of CU10m and medical coverage for annual medical cost up to CU1m? How should we determine the coverage unit for different contracts within this group?			
3	20/2/18 Paper	Discount rate on initial	Whether an entity can use a weighted average discount rate at initial recognition of a contract?	IASB staff have confirmed that the current discount	None.	Closed

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	05C & 10/5/18 Paper 04	recognition of contracts		rate is applied for the initial recognition of fulfillment cash flows (paragraph B72(a)).		
4	20/4/18 Paper 02A	Disaggregating finance income and expenses - Systematic allocation	IFRS 17 allows the OCI option to be taken and specifies how it shall be applied to different types of insurance contracts. B132(a)(i) and (ii) stipulates that either a constant rate or a pattern following crediting rate shall be used to determine the systematic allocation. However, an insurance contract normally has both positive and negative cash flow arising at different future time points, and there may be situations where a constant rate (or a fixed margin above or below crediting rate) is mathematically insolvable which deems the OCI approach impracticable for some contracts. The question is whether alternative ways to apply systematic allocation still fulfill the requirement of IFRS 17?	Members generally shared the view that there should be different constant rates for the positive and negative cash flows.	None	Closed
5	20/2/18 Paper 02B	Allocation of management expenses	If a group of contracts accounted for under the PAA model becomes onerous (i.e. loss making) subsequent to initial recognition, then measurement under the PAA model is essentially discontinued and replaced with measurement principles consistent with the GMM (with limited exceptions). This means that even if an entity solely issues short-duration insurance contracts, the entity must still have the ability to apply the GMM if situations arise where a group of their contracts become onerous. In addition to the cash flow directly associated to the insurance contracts (acquisition costs, underwriting expenses, insurance claims and loss adjustment expenses), should management expenses be allocated to the insurance contracts when considering if they are onerous or not? If yes, is there any basis for such allocation?	Members generally shared the view that paragraph B65 in IFRS 17 is applicable and noted that judgment is required in determining what is directly attributable.	Staff will include this topic in future training seminars and/or educational materials.	Closed
6	10/5/18 Paper 03 & 26/6/18 Paper 3a &	Onerous contracts - Unlocking of loss component	IFRS 17 distinguishes contracts expected to be profitable or loss making at initial measurement date. CSM will be established for a profitable contract as a measure of unearned profit while the loss component is an equivalent item when a loss is expected. This relationship between the two is	Members generally agreed that there appeared to be a contradiction within IFRS 17, in terms of the appropriate accounting treatment for a group of	Submitted to the IASB TRG's April 2019 meeting for further clarification. Addressed in April	Closed

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	12/9/18 Paper 4 & 25/1/19 Paper 2		illustrated by the fact that CSM will only be re-established when loss component becomes zero. Following the above logic, the factors leading to unlocking of CSM and loss component shall be highly similar. However, according to wording of the standard, the list of changes triggering adjustment of CSM in B96 (for insurance contracts without direct participation features) is not entirely the same as the one for loss component in 50(b). 50(b) is equivalent to item (b) and (d) under B96 only. The question is, shall the other items, i.e. experience variance on premium-related cash flow and investment component (B96 (a) and (c)) be considered for adjustment of the loss component?	onerous contracts where there are: • experience adjustments from premiums received in the period that relate to future service; and consequently • there is a subsequent reversal of the loss component from the same onerous group of insurance contracts. For example, should the experience adjustments and the reversal of loss component be reflected in the income statement as two separate events or as one single event?	2019 IASB TRG paper 02, submission S125: "Paragraph 103(b) and 104(a) of IFRS 17 require an entity to provide disclosure of changes that relate to future service separately from those related to current or past service. In this example all the changes relate to future service."	
7	27/6/18 Paper 02a	Amortisation of CSM for contracts with investment services which are accounted for under the general model	IFRS 17:B75 states that "Paragraph B74(b) requires cash flows that vary based on the returns on underlying items to be discounted using rates that reflect that variability, or to be adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made. The variability is a relevant factor regardless of whether it arises because of contractual terms or because the entity exercises discretion, and regardless of whether the entity holds the underlying items." The accounting and the interpretation of IFRS 17 for other contracts such as those described in IFRS 17:B75 that do not meet the VFA criteria remains unclear and the possibility of materially different revenue and profit from insurance contracts that have economically similar characteristics to those that meet the VFA criteria remains in place.	Submitted to the IASB TRG and addressed in September IASB TRG meeting paper AP11, which noted that the examples contained in the submission received appear to be similar to those contained in the May IASB TRG meeting paper AP05. The IASB Staff confirmed in the September IASB TRG meeting that this issue is to be addressed by the IASB, and it is not for the TRG discussion. HKICPA's Financial Reporting Standards Committee submitted a	Largely addressed at the January 2019 IASB meeting, when the IASB tentatively decided to amend IFRS 17 so that in the general model the CSM is recognised in profit or loss on the basis of coverage units that are determined by considering both insurance coverage and investment return service, if any. For details, prefer to the meeting summary.	To monitor upcoming IASB exposure draft on proposed amendments to IFRS 17.

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				technical issues paper to the IASB on 15 October 2018, which covered this issue. Refer to the paper here.		
8	26/7/18 Paper 03	Disaggregating finance income and expenses - Interaction of IFRS 9 and IFRS 17 at transition	IFRS17.B134 stipulates that for insurance contracts with direct participation features and for which the entity holds the underlying items, the amount to be included under insurance finance income or expense shall exactly match the income or expense included in profit or loss for the underlying items, resulting in the net of the two separately presented items being nil. The amount to be recognized in OCI for these contracts will therefore depend on the historical P&L recognized for asset. For IFRS 9, entities should classify their financial assets on the basis of the entity's business model and contractual cash flow characteristics of the financial asset. Therefore, designations previously made in accordance with IAS 39 may no longer be appropriate. In addition, if entities elect not to restate prior periods under IFRS 9; then the difference between the previous reported carrying amounts under IAS 39 and new carrying amounts under IFRS 9 should be recognised in the opening retained earnings (or other component of equity) in the period of initial application of IFRS 9.[1] Given that this one time adjustment does not go through P&L, it may result in a mismatch of the cumulative OCI balance between the asset and liability.	Members generally shared the view that it is preferable to apply IFRS 9 retrospectively as part of the retrospective application of IFRS 17 in this specific fact pattern. This way, there is no impact to the OCI.	None	Closed
9	9/10/18 Paper 4	Interaction with IFRS 9	There are scenarios where the financial statements of an insurer would carry a permanent difference in OCI, which is caused by a mismatch in accounting for insurance contracts under IFRS 17, as compared to financial assets that are accounted for at fair value through OCI under IFRS 9. The submission	Discussion deferred to a later meeting.	Expanded paper to be presented at a later meeting	In progress

[1] This is paragraph has been rephrased from that in the submission to better reflect the requirements of IFRS 9

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			captures those scenarios for HKIISG consideration.			
10	14/12/18 Paper 2	Employee Compensation Insurance	Hong Kong employers are required to take out employee compensation insurance under Hong Kong law. Entities writing employee compensation insurance are members of an Employee Compensation Residual Scheme (Scheme). The Scheme is a co-insurance scheme whereby the Scheme's Appointed Service Provider (also a participant of the Scheme) issues a co-insurance policy on behalf of its participants (insurers that write Employee Compensation insurance). The participants each record the underwriting result allocated to them (based on their respective market share) as direct business on their respective books. The question is what risk adjustment should be applied to such Schemes from the individual insurers' perspective?	There was insufficient information provided for a detailed assessment. However, it appears that based on the terms and conditions provided, there was a strong view that a single collective risk adjustment should be used by all participants in the Scheme, unless other terms and conditions support otherwise.	None	Closed
11	14/12/18 Paper 3	Contract Boundary	The paper discusses whether the short termination clauses (for example, 7 days or 30 days) contained in many general insurance contracts in Hong Kong will create multiple short contract boundaries under IFRS 17.	Members generally observed that when applying IFRS 17 requirements to these contracts, it is quite clear that the termination clauses (refer to extracts in Appendix A to Paper 3) will create a contract boundary.	Staff will discuss the business and financial implications of having multiple short contract boundaries with the HKICPA's Insurance Regulatory Advisory Panel, and include this topic in future training seminars and/or educational materials.	Closed
12	25/1/19 Paper 3 and 26/4/19 Paper 5	CSM calculation	For contracts that have multiple service patterns, the paper proposes to determine the CSM for each service component separately and amortize each service component CSM based on the services provided. Each service component CSM would be determined on a standalone basis and aggregated to the CSM at the group level in order to meet the requirements of IFRS 17. The question is whether HKIISG viewed the proposed method as appropriate.	Members agreed that there is more than one method that can be used to determine coverage units under IFRS 17 paragraph B119. However, in general, there appeared to be concerns with the proposed method in the paper because CSM is unlikely to be an appropriate proxy for	Expanded paper was brought to the April 2019 HKIISG meeting.	In progress. To include this issue (with a broader fact pattern and recommended solutions) in the HKICPA's comment letter on the upcoming IASB exposure draft on the proposed amendments to IFRS 17. HKICPA staff to explore other possible avenues of further

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				reflecting the services provided and it introduces an unbundling or separation of coverages within a contract, which may lead to structuring of the contract to manipulate the allocation of profit.		discussion with the IASB.
13	25/1/19 Paper 4	Investment component	The paper asks if an indirect participating insurance product which pays annual dividends to policyholders is considered to have an investment component. • If viewed as yes, the paper asks if the dividend payment experience adjustments arising from changes in financial risks in the current period can be recognized in the insurance finance income and expenses instead of the CSM. • If viewed as no, the paper asks how the dividend payments (and its related experience adjustments) should be accounted for.	There appears to be general support amongst members that there is a non-distinct investment component in the fact pattern provided, and that changes in the investment component should be adjusted in the CSM according to IFRS 17.	None	Closed
14	26/4/19 Paper 3	Contract Boundary when applying the Fair Value Approach on transition	The paper then asks if, at transition applying the fair value approach, the contract boundary for IFRS 13 fair value measurement (FVM) should be the same as the contract boundary for IFRS 17 fulfilment cash flows (FCF).	There were mixed views as to whether the contract boundary should follow IFRS 13 or IFRS 17. Ultimately members supported following the IFRS 17 contract boundary because it is a fundamental characteristic of an insurance contract.	None	Closed
15	26/4/19 Paper 4	Premium-based profits tax when measuring fulfillment cash flows	This paper discusses whether profits taxes assessed on a deemed basis of 5% of premiums should be included in the estimation of fulfilment cash flows under IFRS 17 or accounted for an income tax under IAS 12.	Members generally commented that the premium-based profits taxes should be assessed under IAS 12 as a starting point. That is, are the premium-based profits tax considered to be in the scope of IAS 12? If it is, then it should be recognized in accordance	Outcome of discussion at IRAP (and possibly FRSC) to be reported back to HKIISG.	In progress. A separate paper analysing this issue from the perspective of IAS 12, including an analysis of whether recognition of deferred tax is possible to be prepared and discussed at the HKICPA's Insurance Regulatory Advisory Panel in June.

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				with IAS 12.		
16	29/5/19 Paper 2	Underlying items	The paper asks whether non-financial items fit the definition of underlying items and presents four different views for the accounting treatment for non-financial underlying items under the variable fee approach.	No conclusions drawn. However, there appears to be some support among members that IFRS 17 would allow more than one approach for accounting for non-financial underlying items under the variable fee approach, provided the approach is applied consistently	None	Closed