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1. Response to Exposure Draft questions

Question 1: Scope exclusions – credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9-BC30)

(a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Do you agree with the proposed amendment? Why or why not?

(b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)-(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for the insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

Do you agree with the proposed amendment? Why or why not?

AIA Group's response to Question 1:

The proposed amendments are not of material relevance given AIA Group's core business is Life Insurance, as such we leave others to provide comments on the proposed amendments.

Question 2: Expected recovery of insurance acquisition cash flows (paragraphs 28A-28D, 105A-105C, B35A-B35C and BC31-BC49)

Paragraphs 28A-28D and B35A-B35C propose that an entity:

(a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;

(b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and

(c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

Paragraphs 105A-105C propose disclosures about such assets.

Do you agree with the proposed amendments? Why or why not?

AIA Group's response to Question 2:

AIA welcome the principle of allocating insurance cash flows to future expected renewals of the contracts in that group. We view that such a principle more appropriately reflects the underlying business and so brings increased meaningfulness for users of the financial statements.

The proposed amendments largely reflect this principle although we suggest some enhancements that would, in our opinion, avoid any confusion and allow a smoother implementation. The enhancements are in the following areas:

- **Paragraph 28B(b)** – the proposed amendments may be viewed as requiring multiple assets be recognised for a single acquisition cash flow that relates to multiple future groups of contracts; we believe this view has the potential consequence of recognising larger loss amounts for bounded contracts with expected future renewals than would otherwise be recognised for unbounded contracts with similar fulfilment cash flows over the long term. Further, we view that there is no need to recognise an asset for "…each existing…" group of insurance contracts as any such asset is de-recognised immediately when such a group is initially recognised.

- **Paragraph B35B(a)** – similar point as above for paragraph 28B(b).

- **Paragraph 105B** - While AIA is supportive of providing transparency through disclosures such as set out in Paragraphs 105A and 105C, we are concerned that the quantitative disclosures required in paragraph 105B will involve forward-looking information based on future business projection which are commercially sensitive and may be used in ways detrimental to the reporting entity. In addition, we do not believe that the information in paragraph 105B is critical to the users of financial statements who are principally concerned about the recoverability of the acquisition cost asset recognised on the balance sheet, such concern has already been addressed by the impairment test proposed in paragraph B35B. Accordingly, we believe that paragraph 105B should be removed from the Standard.

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AIA agree with the principle of requiring an impairment test in relation to such acquisition cost asset.

AIA note that the Exposure Draft is silent on the determination of the amount of the pre-coverage asset on transition and, to avoid any ambiguity and ensure that consistent, comparable and meaningful information is presented in the disclosures, we recommend that the Standard explicitly states that such an asset on transition should be established. More specifically, AIA recommend that the Standard clearly states that such an asset should:

- be established regardless of the transition approach used, because such an asset relates to future groups of contracts after transition date, while the transition approaches to determine CSM and OCI relate to contracts that will have been recognised by the transition date;

- be estimated using reasonable and supportable information at transition without undue cost or effort, regardless of transition approach;

- not exceed the expected net cash inflow from the related group in accordance with paragraph B35B(a); and

- for the portion that relates to expected renewals, not exceed the expected net cash inflow for the expected renewals in accordance with paragraph B35B(b).

Our suggested wording enhancements for the above, including the proposed additional text for transition, are set out in the Appendix below for the Board's consideration.

Question 3: Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44-45, 109 and 117(c)(v), Appendix A, paragraphs B119-B119B and BC50-BC66)

(a) Paragraphs 44, B119-B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Paragraph B119B specifies criteria for when contracts may provide an investment-return service.

Do you agree with the proposed amendment? Why or why not?

(b) Paragraphs 45, B119-B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c)(v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Do you agree with the proposed disclosure requirements? Why or why not?

AIA Group's response to Question 3:

AIA understand the principles behind the proposed amendments and understand their rationale. However, we believe that there is significant additional complexity being introduced which, in addition to the increased system complexity and associated costs, will lead to diverse practices in the recognition pattern of the CSM which will not be comparable across the industry.

That said, AIA can appreciate the challenges faced in developing the Standard in this area and welcome the IASB's efforts in making enhancements. While AIA would have preferred that the investment-return service not be added to the General Measurement Model ("GMM"), in recognition of the importance of a successful and timely implementation globally, AIA are recommending only a few minor clarifications to the proposed amendments in the following areas:

- **Paragraph B119** – for groups of contracts which provide multiple services, especially for services that are very different in nature such as insurance services and investment services, the determination of a suitable coverage unit could be very complex. This operational challenge existed following the publication of the Standard in May 2017 and is now increased by the introduction of the concept of an "investment-return service" and, seemingly based on BC62, the IASB's expectation that an entity needs to assess the relative weighting of benefits.

  A broad range of possible methods, including complex blending calculations, using the predominant service, or maximum coverage, are all likely to be developed by the industry with the result of reduced comparability across firms, less transparency from the users' perspective and reduced reliability in the case of complex blending calculations involving significant judgement.

To help mitigate such risks, AIA suggest a practical expedient be included within the Standard. More specifically, for groups of contracts that contain multiple services where a weighted measure of the service cannot be determined reliably or attempting to determine the coverage unit for such services is not practical, the entity shall allocate the contractual service margin over the current period and expected remaining coverage period to be provided on the basis of the passage of time only.

- **Paragraph B119B** – the intention of this paragraph is to define criteria whereby an investment-return service is provided although AIA view that additional clarity is required. The discussion in the May 2019 IASB board meeting podcasts provided such clarity, that is, the policyholder is expecting to receive a positive return from the contract and is being provided a service that would not otherwise be available to the policyholder other than through paying somebody to achieve that type of return. The expected investment return provided to the policyholder is also relative to the market economic condition. Such clarification should be included in the Standard.

  AIA also believe that investment-return services that are incidental to the insurance contract as a whole should not be considered in-scope of the definition. As such, AIA suggest some minor amendments to B119B(b). We believe these amendments will better safeguard against the possibility of an insurer identifying an investment-return service when, in substance, no such service is being provided to the policyholder.

  Furthermore, AIA view that it is vitally important to avoid any undue cost or effort in determining such investment-return service and that it is key to ensure judgement can be applied as already set out in BC60.

- **Paragraph 117(c)(v)** – this paragraph requires that significant judgements be disclosed in relation to the relative weighting between insurance and investment services. AIA view that this can be clarified so as to avoid implying the weighting must be performed and should be worded so as not to exclude other reasonable approaches such as the practical expedients discussed above.

AIA are supportive of the other amendments proposed in the Exposure Draft. Our suggested wording enhancements are included in the Appendix below for the Board's consideration.

Question 4: Reinsurance contracts held – recovery of losses on underlying insurance contracts (paragraphs 62, 66A-66B, B119C-B119F and BC67-BC90)

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

(a) the loss recognised on the group of underlying insurance contracts; and

(b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Do you agree with the proposed amendment? Why or why not?

AIA Group's response to Question 4:

AIA agree with the principles behind the amendments proposed, however we believe that the actual proposed wordings go well beyond the intention of the Board and actually result in the proposed amendments being of limited value in practice. As such AIA have made a number of minor suggestions below which we believe would increase the value of the proposed amendments to users whilst maintaining the principles intended and allowing more accurate reflection of the underlying business, these include:

- **Definition of reinsurance contract held that provides proportionate coverage & Paragraph B119C** – Quota Share and Surplus are both examples of reinsurance arrangement that provide proportionate coverage (on an individual, risk by risk basis, regardless of overall claims results). Under these arrangements, the recovery from reinsurer(s), if claims occur, is fixed/known in advance, and are either a percentage or fixed dollar of claims. However, the paragraph appears to define proportionate reinsurance to only be pure quota share arrangements where no excess, or initial retention, exists.

  From existing wording in BC86, the situation refers to a reinsurance treaty with excess of losses nature (i.e. recovery of claims are dependent of total claims) that is not applicable to Surplus reinsurance contract. Further the paragraph appears to require that reinsurance contract provides coverage from all claims. Such a proposal is excessively restrictive and not reflective of how reinsurance is applied in practice, for example, a reinsurance treaty may only provide coverage for claims arising for one particular risk in the underlying contract. In such a situation, the company can still able to make a reasonable assumption (e.g. using proportionate approach) about which claims cause the contract to be onerous. Further, the definition also appears to restrict the application to exclude facultative arranged reinsurance contracts, say for large case.

- **Paragraph B119D** – The proposed amendments set out the calculation approach which seems to diverge from the principle-based nature of the Standard. Furthermore, the approach is only applicable under strict facts and circumstances for quota share type reinsurance contracts which we view as being overly restrictive.

Our suggested wording enhancements are included in the Appendix below for the Board's consideration.

Question 5: Presentation in the statement of financial position (paragraph 78-79, 99, 132 and BC91-BC100)

The proposed amendment to paragraph 78 would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Do you agree with the proposed amendment? Why or why not?

AIA Group's response to Question 5:

AIA welcome the proposed amendments as we believe that they result in a financial statements which are more reflective of how the underlying business is managed and are operationally less burdensome than the requirements in the Standard released in May 2017.

Question 6: Applicability of the risk mitigation option (paragraphs B116 and BC101-BC109)

The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

Do you agree with the proposed amendment? Why or why not?

AIA Group's response to Question 6:

AIA welcome the proposed amendments as we believe that they are more reflective of how the underlying business is managed.

Question 7: Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs C1, [Draft] Amendments to IFRS 4 and BC110-BC118)

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date.

(a) The proposed amendments to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

(b) The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

AIA Group's response to Question 7:

AIA welcome the proposed deferral to the effective date as the additional time reflects the impact of the proposed amendments within the Exposure Draft, the inherent complexity in introducing such a comprehensive and pervasive accounting Standard, and the lack of readily available IT solutions. Furthermore, the extension allows firms outside of the European Union (i.e. have not gone through the comprehensive Solvency II implementation) and so which are starting from a different position with regards to the system and data sophistication, additional time to upgrade their systems and data accordingly.

AIA further note the IASB's aim to have a truly global standard which is uniformly adopted in terms of both effective date and technical interpretation and application. AIA are fully supportive of such an aim and can appreciate the significant challenges in achieving it. However, the potential for jurisdictions to introduce locally applicable modifications to the Standard and/or adopt the Standard with a different effective date causes significant concern particularly in major markets such as the European Union and Hong Kong. Whilst AIA do everything we can at a local level to achieve appropriate alignment we urge the IASB to continue working with the major markets to implement a truly global Standard.

Question 8: Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119-BC146)

(a) Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.

Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims.

Do you agree with the proposed amendments? Why or why not?

(b) The proposed amendment to paragraph C3(b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Do you agree with the proposed amendment? Why or why not?

AIA Group's response to Question 8:

AIA welcome the proposed amendments as we believe that they are more reflective of how the underlying business is managed and leads to improved treatment on transition.

Question 9: Minor amendments (BC147-BC163)

This Exposure Draft also proposes minor amendments (see paragraphs BC147-BC163 of the Basis for Conclusions).

Do you agree with the Board's proposals for each of the minor amendments described in this Exposure Draft? Why or why not?

AIA Group's response to Question 9:

AIA welcome the minor amendments as set out in BC147 to BC163 however in order to avoid unnecessary complexity and limited usefulness to users we have comments and suggestions on some of the changes as follows:

- **Paragraph B107 -** We note that there is a major, yet very subtle and perhaps unintended, amendment to Paragraph B107 which changes the eligibility criteria for the Variable Fee Approach ("VFA") from being at a group of contracts level to a contract level. We believe the change is unintended and actually contradicts the November 2016 IASB meeting agenda 2C discussions, as this item was raised and the staff response was that the assessment should be at the group of contracts level as the contracts are measured as part of a group, the group is the unit of account.

The implications of this proposed amendment are material and result in significant additional operational complexities. This will create significant disruption on the implementation projects already well underway and result in significant additional costs being incurred. AIA suggest that the proposed amendment is undone and that the original wording is maintained.

It is worth noting that this amendment has not been discussed at any of the Board meetings since the Standard was issued, and is not referenced in the Basis of Conclusions not any other literature.

- **Paragraph B128(c) -** The amendment clarifies that changes in the measurement of a group of insurance contracts caused by changes in the fair value of underlying items are changes arising from the effect of the time value of money and assumptions that relate to financial risk. For much of Asia's participating business, the insurance service experience will be shared with policyholders and hence, will change the fair value of the underlying items. We support the amendments of paragraph B128(c) as the treatment is more reflective of the economics of these contracts. However, we note that there could be some mismatch in the income statement presentation as the insurance services experience is reported in insurance services result while the corresponding change in measurement due to the change in the fair value of underlying item is reported in insurance finance income or expenses.

  In addition, the changes to paragraph B128(c) have not been extended to the cases that the entity adopts an accounting policy per paragraph 88(b) ("OCI option") leading to internal inconsistencies.

  We note a similar issue arises for participating business in some Asian countries that are measured under GMM. The participating business typically provides both guaranteed benefit and non-guaranteed benefits to policyholders and have underlying items that contain financial instruments such as equities which are measured as FVTPL and fixed income instruments classified as FVOCI. The guaranteed benefit payments to policyholders is supported by fixed income instrument while the non-guaranteed benefit payments to policyholders is supported by the capital gain from equities. Electing FVOCI for equities results in accounting mismatch in profit or loss as IFRS 9 prohibits the capital gain being recognised in profit or loss if the equities are measured under FVOCI while the non-guaranteed benefit payment to policyholders is recognised in profit or loss.

  If an entity adopts an accounting policy to include the insurance finance income or expenses for the period in profit or loss according to Paragraph 88(a), accounting mismatch arises as the fixed income instruments are measured as FVOCI. If an entity adopts the IFRS 17 OCI option, accounting mismatch also arises as the fair value movement of equities is reported in profit or loss but the corresponding insurance finance income or expenses attributed to the fair value movement of equities is reported in the other comprehensive income.

  In light of the above, AIA suggests to further enhance the Standard as set out in the Appendix below.

Question 10: Terminology

This Exposure Draft proposes to add Appendix A of IFRS 17 the definition ‘insurance contract services’ to be consistent with other proposed amendments in this Exposure Draft.

In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’. If that changes is made, those terms would become ‘service units’, ‘service period’ and ‘liability for remaining service’, respectively throughout IFRS 17.

Would you find this change in terminology helpful? Why or why not?

AIA Groups response to question 10:

AIA agrees with the IASB making consequential changes in terminology as it helps to increase the consistency within the Standard and it also provides clarity that the principle of the Standard is to focus on the services provided by the insurance contract and that the recognition of CSM in profit or loss should reflect these services.

2. Additional comments on the Standard and Exposure Draft

The jurisdictions where AIA operates in Asia such as Hong Kong, Singapore, Malaysia, Thailand, China, the Philippines and Vietnam have significant amounts of business that have cash flows that affect, or are affected by, cash flows of other contracts. That is, different generations of policyholders participate in the return of a common pool of assets, sharing the risks among all policyholders including those arising from financial risk and in most circumstances, insurance risk.

To fulfil the annual cohort requirement, significant changes to systems, at considerable costs, are expected. The Standard will result in inconsistency between accounting requirement and business practice which is generally managed at a portfolio level. The annual cohort requirement has limited usefulness to the users of the financial information for these contracts as they are not reflective of how the business is managed. Furthermore, in Asia some of these product lines are not eligible for the VFA measurement model and the requirement of the locked-in discount rate has introduced additional complexity.

AIA share similar concerns on the annual cohort requirement as those raised by the EFRAG and we believe the requirement leads to unnecessary costs that could outweigh the benefits. AIA recommend that the IASB consider developing an exception for qualifying contracts. Minor amendments to paragraph 22 of the Standard are suggested in the Appendix below.

Separately, we would like to share our observation and concern on the interaction between IFRS 17.B96(c) requiring “differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period” be adjusted against the CSM and IFRS 17.103(b)(iii) requiring subsequent changes that relate to past service be included in insurance service expenses. The two paragraphs mean that if an amount is initially recorded as an investment component and needs to be corrected in subsequent period (because further investigation results in the decline of benefit payment or revision of the amount), the adjustment in the subsequent period does not reverse or correct the amount previously recorded in CSM. Instead, the adjustment impact is required to be included in insurance service expense, thereby causing income and CSM volatility during the coverage period. To remediate the above-described situation, we believe a minor wording change to IFRS 17.103(b)(iii) would suffice, our suggestion is set out in the Appendix below.

Furthermore, we noted that there is an accounting mismatch for VFA model. IFRS 17.B113(b) requires changes in the fulfilment cash flows that do not vary based on the returns on the underlying items due to the change in the effect of the time value of money and financial risks adjust the CSM. However, the fair value return of the backing assets for these fulfilment cash flow is recognised in profit or loss rather than adjusting the CSM as the backing asset is not an underlying item. This results in an accounting mismatch which upfronts the profit recognition but leads the CSM group to turn onerous in the future. This is common in Asia whereby the liabilities of the riders, which are combined with the base contract, are backed by assets that are not the underlying item. AIA suggests to further enhance the Standard as set out in the Appendix below to eliminate this accounting mismatch.

3. Appendix – AIA proposed wording changes

Suggested Exposure Draft wording changes in relation to Question 2:

28B An entity shall recognise:

(a) …

(b) insertion acquisition cash flows paid before the related ~~group~~ groups of insurance contracts ~~is~~ are recognised as an asset. An entity shall recognise such an asset for ~~each existing or~~ all future ~~group~~ groups of insurance contracts to which insurance acquisition cash flows are allocated.

~~105B An entity shall disclose quantitatively, in appropriate time bands, when it expects to derecognize an asset for insurance acquisition cash flows applying paragraph 28C and include those cash flows in the measurement of the group of insurance contracts to which they are allocated.~~

C5B An entity shall estimate the carrying amount of assets on transition date arising from insurance acquisition cash flows paid before transition date and which relates to groups of insurance contracts to be recognised after the transition date, applying paragraph 28B(b), using reasonable and supportable information at transition date, irrespective of the transition approach applied.

C5C The carrying amount of assets determined by paragraph C5B shall:

(a) not exceed the expected net cash inflow for the related group in accordance with paragraph B35B(a); and

(b) for the portion that related to future renewals, not exceed the expected net cash inflow for the expected renewals in accordance with paragraph B35B(b).

Suggested Exposure Draft wording changes in relation to Question 3:

B119 The amount is determined in a systematic and rational basis by:

(a) ...

B119B Insurance contracts without direct participation features may provide an investment-return service if, and only if:

(a) an investment component exists , or the policyholder has a right to withdraw an amount;

(b) the ~~entity~~ policyholder reasonably expects to receive a positive return from the investment component or amount the policyholder has a right to withdraw from the insurance contract (a positive investment return should be assessed relative to the return available in the market and could be below zero, for example, in a negative interest rate environment); and

(c) the entity expects to perform investment activity to generate that positive investment return; such investment activity is not incidental to the insurance contract as a whole.

B119C When applying B119(a) for a group of contracts containing multiple insurance contract services, if it is impracticable to determine the coverage unit or the coverage unit cannot be determined reliably, an entity shall allocate the contractual service margin over the current period and expected remaining coverage period to be provided on the basis of the passage of time.

117 An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

(a) …

(c) To the extent not covered in (a), the approach used:

(i) …

(v) to determine the coverage units for groups of contracts with multiple insurance contract services. ~~relative weighting of the benefits provided by insurance coverage and investment-return service (for insurance contracts without direct participation features) or insurance coverage and investment-related service (for insurance contracts with direct participation features) (see paragraphs B119-B119B)~~

Suggested Exposure Draft wording changes in relation to Question 4:

66A An entity shall adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage and as a result recognise income when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group. ~~The amount of the adjustment and resulting income is determined applying paragraph B119D.~~

~~B119C Paragraph 66A applies to reinsurance contracts held that provide proportionate coverage. Such reinsurance contracts provide the entity with the right to recover from the issuer a fixed percentage of all claims incurred on a group of underlying insurance contracts. Such reinsurance contracts can also include cash flows, other than claims, that are not proportionate to cash flows of the underlying groups of insurance contracts issued. For example, in such reinsurance contracts, the premiums due to the reinsurer might not be proportionate to the premiums due from the policyholders of the groups of underlying insurance contracts~~

~~B119D An entity shall determine the adjustment to the contractual service margin and the resulting income recognised applying paragraph 66A by multiplying:~~

~~(a) the loss recognised on the group of underlying insurance contracts; and~~

~~(b) the fixed percentage of claims on the group of underlying insurance contracts the entity has a right to recover from the group of reinsurance contracts held.~~

Appendix A Reinsurance contract held that provides proportionate coverage

A reinsurance contract held that provides an entity with the right to recover from the issuer a proportionate percentage of ~~all~~ claims incurred on groups of underlying insurance contracts. ~~The percentage the entity has a right to recover is fixed for all contracts in a single group of underlying insurance contracts, but can vary between groups of underlying insurance contracts~~

Suggested Exposure Draft wording changes in relation to Question 9:

B107 Paragraph B101(b) requires that the entity expects a substantial share of the fair value returns on the underlying items will be paid to the policyholder and paragraph B101(c) requires that the entity expects a substantial proportion of any changes in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. An entity shall:

(a) …

(b) assess the variability in the amounts in paragraphs B101(b) and B101(c):

(i) over the duration of the group of insurance contracts; and

(ii) …

B97 An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

(a) …..

(d) change in the fair value of underlying items (excluding additions and withdrawals) not arising from the effect of the time value of money and financial risk and changes therein.

B128 Paragraph 87 requires an entity to include in insurance finance income or expenses the effect of the time value of money and financial risk and changes therein in assumptions that relate to financial risk. For the purposes of IFRS 17:

(a) …

~~(c) changes in the measurement of a group of insurance contracts caused by changes in the fair value of underlying items (excluding additions, and withdrawals) are changes arising from the effect of the time value of money and financial risk and changes therein.~~

B132 For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders:

(a) a systematic allocation for the finance income or expenses arising from the estimates of future cash flows can be determined in one of the following ways:

(i) ….

(ii) …

B132A For contracts where the entity, either by choice or because it is required to, holds the underlying items and the change in the fair value of the underlying items is presented partially in profit or loss and partially in other comprehensive income, the change in the measurement of the group of contracts caused by changes in the fair value of the underlying items shall be disaggregated so as to present in profit or loss the amount which relates to changes in the fair value of the underlying items presented in profit or loss and to present in other comprehensive income the amount which relates to changes in the fair value of the underlying items presented in other comprehensive income. An entity shall use the approach in B132 (a) to allocate the finance income or expense between profit or loss and other comprehensive income.

B134A *When applying B132 (a) (iii) and B134, the presentation within the statement of profit or loss of the change in measurement of the group of contracts should match the presentation of the change in the fair value of the underlying items. For example, where insurance service expense forms parts of the change in the fair value of the underlying items, the relevant portion* *of the change in measurement of the group of contracts should be presented as an offset within insurance service expense instead of insurance finance expense.*

Suggested Exposure Draft wording changes in relation to AIA other comments:

22 An entity shall not include contracts issued more than one year apart in the same group except for contracts that affect or are affected by cash flows to policyholders of other contracts according to paragraphs B67-B71 and share the same pool of underlying items. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16-21.

103 An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to insurance contract services, if applicable:

(a) …
(b) insurance service expenses, showing separately:
 (i) …
 (ii) …
 (iii) changes that relate to past service (excluding investment component), ie changes in fulfilment cash flows relating to the liability for incurred claims; and

B113 Changes in the fulfilment cash flows that do not vary based on the returns on underlying items (paragraph B104(b)(ii)) comprise:

(a) …
(b) Changes in fulfilment cash flow, which do not have the corresponding backing asset, resulted from the change in the effect of the time value of money and financial risks not arising from the underlying items; for example, the effect of financial guarantees. These relate to future service and, applying paragraph 45(c), adjust the contractual service margin, except to the extent that paragraph B115 applies.