

Date: August 19, 2019

Standard Setting Department
Hong Kong Institute of Certified Public Accountants

37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Sir/Madam,

This letter is the response of Manulife (International) Limited (“Manulife”) to the Exposure Draft (“ED”) recently released by the International Accounting Standards Board (“IASB”) entitled *Amendments to IFRS 17 (May 2019)*.

We greatly appreciate IASB’s effort in addressing some of the outstanding issues in the IFRS 17 standard, and thereby proposing amendments to resolve those issues. Manulife supports many of these amendments, but we have identified several areas of concerns specific to the questions raised by IASB in the ED below. Please refer to the responses to the ED questions in subsequent pages for detailed discussions.

- Concerns over the inconsistencies in timing of adoption between the various jurisdictions which we consider to be likely. (Question #7)
- Narrower than expected definition of proportionate reinsurance for application of reinsurance gain over onerous contracts (Question #4)

We also identified other issues that were not part of IASB’s ED questions and have included our comments in this letter as well.

- Assessment of Variable Fee Approach eligibility is changed to assessment at contract level rather than group level in the ED (Section 2.A)
- Annual cohort requirement for level of aggregation does not reflect how insurance companies manage their business and introduce unnecessary complexities (Section 2.B)

Sincerely,

Ted Kwong

Chief Actuary

Manulife (International) Limited

Section 1: Manulife's Responses to the ED 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 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?

Manulife Response

- (a) We agree with the proposal to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract 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.
- (b) We agree with the proposal to permit entities to apply either IFRS 17 or IFRS 9 to insurance contracts that limits the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract.

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?

Manulife Response

- (a) In general, we agree with the spirit of IASB's proposal on allocation of insurance acquisition cash flows as it relates to the future expected renewals. This will be a better reflection of the economic substance of the transactions and addresses the public concern.
- (b) We agree to recognize an asset for insurance acquisition paid before the related group of insurance

contracts are recognized.

(c) We agree with the spirit of IASB's proposal for recoverability assessments.

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?

Manulife Response

(a) – (c) We agree with the amendment as it allows for contract with substantial investment service but failing the VFA definition to recognize those services.

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?

Manulife Response

We appreciate the proposed amendment which is intended to reduce the accounting mismatches for reinsurance contracts held. We agree in principle with the proposed amendment, however, based on our review and analysis, we expect the application of amendments to be very limited.

The Amendments to Basis for Conclusions on IFRS 17 notes that “the Board observed that if a reinsurance contract held covers claims in excess of a specified amount on an individual insurance contract, that reinsurance contract does not provide proportionate coverage”. We do not agree with this conclusion. Consider the reinsurance contract referenced in BC80 which provides coverage to the extent that claims exceed CU100. This type of reinsurance contract, referred to as “surplus share” or “excess of retention” reinsurance, is common amongst direct insurers.

For a given underlying insurance contract, both the underlying claim amount and the associated reinsurance recovery are known at issue with certainty. The proportion of the direct claim that is reinsured can be determined and there is a direct link between the loss on the underlying contract and the associated gain on the reinsurance contract. We therefore believe that this type of reinsurance contract does in fact provide proportionate coverage. Extending this concept to a group of underlying insurance contracts, it is then possible to determine the fixed percentage of claims that the reinsurance provides for the group.

The added definition “reinsurance contract held that provides proportionate coverage” is overly restrictive and could result in the amendment not applying in situations where it reasonably should. To determine whether a reinsurance contract is proportionate one should consider the percentage of a given claim incurred and not the percentage “of all claims incurred on a group of underlying insurance contracts”. We agree with the Board’s conclusion that a gain on reinsurance should not be taken at issue when there is clearly no reinsurance recovery for a direct claim. However, the definition as written is narrow and prescriptive in its scope.

Question 5—Presentation in the statement of financial position (paragraphs 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?

Manulife Response

We support this proposed amendment to present the insurance and reinsurance contracts that are in asset position and liability position separately, assessed at the portfolio level instead of group level. This will reduce operational complexity and is a better reflection of how insurers manage their business.

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?

Manulife Response

We agree with the proposed amendment. It addresses the accounting mismatch that exists when an entity uses reinsurance to mitigate the financial risk on underlying insurance contracts to which the Variable Fee Approach is applied. It recognizes that reinsurance, in addition to derivatives, can be employed as a risk mitigation strategy in accordance with paragraph B116 of IFRS 17.

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 amendment 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?

Manulife Response

(a) We appreciate IASB's decision to propose one year deferral of IFRS 17 to 1 January 2022. However, we have significant concerns over the potential inconsistencies in timing of adoption between the various jurisdictions.

We recognize the substantial value in IASB's works around the proposed amendments and that is why IFRS 17 has not yet been finalized. Therefore, the endorsement processes by other major IFRS jurisdictions has not commenced or progressed. For instance, we understand that the European Parliament is unlikely to endorse IFRS 17 before 2020. Given that the European Parliament could request significant changes to the standard, it would be difficult for insurers globally to finalize policy decisions in advance of understanding these possible changes. In addition, it could be possible that those jurisdictions may conclude on a further delayed effective date after 1 January 2022 for their jurisdictions.

We believe that financial statement preparers, auditors, advisors, IT solution providers and others need to move along the same timeline to ensure consistency in interpretation and application around the globe. Otherwise, varied interpretations will emerge around the globe, especially due to the complexities of IFRS 17. For example, while implementation of IFRS 10 Consolidation of Financial Statements was effective in 2013 for most jurisdictions, European adoption was delayed to 2014. Certain interpretations of this standard after the European adoption forced some preparers to deconsolidate entities previously consolidated on initial adoption of IFRS 10 in 2013.

There are other concerns on the timely implementation of IFRS 17. The operationalization of IFRS

IFRS 17 is challenging for many preparers as we need to have the system ready in place to process IFRS 17 related calculations such as Contractual Service Margin (CSM) and feeding such information to Financial Statement platform and back. There also needs to be high level of education and communications to the stakeholders including employees, investors and analysts etc. on the potential impact of IFRS 17. In addition, regulatory reporting, capital and taxation requirements are all based on the IFRS reporting for Canada and this will take time to align with IFRS 17.

Manulife has committed significant resources to the implementation of IFRS 17 over the past years and we are working diligently to meet the IFRS 17 timeline. However, we believe that the global adoption of IFRS 17 in the same year leads to the key success for IFRS 17 implementation. We propose that IASB defer the effective date of IFRS 17 to 1 January 2023, in order to allow enough time for completion of endorsement process of other major jurisdictions and for companies to implement their systems and operationalize IFRS 17 changes. This effective date will also provide companies with more time to perform impact studies, and educate and socialize the potential impacts to the stakeholders, as well as getting the regulatory, capital and taxation requirements in line with IFRS 17.

- (b) We agree that the effective date for IFRS 9 should continue to be aligned with the effective date of IFRS 17.

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?

Manulife Response

- (a) We agree with IASB's proposal of allowing claims in settlement incurred before insurance contract was acquired to be considered as Liabilities for Incurred Claims, as it is a practical view which will not distort financial statements.
- (b) & (c) Retrospective application of the risk mitigation option is still ideal as it can minimize accounting mismatches for period prior to transition date. However, we recognize that IASB's proposals to adjust the application date to the transition date and permitting easier access to fair value approach for groups that meet risk mitigation criteria are fair compromises. Ability to apply risk mitigation prospectively from the transition date will provide year-over-year comparatives for

2022 and the fair value approach will help to minimize mismatches from inability to apply risk mitigation retrospectively.

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?

Manulife Response

We agree with IASB’s proposed minor amendments.

Question 10—Terminology

This Exposure Draft proposes to add to 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 change 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?

Manulife Response

We agree with the need to broaden the scope of coverage units, coverage period and liability for remaining coverage to include all the service provided as part of an insurance contract. We think the changes to the definitions proposed in the Exposure Draft are sufficiently clear and do not require further changes.

Section 2: Other Major Issues not covered in the ED Questions above**A. Variable Fee Approach Eligibility – Par. B107**

We disagree with the proposed changes as it was not discussed or documented. We do not understand the objective of the change as it seems that it could lead to contracts under the same product/group to be measured under different approaches. This would require major changes in both the management of the product (under which approach do we price) and the operationalization of the valuation process as each contract would have to be tested.

B. Level of Aggregation

We agree with the objective of the IASB with regards of the level of aggregation which are to depict profit trends over time, recognize profits of contracts over the duration of those of a group of contract and timely recognize losses from onerous contract. We also understand the reason for the Par 22 requirement to not include contract issued more than one year apart in the same group.

However, some products are by design grouped together. These contracts are expected to share profits with other contracts of the same class and are managed accordingly. Contracts in a class can be

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issued more than one year a part.

By grouping these contracts in smaller groups, unnecessary complexity is introduced in the CSM roll-forward process and would not provide useful information to the user of the financial statement as profitability of the class should be considered and not the sum of the different group.

We recognize and appreciate that the IASB considered the option to not require annual cohorts for such products. However, the IASB decided not to add an exception to annual cohorts, as in its view to do so would add complexity and create a risk that the boundary would not be robust or appropriate in all circumstances. Instead of granting such an exception, the IASB noted in paragraph BC138 of the Basis for Conclusions on IFRS 17 that the requirements specify the amounts to be reported, not the methodology to be used to arrive at those amounts.

For these products, we ask the IASB to reconsider an exemption to Par 22 in order to be able to properly reflect the profitability nature of the different classes which would simplify reporting while providing more useful information to users of the financial statement.