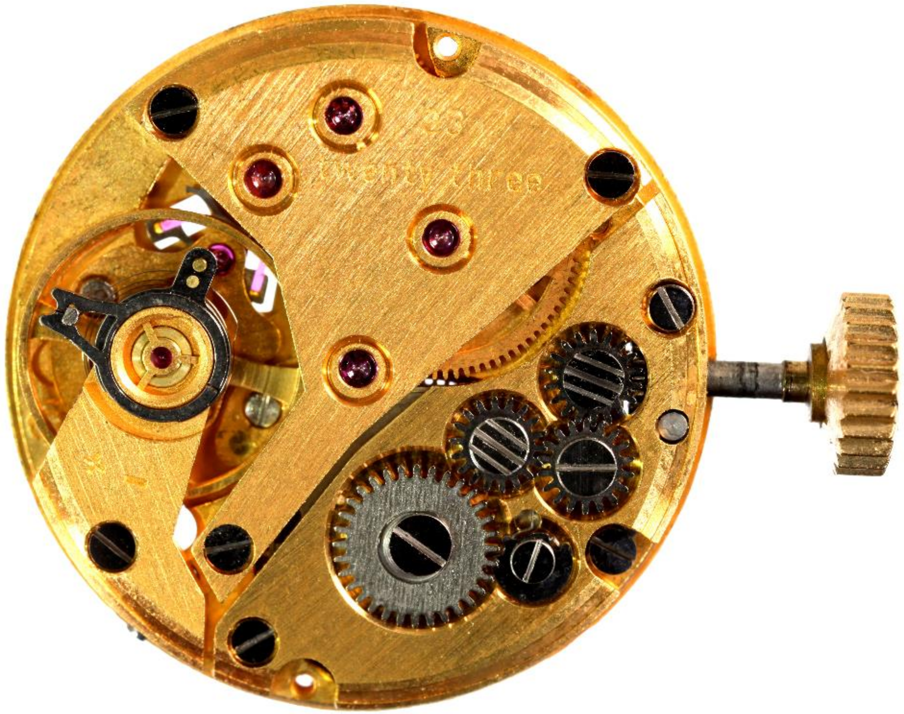

IFRS 17 TRG: 4 April 2019

Summary of Agenda Papers

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Agenda

Summary of the TRG 4 April 2019

1.	Investment components within an insurance contract
2.	Reporting on other questions submitted

Investment components within an insurance contract

Determining whether an insurance contract includes an investment component

- Appendix A of IFRS 17 defines an investment component as: *"The amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur."*

Implementation Question: how to determine whether an insurance contract includes an investment component?

- The Staff observe that the definition of an investment component refers to a payment that is required 'even if an insured event does not occur'.

- In determining whether the contract requires the entity to make a payment in all circumstances, the Staff observe:
  (a) paragraphs 10–13 of IFRS 17 require an entity to assess at inception whether an investment component is separated from an insurance contract.
  (b) different events can trigger a payment to a policyholder under an insurance contract.
  (c) paragraph B18 of IFRS 17 states that an entity needs to assess the insurance risk excluding scenarios that have no commercial substance (i.e. no discernible effect on the economics of the transaction).
  (d) in some scenarios, the amount of the payment could be zero. However, this does not necessarily mean that no investment component exists.
  (e) a payment amount calibrated to reflect outstanding future periods in which a service is provided that may indicate that the policyholder is entitled to a premium refund reflecting its consumption of service over the life of the contract. In this case, the payments may represent a refund of premiums for unused coverage rather than an investment component.

Investment components within an insurance contract

Assessing whether an investment component is distinct

- Paragraph 11 of IFRS 17 states:

  "An entity shall […] (b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component."

- Paragraph BC114 of the Basis for Conclusions on IFRS 17 explains that an entity is prohibited from separating an investment component from an insurance contract when not required to do so by paragraph 11(b) of IFRS 17 (i.e. when an investment component is not distinct).

Implementation Question: how to assess whether an investment component is distinct?
IFRS 17 requires an entity to separate a distinct investment component from an insurance contract and to account for the distinct investment component applying IFRS 9 Financial Instruments.

- Paragraph B31(b) of IFRS 17 requires that an investment component is distinct if, and only if, the entity (or another party) can sell separately in the same market or in the same jurisdiction an investment component with equivalent terms of those of the investment component within the insurance contract (referred to as 'Condition 2' in this paper).
- The Staff observe that an investment component with equivalent terms must reflect all the terms of the investment component within the contract. A financial instrument paying fixed amounts for a defined period of time starting from inception would be available on the market where the entity operates.
- It is unlikely to have equivalent terms to an investment component within an insurance contract for which the timing of the payment depends on the death of the policyholder.

Investment components within an insurance contract

Determining the amount of investment component

- For an insurance contract that includes an investment component, IFRS 17 requires an entity to:
  (a) separate from the insurance contract any distinct investment component and apply IFRS 9 to such a component, including its measurement
  (b) consider whether the remainder of the insurance contract requires the entity to pay any amounts to the policyholder in all circumstances (after separating the distinct investment component, if any).

Implementation Question: how to determine the amount of an investment component?

- IFRS 17 does not specify how to determine the amount of non-distinct investment components that an entity is required to exclude from insurance revenue and insurance service expenses.

- The Staff observe that an approach for determining the amount of an investment component that is based on a present value basis as at the time of making this determination would be consistent with the requirements of paragraph B21 of IFRS 17.

- The additional amounts referred to in paragraph B21 of IFRS 17 result in the contract being defined as an insurance contract and, in the Staff view, therefore the present value of the additional amounts comprise the insurance component of the contract.

- For these purposes, the amounts that would be payable if no insurance event had occurred are determined on a present value basis, and the Staff consider that it would therefore be consistent with paragraph B21 of IFRS 17 to determine the investment component on a present value basis too.

Investment components within an insurance contract

Appendix A – Examples of insurance contracts provided by the submissions and other fact patterns provided to the Staff

Example 1 – Life cover contract

<table>
<tr><th>Example</th><th>Does the contract include an investment component?</th><th>Is the investment component distinct?</th><th>What is the amount of the investment component?</th></tr>
<tr><td>The fact pattern provided to the Staff is that, in exchange for a single premium upfront of CU1,000, the life cover contract promises to pay an amount of CU2,000 if the policyholder reaches 80 years old or dies before reaching 80 years old.5
This example assumes that:
(a) the policyholder cannot terminate the contract; and
(b) when the contract is written, the policyholder is 60 years old.</td><td>The Staff view is that the life cover contract includes an investment component.

The Staff observe that the contract requires the entity to make a payment to the policyholder in all circumstances—i.e. whether the policyholder reaches 80 years old or dies before reaching 80 years old.</td><td>the Staff view is that the entity cannot measure the insurance component without considering the investment component and that Condition 1A discussed in paragraph 15 of this paper is not met.

As a result, the investment component within this contract is not distinct and the entity cannot separate it from the insurance contract.</td><td>The present value of the investment component at the time of making the determination would be consistent with IFRS 17.
The amount of the premiums received (CU1,000) increased by the amount of interest accreted until the entity pays the investment component to the policyholder.</td></tr>
</table>

Investment components within an insurance contract

Appendix A – Examples of insurance contracts provided by the submissions and other fact patterns provided to the Staff

Example 2 – Whole-life insurance contract

Example	Does the contract include an investment component?	Is the investment component distinct?	What is the amount of the investment component?
• The fact pattern provided to the Staff is that, in exchange for a single premium upfront, the whole-life insurance contract promises to pay a fixed amount to the beneficiaries of the policyholder when the policyholder dies. • This example assumes that the policyholder cannot terminate the contract.	• The Staff view is that the whole-life insurance contract includes an investment component. • The Staff observe that the contract requires the entity to pay a fixed amount in all circumstances—ie when the policyholder dies. • It is certain that the policyholder will die, but the date of death is uncertain.	• Although the payment of a fixed amount is certain, it is uncertain when it will occur and therefore it is uncertain what the value of the life cover will be on death of the policyholder. • Similar to Example 1, the investment component within the contract in Example 2 is **not distinct** and the entity cannot separate it from the insurance contract.	• The amount of the investment component could equal to: (a) the **amount of the premiums received** at the inception of the contract **increased by the amount of interest accreted** until the entity makes a payment on the death of the policyholder; or (b) the **fixed amount paid** on the death of the policyholder **discounted from the latest possible date** the entity could be required to make a payment on the death of the policyholder.

Investment components within an insurance contract

Appendix A – Examples of insurance contracts provided by the submissions and other fact patterns provided to the Staff

Example 3 – Immediate annuity contract with a guarantee payment period

Example	Does the contract include an investment component?	Is the investment component distinct?	What is the amount of the investment component?
• The submissions state that, in exchange for premiums, the immediate annuity contract with a guarantee payment period promises to make regular payments to: (a) the policyholder for the remainder of the policyholder's life; or (b) the estate of the policyholder for a remaining guaranteed period if the policyholder dies before the end of the guaranteed period.	• The Staff view is that the immediate annuity contract with a guarantee payment period includes an investment component. • The Staff observe that the contract requires the entity to make a payment in all circumstances—ie regular payments to the policyholder or to the estate of the policyholder for a guaranteed period.	• The Staff observe that the policyholder is not able to benefit from one component in the absence of the other component and Condition 1 discussed in paragraph 14 of this paper is not met. As a result, the investment component within this contract is **not distinct** and the entity cannot separate it from the insurance contract.	• The Staff observe that the entity determines the amount of the non-distinct investment component **when the entity makes regular payments for the guaranteed period** either to the policyholder or to the estate of the policyholder.

Investment components within an insurance contract

Appendix A – Examples of insurance contracts provided by the submissions and other fact patterns provided to the Staff

Example 4 – Deferred annuity contract

Example	Does the contract include an investment component?	Is the investment component distinct?	What is the amount of the investment component?
The submission states that the deferred annuity contract promises: (a) if the policyholder dies or terminates the contract before reaching 60 years old, to pay a surrender amount to the policyholder;10 or (b) if the policyholder reaches 60 years old, to make regular payments to the policyholder for the remainder of the policyholder's life. In addition, if the policyholder dies before reaching 80 years old.	• The Staff view is that the contract includes an investment component. • The Staff observe that the deferred annuity contract requires the entity to make a payment in all circumstances, either: (a) a surrender amount, if the policyholder dies or terminates the contract before reaching 60 years old; or (b) an amount that is equal to the amount accumulated by the policyholder through deposits, if the policyholder reaches 60 years old.	The Staff view is that the entity cannot measure the insurance component without considering the investment component and Condition 1A discussed in paragraph 15 of this paper is not met. As a result, the investment component within this contract is **not distinct** and the entity cannot separate it from the insurance contract	(a) the policyholder dies or terminates the contract before reaching 60 years old. **The entity pays a surrender amount.** The Staff view is that **the entity excludes that amount from insurance revenue** and insurance service expenses when the surrender amount is paid. (b) the policyholder reaches 60 years old. **The entity makes regular payments** that could exceed the amount accumulated by the policyholder through deposits. The Staff view is that the entity **excludes the amount accumulated through deposits from insurance revenue** and insurance service expenses when regular payments are made up to the amount accumulated

Investment components within an insurance contract

Appendix A – Examples of insurance contracts provided by the submissions and other fact patterns provided to the Staff

Example 5 – Pure protection contract

Example	Does the contract include an investment component?	Is the investment component distinct?	What is the amount of the investment component?
• The fact pattern is that, in exchange for premiums, the pure protection contract promises to pay: (a) a fixed amount of CU1,000 to the policyholder on the death of the policyholder, if the policyholder dies within a 5-year coverage period; or (b) a variable surrender amount to the policyholder.	• The Staff view is that the contract does not include any investment component. The Staff observe that this contract: (a) requires the entity **to pay a fixed amount** of CU1,000 on the death of the policyholder or to pay a **variable surrender amount** to the policyholder if the policyholder opts to terminate the insurance contract before the end of Year 4. (b) does not require the entity to pay any amount to the policyholder if the policyholder keeps the contract to Year 5 and the policyholder survives. **This means that no amount is paid in all circumstances**	n/a	n/a

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S82	Modification of an insurance contract	**Does a new contract recognised as a result of a modification is accounted for similarly to contracts acquired in their settlement period applying paragraph B5 of IFRS 17** (ie if the new contract is in its settlement period on recognition, is the insured event the determination of the ultimate cost of the claims)? The submission describes two specific examples and additionally asks how to identify the coverage units.	If the terms of an insurance contract are modified an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying IFRS 17 or other applicable Standards if, and only if, any of the conditions in paragraph 72(a)−(c) of IFRS 17 are satisfied. Applying paragraph B5 of IFRS 17, when an entity recognises new contracts that are in their settlement period, and therefore cover events that have already occurred but the financial effect of which is still uncertain, the insured event is the determination of the ultimate cost of the claims.

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S93	Weighted average discount rates	The submission is about applying paragraphs 28 and B73 of IFRS 17. The submission notes that a difference may arise between the following: (a) the current discount rate used to measure the fulfilment cash flows of each contract when it joins the group of insurance contracts applying paragraph B72(a) of IFRS 17; and (b) the weighted average discount rates used at initial recognition of the group of insurance contracts, as described in paragraphs B72(b)−B72(e), applying paragraph B73 of IFRS 17. **How to account for this difference? Does this difference will adjust the CSM or be recognised as insurance finance income or expense?**	Paragraph B130 of IFRS 17 states that the cumulative amount recognised in OCI at any date is the difference between the carrying amount of the group of contracts and the amounts that a group would be measured at when applying the systematic allocation. This results in the amounts recognised in OCI over the duration of the group of contracts totalling zero. Therefore, an entity applying paragraph B131 of IFRS 17 shall determine the weighted-average discount rate that achieves this outcome.

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S96 & S107	Definition of an insurance contract and contract boundary	S96 asks whether the contract boundary requirements in paragraphs 33−35 of IFRS 17 apply to the assessment of whether a contract meets the definition of an insurance contract, or whether they apply only to the measurement of contracts that have already been determined to meet the definition of an insurance contract. S107: **How a contract which transfers insurance risk after a period of time, as discussed in paragraph B24 of IFRS 17, should be classified?**	For a contract to meet the definition of an insurance contract there needs to be a transfer of significant insurance risk. Paragraph B24 of IFRS 17 explains that contracts that transfer insurance risk only after an option is exercised do not meet the definition of insurance contracts at inception. A contract which only transfers insurance risk after a period of time is different than an insurance contract that provides an option to add further insurance coverage (refer to Agenda Paper 3 of the May 2018 TRG meeting).
S97 & S100	Payments to policyholders	S97: **should an insured event refers only to an event that gives rise to significant insurance risk?** **How payments to policyholders that are contingent on events other than those that give rise to significant insurance risk are treated?** S100: **should all payments to policyholders be claims, repayment of premiums, or repayment of an investment component?**	An insured event is an uncertain future event covered by an insurance contract that creates insurance risk. Payments made because of the occurrence of insured events are claims and are recognised as insurance service expenses, except to the extent they include an investment component. The question of whether a waiver transfers insurance risk was discussed in Agenda Paper 7 at the September 2018 TRG meeting. A payment to a policyholder can be a claim, a premium refund or can meet the definition of investment component. The principles of how to identify whether exchanges of cash flows between the entity and the policyholder relate to premiums, claims or meet the definition of an investment component were discussed in Agenda Paper 3 at the September 2018 TRG meeting.

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S98	Exercising an option included within the contract	**How the exercise of an option to convert a contract to a different type of contract should be treated?**	(a) Agenda Paper 3 at the May 2018 TRG meeting—this paper analyses when cash flows arising from an option are within the boundary of the contract and notes that, applying paragraph 72 of IFRS 17, the exercise of a right included in the terms of a contract is not a contract modification. (b) Agenda Paper 5 at the September 2018 TRG meeting—this paper analyses when cash flows are outside of the contract boundary at initial recognition and facts and circumstances change over time, the exercise of an option that is in the contract boundary and the exercise of an option that is outside the contract boundary. The assessment of whether an insurance contract is accounted for applying the general model or the VFA is made at inception applying the definition of an insurance contract with direct participation features in Appendix A of IFRS 17 to a contract in its entirety. See S107 for contracts that are not insurance contracts at inception.
S102	Accumulated OCI	The submission is about contracts measured applying the general model when an entity makes an accounting policy choice to disaggregate insurance finance income or expenses between profit or loss and OCI. **Should accumulated OCI on insurance contracts be reclassified to profit or loss when experience does not unfold as expected? and if so, how?**	Applying paragraph B130 of IFRS 17, if paragraph 88(b) of IFRS 17 applies, the amount of insurance finance income or expenses allocated to profit or loss is determined by a systematic allocation of the expected total finance income or expenses over the duration of the group. This results in the amounts recognised in OCI over the duration of the group of contracts totalling zero. The cumulative amount recognised in OCI at any date is the difference between the carrying amount of the group of contracts and the amount that the group would be measured at when applying the systematic allocation.

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S105	Discretionary cash flows	The submission provides an example of a contract for which the entity exercises its discretion and pays cash flows at an amount different to the amount that is based on its commitment under the contract, applying different spread on assets return, without changing its commitment. **How such a difference should be treated?**	At inception of a contract, paragraphs B98−B99 of IFRS 17 require an entity to specify the basis on which it expects to determine its commitment under the contract. Discretionary changes to this commitment adjust the CSM and the effects of changes in assumptions that relate to financial risks on that commitment do not adjust the CSM. To the extent that the changes in the fulfilment cash flows reflect differences between an investment component expected to become payable in the period and the actual payment that becomes payable in the period, an entity adjusts the CSM applying paragraph B96(c) of IFRS 17. Changes in fulfilment cash flows related to changes in financial risks do not adjust the CSM as required by paragraph B97(a) of IFRS 17.
S106	Reassessing portfolios	The submission describes a situation in which portfolios of insurance contracts change due to the manner in which the entity manages its contracts and **questions the impact of such a change on the group unit of account or the application of the option to disaggregate insurance finance income or expenses between profit or loss and OCI.**	Paragraph 24 of IFRS 17 requires that an entity establishes groups at initial recognition and does not reassess the composition of the groups subsequently. Paragraph B129 of IFRS 17 states that the option to disaggregate insurance finance income or expense between profit or loss and OCI is a policy choice applied to portfolios of insurance contracts. Applying paragraph 13 of ***IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*** means that an entity selects and applies its accounting policy consistently for similar portfolios of insurance contracts. IAS 8 requirements are applicable for changes in accounting policies.

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S110	Uncertainty related to exercising discretion	The submission **questions whether the risk adjustment for non-financial risk takes into account uncertainty related to how management will apply discretion.**	Paragraph B89 of IFRS 17 states that the risk adjustment for non-financial risk reflects all non-financial risks associated with the insurance contracts. Paragraph B98 of IFRS 17 distinguishes between a change in the discretionary cash flows, that is regarded as relating to future service, and changes in assumptions that relate to financial risk on an entity's commitment. To the extent management discretion reduces the amount it would charge for uncertainty, that discretion would reduce the risk-adjustment for non-financial risk. Paragraph B88 of IFRS 17 states that the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows.
S113	Consistency in disaggregating changes in the risk adjustment for non-financial risk	The submission **questions whether the choice included in paragraph 81 of IFRS 17 is required to be applied consistently in an entity.**	Paragraph 81 of IFRS 17 states that an entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. Paragraph 13 of ***IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*** requires an entity to select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate.

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S114	Changes in the fair value of underlying items applying the VFA	The submission describes a fact pattern of a participating contract that share returns with policyholders by paying dividends. **Should a statutory basis, an IFRS measure or a fair value measurement be used to determine dividends?** The submission further considers the application of the option to disaggregate insurance finance income or expense between profit or loss and OCI and **whether it is limited to financial income or expenses on underlying items held or any income or expense on underlying items held.**	Applying paragraph 45 of IFRS 17, under the VFA an entity adjusts the CSM of a group of contracts based on changes in the fair value of underlying items. **Therefore, a statutory basis or an IFRS measure which are not fair value measurements cannot be used to determine the adjustment to the CSM.** Paragraphs 89 of IFRS 17 **permits a policy choice of disaggregating insurance finance income or expenses for the period to include in profit or loss an amount that eliminates accounting mismatches with income or expenses included in profit or loss on the underlying items held.** **The income or expense on underlying items held is not limited to financial income or expense.**

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S115	Definition of insurance contracts with direct participation features-applying paragraph B101(b) of IFRS 17	**How to determine the share of the fair value returns on the underlying items ignoring the mortality cover?** **Should the premium for mortality cover be deducted from the underlying items impacts the above calculation and how?**	A determination based on any calculation other than a calculation of the policyholder's share in the fair value returns on the underlying items would be inconsistent with the requirements of IFRS 17. Paragraph B101(c) of IFRS 17 requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. For the purposes of this condition an entity considers changes in any amounts to be paid to the policyholder regardless of whether they have been paid from the underlying items or not. **See example 2 in Appendix A to this paper.**

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S116	Applying paragraph 66(c)(ii) of IFRS 17 for reinsurance contracts held	The submission discussed two fact patterns. **How to determine the amount to be recognised in profit or loss for reinsurance contracts held applying paragraph 66(c)(ii) of IFRS 17?** • 1st Fact pattern: Circumstances in which only some of the contracts in a group of underlying contracts are covered by a proportional reinsurance contract. • 2nd Fact pattern: Circumstances in which the underlying insurance contracts, expected profitable, have not been recognised but cash flows related to them are included in the measurement of the reinsurance contract held.	1st Fact pattern, an entity will be required to apply judgement considering all relevant facts and circumstances. 2nd Fact pattern, Paragraph 66(c) of IFRS 17 is applicable to changes in fulfilment cash flows of a reinsurance contract that relate to future service. The topic of reinsurance contracts held for onerous underlying insurance contracts is also being considered through a process other than TRG.

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S118	Consideration of reinsurance in the risk adjustment for non-financial risk	**Should the effect of reinsurance be considered in calculating the risk adjustment for non-financial risk for contracts that have been reinsured?**	The risk adjustment for non-financial risk of the reinsurance contract held could not be nil, unless: (a) the entity considers reinsurance when determining the compensation it requires for bearing non-financial risk related to underlying insurance contracts; and (b) the cost of acquiring the reinsurance is equal or less than the expected recoveries. **See Example 1 in Appendix A to this paper.**
S119	Risk of non-performance of the issuer of a reinsurance contract held	The submission explains that non-performance risk of a reinsurer may incorporate different risks such as insolvency risk and the risks related to disputes and further negotiations. The submission **questions whether these risks are identified as financial or non-financial risks and the impact this determination has on the measurement of reinsurance contracts held when determining the risk being transferred applying paragraph 64 of IFRS 17.**	The risk adjustment for non-financial risk of a reinsurance contract held reflects only the risks that the cedant transfers to the reinsurer. Paragraph 67 of IFRS 17 requires that changes in the fulfilment cash flows related to the risk of non-performance do not adjust the CSM, therefore an entity recognises them in profit or loss. **This treatment is consistent with the accounting treatment for financial risks.**

Reporting on other questions submitted

(a) Questions that can be answered applying only the words in IFRS 17 – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S123	Reassessment of PAA eligibility and election	The submission **questions whether an entity is required or permitted to reassess a contract's eligibility for the PAA and as a result to revoke its election to apply the approach.** **How such a transition from the PAA to the general model should be treated?**	An entity may apply the PAA to some insurance contracts provided that certain criteria are met at inception. Given the eligibility criteria are assessed at inception, the standard does not require or permit reassessment of the eligibility criteria or the election to apply the approach.
S125	Experience adjustments arising from premiums received for onerous groups of insurance contracts	The submission questions the accounting sequence of reversing a loss component in a financial period with premium experience adjustments that relate to future service and a change in cash flows that is consequential to those adjustments. The submission considers whether a gross disclosure should be provided applying paragraphs 103(b) and 104(a) of IFRS 17.	Paragraph 103(b) and 104(a) of IFRS 17 require an entity to provide disclosure of changes that relate to future service separately from those related to current or past service. In this example all the changes relate to future service.

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S91	Top-down discount rate — subsequent measurement	The submission asks for TRG members views on whether it would be appropriate applying the top-down discount rate approach to determine discount rates: (a) at initial recognition of each group, using the target asset mix that the entity plans to invest in for that group as the reference portfolio of assets; and (b) subsequently, using the actual asset mix covering all underwriting years as the reference portfolio of assets.	**Providing specific application guidance is not within the remit of the TRG.**

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S94 & S95	Definition of an investment contract with discretionary participation features	The submissions describe an investment contract in a specific jurisdiction that is linked to a crediting rate The submissions assumes that the contract meets the first and second criteria of the definition of an investment contract with discretionary participation features in IFRS 17. The submissions **ask whether the product meets the third criteria of the definition of an investment contract with discretionary participation features in IFRS I7, given that paragraph BC162 of the Basis for Conclusions on IFRS 4 Insurance Contracts noted that the definition does not capture unconstrained contractual discretion to set a crediting rate that is used to credit interest or other returns to policyholders.**	**Providing detailed application guidance for specific transactions is not within the remit of the TRG.**

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S127	Fair value of insurance contracts	The submission observes that entities do not reflect non-performance risk in the measurement of insurance contracts when applying the retrospective approach to transition to IFRS17. The submission also observes that applying the fair value approach to transition, IFRS 13 Fair Value Measurement is applied literally and therefore reflects the non-performance risk of the entity. The submission observes that the difference between the two approaches can result in a significant difference in the valuation of existing insurance contracts at the transition date, reduced comparability between entities and difficulties in measuring the non-performance risks and therefore suggests the Board should specify in IFRS 17 that the fair value approach does not reflect non-performance risk.	Paragraph 31 of IFRS 17 requires that the fulfilment cash flows do not reflect the non-performance risk of the entity. This is applicable to fulfilment cash flows regardless of the transition approach that is applied to determine the CSM on transition to IFRS 17. Applying the fair value approach, an entity determines the CSM comparing the fulfilment cash flows and the fair value of a group of insurance contracts at transition date, as required by paragraph C20 of IFRS 17. Fair value is measured applying IFRS 13 (except for paragraph 47 of IFRS 13 relating to demand features). Fair value measurement reflects the effect of non-performance risk.

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S84 & S99	Investment management expenses	**In what circumstances cash flows that arise as a consequence of investment management activities are fulfilment cash flows of insurance contracts?** (S99) S84: **when applying a top-down discount rate approach, should the discount rate be calculated net or gross of investment management expenses?**	This topic was discussed at the January 2019 Board meeting as part of the amendments to IFRS 17 ongoing project.
S88	Level of aggregation—annual cohorts	**Should 'contracts issued more than one year apart' in paragraph 22 of IFRS 17 be read as referring to the date the entity becomes party to the contract or the date that a contract meets the criteria for recognition in paragraph 25 of IFRS 17?**	This submission relates to the annual improvement tentatively proposed by the Board at the June 2018 Board meeting. **The Staff plan to consider this question when drafting the forthcoming Exposure Draft.**

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S92	Policyholder dividends	**(a) Should changes in policyholder dividend cash flows be classified and accounted for separately for each source of underlying profit?** **(b) Should the total ultimate amount of policyholder dividends determined in a period be classified as a liability for incurred claims even if there is still uncertainty on timing and amount of dividend payments to individual policyholders?** **(c) How to account for the effect of law and regulation on expected policyholder dividends?**	(a) The Staff will consider whether this needs to be clarified through an annual improvement in the forthcoming Exposure Draft. (b) The Staff plan to consider the effect of the amendments related to the inclusion of an investment related service or an investment return service when identifying coverage units on the distinction between liability for incurred claims and liability for remaining coverage for amounts related to the investment component as part of drafting the forthcoming Exposure Draft. (c) paragraph 2 of IFRS 17 requires an entity to consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying IFRS 17.

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S101, S120 & S124	Changes in the risk adjustment for non-financial risk due to time value of money and financial risk	S101: **Should the portion of a change in the risk adjustment for non-financial risk due to the impacts of the time value of money and financial risk be excluded from the change in the risk adjustment for non-financial risk that relates to future service which adjusts the CSM?** Assuming the answer to this question is yes, S101, S120 and S124 question the discount rate (locked-in rate or current rate) that would be used to adjust the CSM. The submissions also consider the interaction with paragraph 81 of IFRS 17.	The Staff plan to clarify as an annual improvement in the forthcoming Exposure Draft that the choice made applying paragraph 81 of IFRS 17 would result in different adjustments made to the CSM applying paragraph B96 of IFRS 17. If an entity applies the choice in paragraph 81 of IFRS 17, the adjustment to the CSM will be consistent with adjusting the CSM for changes in estimates of present value of future cash flows applying paragraph B96(b) of IFRS 17.

Reporting on other questions submitted

(b) Questions that do not meet the submission criteria – selected topics with Hong Kong relevance

Log#	Topic	Question	Response
S104	Adjusting the loss component for changes in the risk adjustment for non-financial risk	The submission **questions whether changes in the risk adjustment for non-financial risk that relate to future service adjust the loss component, noting that paragraphs 48(a) and 50(b) of IFRS 17 refer to changes in the fulfilment cash flows arising from changes in estimates of future cash flows.**	Changes in the risk adjustment for non-financial risk that relate to future service are allocated to the loss component when relevant. The Staff plan to clarify paragraphs 48(a) and 50(b) of IFRS 17 as an annual improvement in the forthcoming Exposure Draft.
S108	Acquisition cash flows related to reinsurance contracts held	The submission questions whether the proposed amendment to paragraph 27 of IFRS 17, as tentatively decided by the Board at its June 2018 meeting, results in contradiction to paragraph 65(a) of IFRS 17. The submission observes that the proposed amendment suggests that an entity is prohibited from recognising an asset or liability for acquisition cash flows with respect to reinsurance contracts held.	Paragraph 65(a) of IFRS 17 requires an entity to derecognise any asset or liability previously recognised for cash flows related to a group of reinsurance contracts held when determining the CSM of that group. Paragraph 27 of IFRS 17, as proposed by the Board, is not intended to prohibit the recognition of such asset or liability with respect to reinsurance contracts held. The Staff will consider this when drafting the amendments

Reporting on other questions submitted

Example 1— Risk adjustment for non-financial risk when an entity expects to buy reinsurance (S118)

Suppose an entity would determine the premium it charges for insurance contracts as illustrated in the following table, ignoring the possibility of reinsurance and before considering any profit:

Present value of claims	100
Risk adjustment for non-financial risk	30
Premium	**130**

However, the entity knows that reinsurance is available to it, and the entity expects to cover 50% of claims using reinsurance. It expects the cost of purchasing this reinsurance to be 60.

	Expected to be covered by reinsurance	Not expected to be covered by reinsurance	Total insurance contracts issued
Present value of claims	50	50	100
Risk Adjustment for non-financial risk	10	15	25
Premium	**60**	**65**	**125**

The reinsurance contract held transfers 50% of the risk from the entity so is accounted for as follows:

Present value of claim recoveries	50
Risk adjustment for non-financial risk (=25/2)	12.5
CSM (net gain)	(2.5)
Reinsurance premium	**60**

Reporting on other questions submitted

Example 2—Application of paragraph B101(b) of IFRS 17 (related to S115)

(a) Without mortality charge

An insurance contract gives the policyholder the returns on underlying items, after paying an annual management fee of 0.75% of the assets. The expected duration of the contract is 10 years and the expected returns on underlying items are 5%.

Year	1	2	3	4	5	6	7	8	9	10	TOTAL
Opening balance	**15,000**	**15,632**	**16,290**	**16,977**	**17,692**	**18,437**	**19,214**	**20,023**	**20,867**	**21,746**	
Returns on underlying items	750	782	815	849	885	922	961	1,001	1,043	1,087	9,094
Annual Management fee	(118)	(123)	(128)	(134)	(139)	(145)	(151)	(158)	(164)	(171)	(1,432)
Closing Balance	**15,632**	**16,290**	**16,977**	**17,692**	**18,437**	**19,214**	**20,023**	**20,867**	**21,746**	**22,662**	

(b) With mortality charge

An insurance contract gives the policyholder the returns on underlying items, after paying an annual management fee of 0.75% of the fair value of the underlying items. The expected duration of the contract is 10 years and the expected returns on underlying items are 5%. An annual charge for mortality cover of 100 reduces the underlying items at the start of each year.

Year	1	2	3	4	5	6	7	8	9	10	TOTAL
Opening balance	**15,000**	**15,527**	**16,076**	**16,648**	**17,245**	**17,866**	**18,514**	**19,189**	**19,892**	**20,625**	
Mortality charge	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(1,000)
Returns on underlying items	745	771	799	827	857	888	921	954	990	1,026	8,778
Annual Management fee	(118)	(122)	(127)	(131)	(136)	(141)	(146)	(151)	(157)	(162)	(1,391)
Closing Balance	**15,527**	**16,076**	**16,648**	**17,244**	**17,866**	**18,513**	**19,189**	**19,892**	**20,625**	**21,389**	

Deloitte. 德勤