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

MEMBERS' HANDBOOK

Update No. 271

(Issued 25 February 2022)

This update relates to the following:

(i) Publication of *Initial Application of HKFRS 17 and HKFRS 9—Comparative Information* (Amendment to HKFRS 17). The Amendment to HKFRS 17 is a transition option relating to comparative information about financial assets presented on initial application of HKFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

HKFRS 17 *Insurance Contracts*, together with the Amendment, is effective for annual reporting periods beginning on or after 1 January 2023. Early application is permitted for entities that also apply HKFRS 9 *Financial Instruments* on or before the date of initial application of HKFRS 17. If an entity applies HKFRS 17 earlier, it shall disclose that fact.

(ii) Withdrawal of the *HKFRS for Private Entities* (Revised September 2015) as it was superseded by the *HKFRS for Private Entities* (Revised May 2017) which has been effective for annual reporting periods beginning on or after 1 January 2017.

Document Reference and Title	***Instructions***
VOLUME II	
Contents of Volume II	Discard existing pages i, ii and iv & replace with revised pages i, ii and iv.
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)	
HKFRS 17 *Insurance Contracts*	Replace the cover page and pages 2, 80, 88 and 90 with revised cover page and revised pages 2, 80, 88 and 90. Insert page 88A after page 88.
HKFRS 17 *Insurance Contracts* (Basis for Conclusions)	Replace the cover page and pages 2, 120 and 121 with revised cover page and revised pages 2, 120 and 121. Insert pages 121A-C after page 121.
HONG KONG FINANCIAL REPORTING STANDARD FOR PRIVATE ENTITIES (HKFRS-PE)	
HKFRS-PE (Revised September 2015)	Discard the full set of HKFRS-PE (Revised September 2015).

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MEMBERS' HANDBOOK
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(Updated to February 2022)

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HKFRS PRACTICE STATEMENT

HKFRS 17
Revised ~~October 2020~~February 2022

Effective for annual periods
beginning on or after 1 January 2023

Hong Kong Financial Reporting Standard 17

Insurance Contracts

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Appendix C
Effective date and transition

This appendix is an integral part of HKFRS 17 Insurance Contracts*.*

Effective date

C1 An entity shall apply HKFRS 17 for annual reporting periods beginning on or after 1 January 2023. If an entity applies HKFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply HKFRS 9 *Financial Instruments* on or before the date of initial application of HKFRS 17.

C2 For the purposes of the transition requirements in paragraphs C1 and C3–C33:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies HKFRS 17; and

(b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

C2A *Initial Application of HKFRS 17 and HKFRS 9—Comparative Information*, issued in February 2022, added paragraphs C28A–C28E and C33A. An entity that chooses to apply paragraphs C28A–C28E and C33A shall apply them on initial application of HKFRS 17.

Transition

C3 Unless it is impracticable to do so, or paragraph C5A applies, an entity shall apply HKFRS 17 retrospectively, except that:

(a) an entity is not required to present the quantitative information required by paragraph 28(f) of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(b) an entity shall not apply the option in paragraph B115 for periods before the transition date. An entity may apply the option in paragraph B115 prospectively on or after the transition date if, and only if, the entity designates risk mitigation relationships at or before the date it applies the option.

C4 To apply HKFRS 17 retrospectively, an entity shall at the transition date:

(a) identify, recognise and measure each group of insurance contracts as if HKFRS 17 had always applied;

(aa) identify, recognise and measure any assets for insurance acquisition cash flows as if HKFRS 17 had always applied (except that an entity is not required to apply the recoverability assessment in paragraph 28E before the transition date);

(b) derecognise any existing balances that would not exist had HKFRS 17 always applied; and

(c) recognise any resulting net difference in equity.

Asset for insurance acquisition cash flows

C24A In applying the fair value approach for an asset for insurance acquisition cash flows (see paragraph C5B(b)), at the transition date, an entity shall determine an asset for insurance acquisition cash flows at an amount equal to the insurance acquisition cash flows the entity would incur at the transition date for the rights to obtain:

(a) recoveries of insurance acquisition cash flows from premiums of insurance contracts issued before the transition date but not recognised at the transition date;

(b) future insurance contracts that are renewals of insurance contracts recognised at the transition date and insurance contracts described in (a); and

(c) future insurance contracts, other than those in (b), after the transition date without paying again insurance acquisition cash flows the entity has already paid that are directly attributable to the related portfolio of insurance contracts.

C24B At the transition date, the entity shall exclude from the measurement of any groups of insurance contracts the amount of any asset for insurance acquisition cash flows.

Comparative information

C25 Notwithstanding the reference to the annual reporting period immediately preceding the date of initial application in paragraph C2(b), an entity may also present adjusted comparative information applying HKFRS 17 for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, the reference to 'the beginning of the annual reporting period immediately preceding the date of initial application' in paragraph C2(b) shall be read as 'the beginning of the earliest adjusted comparative period presented'.

C26 An entity is not required to provide the disclosures specified in paragraphs 93–132 for any period presented before the beginning of the annual reporting period immediately preceding the date of initial application.

C27 If an entity presents unadjusted comparative information and disclosures for any earlier periods, it shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

C28 An entity need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies HKFRS 17. However, if an entity does not disclose that information, it shall disclose that fact.

Entities that first apply HKFRS 17 and HKFRS 9 at the same time

C28A An entity that first applies HKFRS 17 and HKFRS 9 at the same time is permitted to apply paragraphs C28B–C28E (classification overlay) for the purpose of presenting comparative information about a financial asset if the comparative information for that financial asset has not been restated for HKFRS 9. Comparative information for a financial asset will not be restated for HKFRS 9 if either the entity chooses not to restate prior periods (see paragraph 7.2.15 of HKFRS 9), or the entity restates prior periods but the financial asset has been derecognised during those prior periods (see paragraph 7.2.1 of HKFRS 9).

C28B An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of HKFRS 9 had been applied to that financial asset. The entity shall use reasonable and supportable information available at the transition date (see paragraph C2(b)) to determine how the entity expects the financial asset would be classified and measured on initial application of HKFRS 9 (for example, an entity might use preliminary assessments performed to prepare for the initial application of HKFRS 9).

C28C In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements in Section 5.5 of HKFRS 9. If, based on the classification determined applying paragraph C28B, the financial asset would be subject to the impairment requirements in Section 5.5 of HKFRS 9 but the entity does not apply those requirements in applying the classification overlay, the entity shall continue to present any amount recognised in respect of impairment in the prior period in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. Otherwise, any such amounts shall be reversed.

C28D Any difference between the previous carrying amount of a financial asset and the carrying amount at the transition date that results from applying paragraphs C28B–C28C shall be recognised in opening retained earnings (or other component of equity, as appropriate) at the transition date.

C28E An entity that applies paragraphs C28B–C28D shall:

(a) disclose qualitative information that enables users of financial statements to understand:

(i) the extent to which the classification overlay has been applied (for example, whether it has been applied to all financial assets derecognised in the comparative period);

(ii) whether and to what extent the impairment requirements in Section 5.5 of HKFRS 9 have been applied (see paragraph C28C);

(b) only apply those paragraphs to comparative information for reporting periods between the transition date to HKFRS 17 and the date of initial application of HKFRS 17 (see paragraphs C2 and C25); and

(c) at the date of initial application of HKFRS 9, apply the transition requirements in HKFRS 9 (see Section 7.2 of HKFRS 9).

Redesignation of financial assets

C29 At the date of initial application of HKFRS 17, an entity that had applied HKFRS 9 to annual reporting periods before the initial application of HKFRS 17:

(a) may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of HKFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of HKFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of HKFRS 17.

C33 When an entity applies paragraph C29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

(a) how it applied paragraph C29 to financial assets the classification of which has changed on initially applying HKFRS 17;

(b) the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of HKFRS 9; and

(c) why the entity came to any different conclusions in the new assessment applying paragraphs 4.1.2(a) or 4.1.2A(a) of HKFRS 9.

C33A For a financial asset derecognised between the transition date and date of initial application of HKFRS 17, an entity may apply paragraphs C28B–C28E (classification overlay) for the purpose of presenting comparative information as if paragraph C29 had been applied to that asset. Such an entity shall adapt the requirements of paragraphs C28B–C28E so that the classification overlay is based on how the entity expects the financial asset would be designated applying paragraph C29 at the date of initial application of HKFRS 17.

Withdrawal of other HKFRS Standards

C34 HKFRS 17 supersedes HKFRS 4 *Insurance Contracts*, as amended in 2020.

HKFRS 17 BC
Revised ~~October 2020~~February 2022

Basis for Conclusions on
Hong Kong Financial Reporting Standard 17

Insurance Contracts

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Amendments to IFRS 17—feedback on redesignation of financial assets

BC398A The Board considered but rejected a suggestion from entities implementing IFRS 17 that on initial application of IFRS 17 an entity that:

(a) first applied IFRS 9 before IFRS 17 be permitted to apply the transition relief in paragraph C29 of IFRS 17 to redesignate financial assets that were derecognised during the IFRS 17 comparative period; and

(b) first applied IFRS 9 at the same time it first applied IFRS 17 be permitted to apply IFRS 9 to financial assets that were derecognised during the IFRS 17 comparative period.[*]

BC398B The Board extensively discussed and consulted on the requirements in IFRS 9 relating to transition when IFRS 9 was being developed. Such requirements include prohibiting an entity from applying IFRS 9 to derecognised items, and permitting but not requiring an entity to restate comparative periods in some circumstances.[*]

Amendments to IFRS 17—transition requirements when an entity chooses to apply IFRS 9 to contracts specified in paragraph 8A of IFRS 17 (paragraphs 7.2.36–7.2.42 of IFRS 9)

BC398C Some entities will first apply IFRS 17 after they first apply IFRS 9. In June 2020, the Board amended IFRS 9 to provide transition requirements for such entities that apply paragraph 8A of IFRS 17 and choose to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (see paragraphs BC94D–BC94F). The amendment enables those entities to use the transition requirements in Section 7.2 of IFRS 9 (as issued in 2014) when first applying IFRS 9 to those contracts.

BC398D The Board also considered transition requirements related to the fair value option in IFRS 9. An entity's decision to apply IFRS 9 to insurance contracts that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract could change, either partially or in full, the classification and measurement of such contracts. Such changes may create or eliminate accounting mismatches between the contracts and financial liabilities an entity might consider to be related to the contracts. Therefore, the Board amended the IFRS 9 transition requirements to permit an entity to designate, or require an entity to revoke its previous designation of, a financial liability at the date of initial application of these amendments to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists, as a result of the application of these amendments.

BC398E Consistent with the transition requirements in IFRS 9 and IFRS 17, the Board decided to specify that when an entity applies the amendment described in paragraph BC398C and chooses to apply IFRS 9 to such contracts, the entity:

(a) can choose to restate prior periods to reflect the effect of applying these amendments only if the entity can do so without the use of hindsight and if the restated financial statements reflect all the requirements in IFRS 9 for the affected financial instruments;

(b) will be required to disclose information about the changes in the classification and measurement of contracts as a result of applying these amendments in addition to any disclosures required by other IFRS Standards; and

(c) can choose to not disclose the quantitative information otherwise required by paragraph 28(f) of IAS 8 for the current period or any prior period presented.

[*] In December 2021, the Board amended IFRS 17 to add a transition option relating to comparative information about financial assets presented on initial application of IFRS 17 (see paragraphs BC398G–BC398R).

BC398F The Board added these transition requirements as a consequence of adding paragraph 8A to the requirements of IFRS 17 (see paragraph BC398C). In June 2020, the Board also added a scope exclusion in paragraph 7(h) of IFRS 17 for some contracts that provide credit or payment arrangements such as particular credit card contracts (see paragraphs BC94A–BC94C). Stakeholders said that, for such contracts, many entities already apply IFRS 9 to the credit or payment arrangement component applying the separation requirements in IFRS 4. However, some may not have. Accordingly, the transition requirements discussed in paragraphs BC398A–BC398E will apply if an entity has already applied IFRS 9 but has not applied IFRS 9 to those components.

Initial Application of IFRS 17 and IFRS 9—Comparative Information

BC398G In 2021 the Board received information that, for some entities, the differing transition requirements of IFRS 17 and IFRS 9 (see paragraph BC389 and paragraphs BC398A–BC398B) could lead to significant accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of the two Standards. In response to that feedback, in December 2021, the Board issued *Initial Application of IFRS 17 and IFRS 9—Comparative Information*. The Board concluded that amending IFRS 17 to enable entities to reduce those mismatches close to the effective date would not disrupt implementation. The amendment could be finalised in a timely manner, would be optional and would relate only to the presentation of comparative information on initial application of IFRS 17.

BC398H The Board decided to make the transition option (classification overlay) available for:

(a) entities that first apply IFRS 17 and IFRS 9 at the same time and that choose to restate comparative information applying IFRS 9. These entities could apply the classification overlay to financial assets derecognised in the comparative period (that is, financial assets to which IFRS 9 is not applied).

(b) entities that first apply IFRS 17 and IFRS 9 at the same time and that do not restate comparative information applying IFRS 9. These entities could apply the classification overlay to any financial asset in the comparative period.

(c) entities that have applied IFRS 9 before they apply IFRS 17. For these entities, the classification overlay relates only to the application of paragraph C29 of IFRS 17 and can be applied only to financial assets derecognised in the comparative period. Initially, the Board had proposed that the classification overlay could be applied only by the entities described in (a) and (b). However, stakeholders informed the Board that similar, albeit less significant, accounting mismatches could arise for entities that applied IFRS 9 before they first apply IFRS 17. Such mismatches could arise because these entities cannot apply paragraph C29 of IFRS 17 to financial assets derecognised in the comparative period. Therefore, the Board decided to make the classification overlay available to these entities, but only for financial assets derecognised in the comparative period.

BC398I Initially, the Board proposed that the classification overlay would not apply to financial assets held in respect of an activity unconnected with contracts within the scope of IFRS 17. Such a boundary would have enabled entities to reduce accounting mismatches between insurance contract liabilities and related financial assets and therefore would have addressed the key concern raised by stakeholders. However, respondents to the exposure draft informed the Board that permitting an entity that first applies IFRS 17 and IFRS 9 at the same time to apply the classification overlay to financial assets held in respect of non-insurance activities could improve the usefulness of comparative information presented on initial application. These respondents explained that because such entities qualified for the temporary exemption from applying IFRS 9 (see paragraph 20G of IFRS 4), the proportion of financial assets they hold in respect of non-insurance activities is not significant. Nevertheless, the ability to apply the classification overlay to all financial assets would significantly reduce operational complexity for those entities and would result in more financial assets being presented in a manner consistent with IFRS 9. The Board therefore concluded that the benefits of expanding the availability of the classification overlay would outweigh any perceived costs.

BC398J The Board noted that, applying the classification overlay, an entity aligns the classification and measurement of a financial asset in the comparative information with what the entity expects the classification and measurement of that financial asset would be on initial application of IFRS 9. The Board concluded that this expected IFRS 9 classification and measurement should be determined at the transition date to IFRS 17 to enable entities to prepare to apply the classification overlay. The Board concluded that entities could make this determination by using reasonable and supportable information available at the transition date. As an example, an entity could use preliminary assessments of the business model and cash flow characteristics performed to prepare for the initial application of IFRS 9.

BC398K The Board noted that the classification overlay does not amend the transition requirements of IFRS 9. Therefore, entities that choose to apply the classification overlay to some or all of their financial assets are still required to apply the requirements of IFRS 9 to financial assets that continue to be recognised at the date of initial application of IFRS 9. This means that at the date of initial application of IFRS 9, entities that apply the classification overlay will be required to assess whether the classification of financial assets that continue to be recognised at that date is in accordance with IFRS 9. If the classification determined applying the classification overlay does not meet the requirements of IFRS 9 on the date of initial application of IFRS 9, the entity would be required to update the classification of a financial asset on that date and apply the updated classification retrospectively (see paragraph 7.2.3 of IFRS 9).

BC398L The Board considered the measurement consequences of an entity applying the classification overlay. It noted that, applying the classification overlay, the carrying amount of a financial asset would be determined consistently with how that financial asset would be measured on initial application of IFRS 9 (see also paragraph BC398M). If, for example, using the classification overlay, an entity presented a financial asset previously measured at amortised cost as instead measured at fair value through profit or loss, the carrying amount of that asset at the transition date to IFRS 17 would be its fair value measured at that date. Applying paragraph C28D of IFRS 17, any difference in the carrying amount of the financial asset at the transition date resulting from applying the classification overlay would be recognised in opening retained earnings (or other component of equity, as appropriate) at that date.

BC398M The Board decided to permit, but not require, an entity to apply the impairment requirements in Section 5.5 of IFRS 9 for the purpose of applying the classification overlay. The Board observed that some entities may not be prepared to apply the impairment requirements in IFRS 9 for the comparative period presented on initial application of IFRS 9. In the Board's view, these entities should be allowed to apply the classification overlay because, even without the application of the IFRS 9 impairment requirements, the classification overlay would result in useful information to the users of the financial statements. Consequently, the Board concluded that, if based on the classification determined applying paragraph C28B the financial asset would be subject to the impairment requirements of IFRS 9 but the entity does not apply those requirements in applying the classification overlay, the entity continues to present any amount recognised in respect of impairment in the prior period in accordance with IAS 39. Otherwise, any impairment amount previously recognised for that financial asset is reversed.

BC398N The Board decided not to require entities to disclose the quantitative effects of applying the classification overlay at the transition date to IFRS 17. For example, the Board decided not to require specific disclosure of the carrying amounts of financial assets to which the classification overlay has been applied, and of the adjustments resulting from applying the classification overlay. Applying the classification overlay results in the comparative information being more consistent with the application of IFRS 9. As a result, applying the classification overlay would improve rather than reduce the usefulness of information for users of financial statements. Therefore, the Board concluded that requiring such quantitative disclosures would impose costs on preparers of financial statements with little benefit to users of financial statements.

BC398O In deciding to require qualitative disclosures about the classification overlay (see paragraph C28E(a)), the Board noted that other IFRS Standards might require entities to provide additional information about the classification overlay. For example, IAS 1 requires entities to disclose material accounting policy information (see paragraphs 117–122 of IAS 1) and provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (see paragraph 31 of IAS 1). Furthermore, in presenting comparative information as required by IAS 1 for the amounts reported in the current period's financial statements (which include the notes), an entity also provides narrative descriptions or disaggregations of the comparative information to support information for items presented in the primary financial statements.

BC398P The Board considered, but rejected, a suggestion from stakeholders to change the date on which the Board requires disclosures about the initial application of IFRS 9 (see paragraphs 42I–42S of IFRS 7). These stakeholders suggested the Board amend IFRS 7 to require such disclosures as at the date the classification overlay is first applied (that is, the transition date to IFRS 17) instead of as at the date of initial application of IFRS 9. The Board noted that the classification overlay is an option that only some entities will choose to use and is available on an instrument-by-instrument basis. In the Board's view, applying the classification overlay is not equivalent to—or a substitute for—the initial application of IFRS 9, hence disclosures about the classification overlay cannot replace disclosures about the initial application of IFRS 9. The disclosures about the initial application of IFRS 9 provide users of financial statements with comparable information about the effects of applying IFRS 9 because all entities are required to provide those disclosures as at the date of initial application of IFRS 9.

BC398Q The Board noted that IFRS 17 requires that an entity present adjusted comparative information for the annual reporting period immediately preceding the date of initial application of IFRS 17 and permits an entity to present adjusted comparative information for earlier periods. The Board therefore decided to make the classification overlay available for comparative periods for which information has been restated applying IFRS 17. This decision is consistent with the objective of the classification overlay, which is to enable entities to reduce accounting mismatches between financial assets and insurance contract liabilities that may arise in the comparative information presented on initial application of IFRS 17. IAS 8 does not allow the use of hindsight when an entity applies a new accounting policy to a prior period. Therefore, an entity would collect relevant information on a timely basis to apply the classification overlay to the comparative periods without the use of hindsight.

BC398R The Board concluded that the classification overlay should be optional on an instrument-by-instrument basis to allow an entity to assess whether, for a particular financial asset, the benefits of applying the classification overlay outweigh the costs. However, the Board observed that the option to apply the classification overlay on an instrument-by-instrument basis does not prevent an entity from applying it at a higher level of aggregation, for example, by considering the level at which the entity would assess its business model when applying IFRS 9.

Transition disclosures (paragraphs 114–116 of IFRS 17)

BC399 The Board expects that there will be some differences in the measurement of insurance contracts when applying the different transition approaches permitted in IFRS 17. Accordingly, the Board decided to require that an entity provides disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach or the fair value approach on the contractual service margin and revenue in subsequent periods. Furthermore, the Board decided that entities should explain how they determined the measurement of insurance contracts that existed at the transition date for all periods in which these disclosures are required, for users of financial statements to understand the nature and significance of the methods used and judgements applied.

Disclosure of the amount of adjustment for each financial statement line item affected (paragraph 28(f) of IAS 8)

BC400 An entity is required to apply the disclosure requirements of IAS 8 unless another Standard specifies otherwise. The Board decided that entities should not be required to disclose, for the current period and for each prior period presented, the amount of the adjustment for each financial statement line item affected, as required by paragraph 28(f) of IAS 8. In the Board's view, the cost of providing this disclosure, which would include the running of parallel systems, would exceed the benefits, particularly because IFRS 4 permitted an entity to use a wide range of practices.

Disclosure of claims development (paragraph 130 of IFRS 17)

BC401 Paragraph 44 of IFRS 4 exempted an entity from disclosing some information about claims development in prior periods on first application of that Standard. The Board decided to carry forward in IFRS 17 a similar exemption for cost-benefit reasons.

Effective date (paragraphs C1 and C2 of IFRS 17)

BC402 The Board generally allows at least 12 to 18 months between the publication of a new Standard and its mandatory effective date. However, in the case of major Standards, such as IFRS 17, that have a pervasive effect on entities, the Board has allowed longer implementation periods to allow entities time to resolve the operational challenges in implementing those Standards. At the same time, the Board needs to balance the advantage of a longer implementation period for preparers against the disadvantages of allowing inferior accounting practices, arising from IFRS 4, to continue.

BC403 The Board noted that IFRS 17 will be complex for entities to apply. Accordingly, the Board decided that IFRS 17 should be applied by all entities for annual periods beginning on or after 1 January 2021, a period of approximately three and a half years from publication of the Standard. This allows entities a period of two and a half years to prepare, taking into account the need to restate comparative information.*

* In June 2020, the Board deferred the effective date of IFRS 17 by two years to require entities to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023 (see paragraphs BC404A–BC404F).