

31 January 2019

Dear insurance subscribers,

Updates on HKFRS/IFRS 17 Insurance Contracts from the Standard Setting Department of the Hong Kong Institute of CPAs

We hope that you finished 2018 strong, and started 2019 with a bang. We would also like to take this opportunity to wish you a Happy and Prosperous Chinese New Year.

1. Hong Kong Insurance Implementation Support Group

In 2019, the [Hong Kong Insurance Implementation Support Group](#) (HKIISG) will continue to discuss questions from stakeholders about implementing the new requirements of HKFRS 17. Members of the HKIISG have both practical and direct knowledge of implementing HKFRS 17.

Stakeholders interested in HKFRS 17 implementation are invited to:

- [Register as an observer to attend a meeting](#);
- [Submit an implementation question](#); and/or
- [Follow meeting outcomes](#).

2. Pocket summaries on HKFRS/IFRS 17

The Hong Kong Institute of CPAs (HKICPA) has published its second pocket summary on HKFRS/IFRS 17, which focuses on the Contract Boundary requirements, supplemented by a decision tree and illustrative examples. Click [here](#) to download your own copy.

The first pocket summary provides insurers with a simple framework and general references for planning the implementation of IFRS 17 and contains a guide to key decisions that need to be made to identify what type of information is required to be collected and maintained by IT systems under the standard. Click [here](#) to download your own copy.

3. Resources on HKFRS/IFRS 17

Technical resources, including educational materials may be found on the HKICPA's [webpage](#).

This [e-seminar](#), available until 4 June 2019, provides a high-level overview of the standard. Other upcoming

HKFRS 17 training and events are in the pipeline. Please stay tuned.

Additionally, the International Accounting Standards Board (IASB)'s implementation support webpage contains a series of [educational webcasts and webinars](#) on the requirements of the standard.

4. International and domestic developments from October 2018 to January 2019

It's been an interesting few months since our last update in early October 2018. Here are some key highlights you should be aware of:

On 15 October 2018, the staff of the HKICPA sent a paper to the IASB which outlined the top three technical issues observed during implementation as a result of discussions from the [HKIISG](#) which consists of representatives from 10 insurance companies and 4 professional services firms. The paper explains why those technical issues need to be addressed, and mentions high level recommendations for the IASB. The letter is available [here](#).

On 16 October 2018, a global insurance industry letter was sent to the IASB which requested a two-year deferral of the effective date for IFRS 17. The letter was signed by insurance industry associations from Australia, Canada, Europe, Korea, New Zealand and South Africa. Read the letter [here](#).

On 17 October 2018, the European Insurance CFO Forum sent a letter to the IASB which outlined their proposed solutions for the IFRS 17 issues identified during their case study testing, in which 20 CFO Forum member insurance companies participated. The letter is available [here](#).

On 24 October 2018, the IASB noted that at a future meeting it would consider whether any of the concerns and implementation challenges discussed by the IASB Transition Resource Group and other stakeholders, including those relating to the costs and benefits of IFRS 17, indicate a need to amend the requirements of the standard. The IASB tentatively decided any proposed amendments would be evaluated against the following criteria:

- (a) the amendments would not result in significant loss of useful information relative to that which would otherwise be provided by IFRS 17 for users of financial statements—any amendments would avoid:
 - (i) reducing the relevance and faithful representation of information in the financial statements of entities applying IFRS 17;
 - (ii) causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17; or
 - (iii) increasing complexity for users of financial statements, thus reducing understandability.
- (b) the amendments would not unduly disrupt implementation already under way or risk undue delays in the effective date of IFRS 17, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.

The IASB identified 25 issues which represent the concerns and implementation challenges raised by stakeholders. These 25 issues would be evaluated against the criteria above in assessing whether IFRS 17

needs to be amended. Read the IASB October 2018 meeting summary [here](#).

On 26 October 2018, the Board of European Financial Reporting Advisory Group (EFRAG) sent a [letter](#) to the European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), and European Securities and Markets Authority (ESMA) to clarify certain steps it has taken and will take in the endorsement advice process of IFRS 17. This letter was in response to the [joint-letter](#) from EBA, EIOPA and ESMA sent to EFRAG on 18 October 2018.

On 9 November 2018, the Hong Kong Federation of Insurers (HKFI) sent a letter to the IASB which requested a two-year deferral of the effective date of IFRS 17. The letter outlines the concerns for smaller insurers over the lack of specialist resources and IT systems. The letter also notes the timing pressure for both larger and smaller insurers due to the concurrent development of the new regulatory capital requirements in Hong Kong. Finally, the letter also contains the results of the market surveys on IFRS 17 readiness that the HKFI conducted.

On 14 November 2018, the IASB decided to propose a one-year deferral of the effective date for IFRS 17. Read the IASB November 2018 meeting summary [here](#). Following this development, the HKICPA notified its insurance industry that a Hong Kong public consultation on the IASB proposals will commence as soon as the IASB exposes its proposals for comment. Hong Kong insurers are strongly encouraged to respond to the HKICPA's and/or the IASB's consultation documents by writing or speaking to staff of the HKICPA Standard Setting Department (email: insurance@hkickpa.org.hk). Notwithstanding the IASB's tentative proposals, the HKICPA strongly advises insurers to **continue** with their implementation efforts as we hear that the additional time would be welcomed for further testing of new systems and communication to stakeholders. Read the full notification [here](#).

On 5 December 2018, the European Insurance CFO Forum sent a letter to the IASB which commented that, based on the IASB's December meeting papers, the solutions proposed by the CFO Forum are not being considered seriously by the IASB and that the issues may be prematurely dismissed. Read the letter [here](#).

On 21 December 2018, the Ministry of Finance of the People's Republic of China (MOF) published its exposure draft of the China Accounting Standards for Business Enterprises for Insurance Contracts, which is meant to be converged with IFRS 17. Click [here](#) for more details.

On 13 December 2018 and 23 January 2019, the IASB discussed 20 out of the 25 issues. Amendments to IFRS 17 will be proposed for 5 of these issues, to:

- Require presentation of insurance contracts assets and liabilities in the statement of financial position at the portfolio level rather than at the grouping level used for contract measurement purposes;
- Require allocation of insurance acquisition cash flows to anticipated future renewals;
- Require recognition of a gain in profit or loss when an insurer recognises losses on onerous underlying insurance contracts at initial recognition, to the extent that a reinsurance contract held covers the losses of each contract on a proportionate basis;

- Expand the scope of the risk mitigation exemption for insurance contracts with direct participation features to reinsurance contracts held that are used to mitigate financial risk. However, the IASB will not expand the scope of the variable fee approach to reinsurance contracts issued or held; and
- Require consideration of the existence of an investment return service in allocating the CSM using coverage units.

The IASB meeting summaries for December 2018 and January 2019 are available [here](#) and [here](#), respectively. The IASB will discuss the last 5 issues at its February and March 2019 meetings. The IASB anticipates issuing an exposure draft with all the proposed amendments to IFRS 17, including the deferral of the effective date, during the second quarter of 2019. Once the IASB's exposure draft is issued, a Hong Kong public consultation on the IASB proposals will commence.

Finally, on 29 January 2019, EFRAG discussed IFRS 17 and the proposed work plan for EFRAG in 2019. Read the agenda paper or watch the webcast [here](#). Staff of the HKICPA understand that any decisions on the endorsement of IFRS 17 in Europe will take place after elections for the European Parliament in May 2019.

We hope that you find these updates helpful. If you have colleagues or industry peers that would also like to receive these updates, please ask them to subscribe by e-mailing insurance@hkipa.org.hk.

Your Sincerely,

Standard Setting Department
Hong Kong Institute of CPAs