



Meeting Summary
Hong Kong Insurance Implementation Support Group (HKIISG)
16 July 2020

Attendance

HKICPA representatives

Ernest Lee, Financial Reporting Standards Committee (FRSC)
Michelle Fisher, Deputy Director, Standard Setting
Tiernan Ketchum, Associate Director, Standard Setting

HKIISG members

Erik Bleekrode, KPMG China
Dennis Chiu, (representing Sai-Cheong Foong), AIA Group Limited
Marcus Chung (representing Norman Yao), AXA China Region Insurance Company Limited
Joyce Lau, Target Insurance Company Limited
Sally Wang, Dajia Insurance Group
Kevin Wong, FWD Life Insurance Company (Bermuda) Limited
Alexander Wong, HSBC Life
Steven To (representing Tracey Polsgrove), Manulife Asia
Wenhao Zhao (representing Candy Ding), Ping An Insurance (Group)
Matsuta Ng (representing Nigel Knowles), Prudential Hong Kong Limited
Ronnie Ng, China Overseas Insurance Limited
Francesco Nagari, Deloitte Hong Kong
Chris Hancorn, PwC Hong Kong

Guests

James Anderson, KPMG China
Ian Farrar, PwC Hong Kong
Steve Cheung, EY Hong Kong

Apologies

Doru Pantea, EY Hong Kong

Discussion objectives:

Readers are reminded that the objective of the HKIISG is not to form a group consensus or decision on how to apply the requirements of HKFRS/IFRS 17 *Insurance Contracts*. The purpose of HKIISG is to share views on questions raised by stakeholders on the implementation of HKFRS 17. Refer to HKIISG [terms of reference](#).

The meeting summaries of HKIISG discussions are solely to provide a forum for stakeholders to follow the discussion of questions raised. Stakeholders may reference HKIISG member views when reconsidering their own implementation questions—but should note that the meeting summaries do not form any interpretation or guidance of HKFRS/IFRS 17.

1. Opening remarks and update on amendments to IFRS 17

HKICPA representatives provided the HKIISG members with a brief update on developments since the last meeting in May 2020, including noting that the International Accounting Standards Board had issued the amendments to IFRS 17 on 25 June 2020.

An HKIISG member enquired as to the status of the equivalent amendments to HKFRS 17. HKICPA representatives explained that the FRSC had a preliminary

discussion of those amendments and the Institute's due process steps for endorsement of the amendments, including the need to monitor local and international developments, during the June FRSC meeting. The FRSC will be considering the endorsement process over the coming months and at upcoming FRSC meetings. This member also questioned the status of an IFRS 17 adoption survey being performed by the Asia Oceania Standard Setters Group. HKICPA representatives explained that one member standard setter had started the survey process and results were expected by Q3 of 2020.

2. Local submission: VFA eligibility assessment for contracts written within a participating insurance fund

This summary should be read in conjunction with the local submission (Paper 2¹). Please refer to the full submission for the detailed fact pattern and analysis.

This submission analyses at what granularity the conditions under IFRS 17.B101(b) and IFRS 17.B101(c) should be assessed for new contracts written in participating insurance funds. The submission presents two views:

- View A: The aforementioned conditions should be assessed at the participating insurance fund level.
- View B: The aforementioned conditions should be assessed at the contract level.

Among HKIISG members who commented on Paper 2, it was noted:

- Among those who indicated support for View A:
 - The member presenting Paper 2 favoured View A. This member considered that View A provides a more meaningful outcome given that there are situations where it is not feasible to specifically identify underlying items at the contract level. As such, the member considered any such allocation in those situations would be arbitrary.
 - A member expressed support for View A and asserted that IFRS 17.B10(b) and IFRS 17.B10(c) could be applied at the fund level if items are managed together. This member also commented that View B would be more complex to apply.
- A member questioned the presenter of Paper 2 as to what the effect of guarantees and riders in contracts would be on the analysis, and whether the presenter had taken these into consideration during drafting the paper.
 - The presenter explained that the initial analysis of Paper 2 generally looks at the fund as a whole before considering guarantees, and stated it would not be meaningful to consider VFA eligibility at a single contract level because such level does not determine what benefits will be ultimately paid out to policyholders. The presenter acknowledged that riders make the analysis more complicated, but that following the logic of View A there would still not be an identifiable item at the contract level assuming that the riders are integrated.
- A couple members questioned how considerations such as mutualisation would affect the analysis. One member noted there are portfolios in Hong Kong with minimum guaranteed returns that differ depending on time of contract issuance, and hence that the guarantee level may differ between

¹ https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/06_New-and-major-stds/hkfrs-17/2020-Agenda-papers-and-meeting-summaries/paper02_0716.pdf

in-force and new business, and as such mutualisation adjustments may affect the profitability of certain contracts.

- The presenter explained that Paper 2 tries to simplify the fact pattern, and although the guarantee level may differ over time, the effect of a new guarantee level would have an effect at the level of the fund as a whole, and hence the overall benefits of the fund. Although the level of guarantee between in-force and new business could differ, the effect of a new guarantee level in this scenario would change the guarantee level of the fund as a whole given it would be mixed in with other contracts. As a result, applying the requirements at a contract level would again be less appropriate. The presenter also explained that View A considers whether there is an identifiable underlying item at the contract level, and if there is not, then the outcome should be that the fund level is used and that IFRS 17.B103 may not be relevant to such a situation. The presenter also noted IFRS 17.B103 and IFRS 17.B68-B70 are concerned with cash flow transfers between different groups of contracts and hence different cohorts.
- A member questioned whether the presenter had considered the operational impact of View A versus View B. The presenter responded that based on a high-level analysis, View B would be operationally more demanding and may require having two different measurement models for the same product.
- A couple of members referred to IFRS 17.BC249D, which states that *“Applying paragraph B101 of IFRS 17, an entity assesses whether an insurance contract (rather than a group of insurance contracts) is within the scope of the variable fee approach.”* One of these members enquired how supporters of View A would reconcile with this language.
- A member questioned whether View A was based more on operational considerations, and raised questions around the effect of mutualisation.
 - The presenter responded that View A focuses on the existence (or lack thereof) of an identifiable underlying item at the contract level.
- A member (a practitioner) noted a firm view was still being developed on this topic. This member commented that if participating business was managed such that the policyholders fully participate and riders are ignored, then the assessment would be largely influenced by guarantees and subject to a variety of practices. This member noted a potential method of looking at the situation would be to get to a point where it could be determined that a guarantee would be likely to apply to all contracts at the same time, then when looking at the criteria in IFRS 17.B101(c) one could operationally determine the proportion of contracts at the fund level. Hence the assessment could be operationally performed at the participating fund level even in the event that the requirements of IFRS 17 were technically interpreted as requiring the assessment to be done at the contract level (however, members noted such a line of thinking was still under consideration).

Overall, members acknowledged that the issue covered by the submission was still under consideration by members and other stakeholders, and that, as views were still developing, there was no clear preference or agreement. Members acknowledged that there remains the need to consider this issue further and more broadly.

3. Educational guidance: Contractual service margin



HKIISG members were provided with a second version of draft educational guidance prepared by HKICPA representatives and certain HKIISG members. This draft guidance considers the recognition of the CSM in profit or loss for insurance contracts that provide multiple, heterogeneous services.

HKICPA representatives noted that the first draft of this guidance had been discussed at the May HKIISG 2020 meeting, and that this second version incorporated comments received from members since that first version.

Among HKIISG members who commented on Paper 3, it was noted:

- A member asked for explanation on the level of authority that the guidance would have. HKICPA representatives re-emphasised that such guidance would not be authoritative or prescriptive, but rather would be designed to assist its readers to understand the relevant requirements and observe a potential application of those requirements in a simplified format. HKICPA representatives also noted that this guidance would go through the Institute's due process including review by the FRSC, who will consider if any areas require discussion with the IASB staff.
- A couple of members had questions on how their comments had been addressed. HKICPA representatives responded that they would follow up with these members and provide feedback as to the thought process behind drafting decisions.

HKICPA requested members to provide comments on the second draft within two weeks of this meeting. HKICPA representatives will continue working with members and other stakeholders to develop the guidance with the intention to bring it to the FRSC in Q3-Q4 2020.