Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Meeting Summary
Hong Kong Insurance Implementation Support Group (HKIISG)
13 March 2020

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

HKIISG members
Dennis Chui, (representing Sai-Cheong Foong), AIA Group Limited
Marcus Chung (representing Norman Yao), AXA China Region Insurance Company Limited
Ronnie Ng, China Overseas Insurance Limited
Sally Wang, Dajia Insurance Group
Kevin Wong, FWD Life Insurance Company (Bermuda) Limited
Carrie Yip (representing Alexander Wong), HSBC Life
Tracey Polsgrove, Manulife Asia
Candy Ding, Ping An Insurance (Group)
Matsuta Ng (representing Nigel Knowles), Prudential Hong Kong Limited
Francesco Nagari, Deloitte Hong Kong
Doru Pantea, EY Hong Kong
Chris Hancorn, PwC Hong Kong

Apologies
Erik Bleekrode, KPMG China
Joyce Lau, Target Insurance Company Limited

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. Update since last meeting

Members welcomed Tracey Polsgrove, of Manulife Asia, as a new member of the HKIISG.

HKICPA representatives provided the HKIISG members with a brief update since the January 2020 HKIISG meeting. This update noted that HKICPA staff had discussed key comments made during that meeting with IASB staff. Those comments are summarised in the January 2020 HKIISG meeting summary.

2. Discussion on Amendments to IFRS 17 IASB staff papers

This summary should be read in conjunction with the IASB staff agenda papers for the February 2020 and March 2020 IASB meetings on the IASB's *Amendments to IFRS 17* project.

The HKIISG was briefed on and discussed the February 2020 and March 2020 IASB staff agenda papers and the IASB's tentative decisions at the February 2020 IASB meeting for *Amendments to IFRS 17*.

February 2020

AP2A: Contractual service margin attributable to investment services

Members did not specifically comment on the IASB's tentative decisions made on this agenda paper.

HKICPA representatives noted that they are working on non-authoritative educational guidance on determining coverage units and relative weighting for contracts that provide multiple services under HKFRS 17. HKICPA representatives explained that the HKIISG will have the opportunity to comment and provide input on the guidance during its development and that it would likely be published after the final amendments to IFRS 17 have been issued by the IASB (mid to latter part of 2020). The educational material would also be reviewed by the HKICPA Financial Reporting Standards Committee (FRSC) and, following due process, the FRSC would consider whether there are any areas which require discussion with the IASB staff.

AP2D: Minor amendments

A few members commented on the IASB's tentative decision to confirm the proposed edit to IFRS 17 paragraph B107. This proposed edit would amend paragraph B107 to specify that, when assessing whether a contract meets the criteria for the scope of the variable fee approach, an entity should assess the variability of the amounts to be paid to the policyholder over the duration of the insurance contract (rather than the group of insurance contracts as incorrectly specified by paragraph B107). Paragraph B107 has been a recurring topic of discussion of the HKIISG since the Exposure Draft was issued. HKICPA representatives noted that the HKICPA's comment letter reflected concerns previously raised by members on this proposed edit and that HKICPA representatives reiterated these concerns on their call with the IASB staff in January 2020.

Among members who commented on B107:

- All members who commented reiterated concerns that the proposed edit would be disruptive to implementation, challenging to operationalize, and have significant practical implications.
- Some members stated that, per their knowledge, many preparers had interpreted IFRS 17 as allowing the assessment do be done at the group level, and were already engaged in implementation efforts under this assumption. One member stated that the edit appears to contradict one of the key intentions of the IASB in proposing amendments, which is to avoid unduly disrupting implementation already under way.
- A couple of members commented that to implement this on an individual contract basis may result in groups needing to be split in the event that a small number (or even single) contract within the group fails the assessment criteria, even where the underlying items for the group are the same. For example, in the case of a participating fund there may be a specific pool of underlying items linked to all contracts in that group.

However, depending on demographic and financial conditions, there may be a case where the vast majority would individually be assessed into VFA while a small number might not. To account for those which would not pass the criteria for VFA individually could be a significant operational challenge.
- One member commented that the proposed edit appears contrary to the principles underlying the use of the group as a measurement basis in IFRS 17, and would not provide useful information to users, but rather introduce additional confusion.
- A few members commented that there would likely be a need for preparers and auditors to develop practically acceptable methods and guidance to implement and audit this in an efficient manner.
- One member commented that this requirement could result in further incomparability among insurers, as entities decide on different methods for implementation and thresholds for grouping contracts.
- A few members commented that this is an area where educational material would be important. These members commented that it would be helpful for the IASB to consider issuing such material.

Members did not specifically comment on the following agenda papers:
- AP2B: Level of aggregation—annual cohorts for insurance contracts with intergenerational sharing of risks between policyholders
- AP2C: Applicability of the risk mitigation option—non-derivative financial instruments at fair value through profit or loss
- AP2E: Additional specific transition modifications and reliefs
- AP2F: Other topics raised by respondents to the Exposure Draft Amendments to IFRS 17

March 2020

AP2A: Effective date of IFRS 17 and IFRS 9 temporary exemption in IFRS 4

Among HKIISG members who commented on this agenda paper it was noted:
- Several members noted the importance of global consistency for the effective date.
- A member commented that the agenda paper was balanced in presenting its arguments for and against postponing the effective date, although the IASB staff had provided a recommendation.
- A member commented that based on the drafting of the paper, it would be challenging for the IASB to support any further delays to the effective date.
- Members agreed that alignment between the effective date of IFRS 17 and the IFRS 9 temporary exemption was desirable.
- A member commented on various actions being considered by other jurisdictions in Asia Pacific regarding the effective date, and enquired on the interaction between the HKICPA and other standard setters in the region since the January HKIISG meeting. HKICPA representatives noted that they have continued to monitor the global debate surrounding the effective date and the actions that will be taken by the other national standard setters and AOSSG members. HKICPA representatives noted that further discussions with other standard setters will take place after the IASB's tentative decision on the effective date at the March 2020 IASB meeting.

Members did not specifically comment on the following agenda papers:
- AP2B: Due process steps and permission for balloting

- AP2C: Overview of the amendments to IFRS 17

3. Local submission: Release of derecognised coverage units

This submission analyses the derecognition requirements in IFRS 17, and how the derecognition of an insurance contract from a group of contracts should affect the amount recognised in profit or loss associated with the coverage units from that derecognised contract. The submission presents two views on the topic and illustrates how they would apply to a simple scenario:

- View 1: The amount of contractual service margin (CSM) recognised in profit or loss considers the expected and unexpected coverage units deducted from the coverage units in the group at the beginning of the period so that they align them with the coverage units remaining at the end of the period for future services. Here, the total number of coverage units for the group remains unchanged, and the amount of CSM that relates to the coverage units from the derecognised contracts will be released in the period when derecognition occurs.
- View 2: The amount of CSM recognised in profit or loss considers the expected coverage units deducted from the coverage units in the group at the beginning of the period so that they are adjusted at that date for the unexpected derecognised coverage units occurred in the period. Here, the total number of coverage units for the group is adjusted at the beginning of the period for the unexpected coverage units derecognised in the period and the number of coverage units for the service rendered in the period remains unchanged.

Please refer to the full submission (Paper 3) for the detailed accounting analysis and explanation of views.

Among HKIISG members who commented on the accounting analysis in Paper 3, it was noted:

- A member commented that for the change of the risk adjustment, IFRS 17.B96(d) should be applied, which states that changes in the risk adjustment for non-financial risk that relate to future service should adjust the CSM (similar for future cash flows in paragraph B96(b)). The member commented that otherwise there seems to be a mismatch between how the change in the present value of future cash flows affects the CSM and how the risk adjustment affects the CSM. Another member also considered that the release of the risk adjustment should go through the CSM rather than through profit or loss.
    - The presenter responded to the points made above, commenting out that paragraph B96 refers to future service, and there is no future service in the scenario presented in the paper. Rather, the scenario concerns current and past services given that the risk adjustment is no longer required (because there is no future service). The risk adjustment is not an estimate to be incurred, but rather a measurement of uncertainty. The presenter also commented that not all experience adjustments go through profit or loss, as IFRS 17.B96(a) specifies those that do not. Hence, the appropriate accounting is for the risk adjustment to be treated as a component of insurance revenue and for it not to adjust the CSM.

Among HKIISG members who commented on the views presented in Paper 3, it was noted:

- A member commented that View 2 appears to be the way the Standard works, as IFRS 17.B119 requires allocation of the remaining CSM between the current and future period. This leads to the consequence that when an entity derecognises contracts, there may be remaining CSM that gets spread out over the remaining contracts. This member noted that the concept of a group itself tends to smooth out variance over the duration of the group, and given the way the Standard works, entities should not go to a lower unit of account than the group when considering the accounting for the CSM. This member noted that entities will need to know the number of coverage units to derecognise, but that the units will be allocated to the current and remaining period.
    - The presenter responded that both views require calculating the number of coverage units from the derecognised contracts, and that IFRS 17.76(c) could be read in multiple ways that would comply with the paragraph, namely as to how the adjusting process works (View 1 or View 2).
- A member commented that the accounting may depend on what entities can justify as the most practical and appropriate solution for their CSM pattern. This member commented that as long as the quantity of benefits and expected coverage duration can be justified, entities may consider adjusting either the denominator or numerator as per Paper 3.
- A member commented that there is some confusion as to how this issue can be interpreted. This member tends to lean towards View 2, however felt that there may not be a materially different impact. This member considered that the principle of a group of contracts in IFRS 17 seems to support tracking the CSM at a group level, which seems to support View 2, and that View 2 is more relevant to IFRS reporting in general as the most updated information is used (given View 2 takes into account the actual experience that year). This member commented that were View 1 applied, the expected level of coverage units would need to be tracked and compared to the actual. The member also commented that View 2 may be supported by November 2016 IASB staff paper AP2D on the treatment of experience adjustments, particularly as illustrated in Appendix B Approach B of that paper.
    - The presenter responded that View 1 and View 2 are equally demanding operationally, and disagreed that View 2 would be easier to operationalize. Both views look at the group level, and neither takes an individual contract view. The presenter commented that a more significant issue is whether it is correct that coverage units will effectively increase or decrease in unit value based on contracts that are no longer in-force. The presenter considers that this is a fundamental issue that should be made clear in the Standard. Currently, the Standard is clear on experience variances in IFRS 17.B96 and B97, but is not clear for this case as IFRS 17.76(c) is ambiguous and could result in significantly different profit emergence profiles.
- A member commented that IFRS 17.B119 requires the CSM to be recognised in profit or loss each period to recognise services. This member questioned whether for View 1, when the adjustment is added to the denominator, that means the service is provided. This member also agreed more with View 2, and commented that at time T+1 it is operationally easier to assess the in-force book and determine the necessary numbers.
    - The presenter responded noting IFRS 17.B119's requirements, and

stating that the two views use the same data sets. View 1 argues that 2 coverage units are provided in the first period. Then, an entity looks at the contracts that have been derecognised.

- A member commented that View 2 appears more in line with the overall principles for CSM, and noted that per IFRS 17.B119 CSM is allocated at the end of the period to coverage units in the current and future period. This member also referred to IFRS 17.BC279, which explains that IFRS 17 requires the CSM to be recognised over the coverage period in a pattern that reflects the provision of coverage, as a possible source of guidance.

Conclusion

Those members who provided views generally supported View 2. There were differing views among members as to the accounting for the risk adjustment.

Next steps

The HKICPA staff will share members' key comments on items 2 and 3 and Paper 3 with IASB staff.