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

Meeting Summary
Hong Kong Insurance Implementation Support Group (HKIISG)
11 August, 2021

Attendance
HKICPA representatives
Ernest Lee, Financial Reporting Standards Committee (FRSC)
Cecilia Kwei, Director, Standard Setting
Tiernan Ketchum, Deputy Director, Standard Setting
Carmen Ho, Associate Director, Standard Setting

HKIISG members and designees
Sam Ho (representing Sai-Cheong Foong), AIA Group Limited
Marcus Chung (representing Norman Yao), AXA China Region Insurance Company Limited
Ronnie Ng, China Overseas Insurance
Sally Wang, Dajia Insurance Group
Kevin Wong, FWD Life Insurance Company (Bermuda) Limited
Carrie Yip (representing Alexander Wong), HSBC Life
Wenhao Zhao, Ping An Insurance (Group)
Matsuta Ng, Prudential Hong Kong Limited
Eric Chum, Prudential Hong Kong Limited
Joyce Lau, Target Insurance Company Limited
Francesco Nagari, Deloitte Hong Kong
Liza Gonzalo, Deloitte Hong Kong
Peter Telders, EY Hong Kong
Steve Cheung, EY Hong Kong
Erik Bleekrode, KPMG China
Chris Hancorn, PwC Hong Kong
Ian Farrar, PwC Hong Kong

Apologies
Sai-Cheong Foong, AIA Group Limited
Norman Yao, AXA China Region Insurance Company Limited
Alexander Wong, HSBC Life
Tracey Polsgrove, Manulife Asia

Guests:
Shelley So, PwC 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. Local submission: Accounting treatment for premium-based profits tax on life insurance business of Hong Kong insurers

This summary should be read in conjunction with the local submission (Paper 2). Please refer to the full submission for the detailed fact pattern and analysis.

This submission analyses:

1. Whether a premium-based profits tax is within the scope of HKAS 12 *Income Taxes.*
    - Paper 2 supports the view that there would be premium profits-based tax is within the scope of HKAS 12.

2. Whether deferred taxes could arise as a result of applying a premium-based profit tax approach under HKFRS 4 *Insurance Contracts.*
    - Paper 2 supports the view that there would not be deferred taxes arising from applying the premium-based profits tax approach under HKFRS 4.

Question 1: Whether a premium-based profits tax is within the scope of HKAS 12 *Income Taxes*

Overall summary:

- The paper suggested a view that premium-based profits tax is within the scope of HKAS 12. The majority of the members did not raise any particular objections or expressed disagreements with this view. Apart from this view, one member expressed a view that an alternative treatment would also be acceptable (i.e. that premium-based profits tax is outside the scope of HKAS 12) which was echoed by a couple of other members. These three members also found the view presented in the paper as acceptable.

Detailed comments:

- One member did not agree or disagree with the analysis on Question 1 in the submission, and commented that both view that premium-based profits tax is in scope and the view it is not in scope of HKAS 12 would be acceptable. This member noted that some of the analysis in the submission is based on the legal form of the tax law, but suggested that the nature of the tax and how it works in substance should be considered over the legal form. As such, the analysis in the submission is an acceptable argument, but it is not the only possible view. Since this tax is calculated as a percentage of premiums and is distinct from the adjusted surplus method, one could also argue that it is a tax on revenue and therefore not within the scope of HKAS 12. This member commented that there is limited guidance in this area and there is the possibility for diversity in practice on how this and other taxes would be accounted for.
- A couple members acknowledged the above member’s points had merit, including that the legal form of the tax law may not necessarily determine the accounting for the tax. One of these members supported the submitter’s views for the reasons set out in the paper and also noted that his company accounts for the premiums-based profits tax within the scope of HKAS 12.

Question 2: Whether deferred taxes could arise as a result of applying a premium-based profit tax approach

Overall summary:

- Overall, mixed views were expressed from members who commented on Question 2. On the whole, members either agreed with the view in Paper 2 (that there would be no deferred taxes accounted for under HKFRS 4), or did not object to that view and rather noted that other views could also be justifiably taken.

Detailed comments:

- Among members who supported the view in Paper 2 it was noted:
  - One member agreed with the analysis based on the fact pattern in the submission, however, this member noted that the application of HKFRS 4 may not be the same across different companies. This member also agreed with the alternative view set out in Paper 2 whereby the allowable expenses are always assumed to be 95% of the premiums, which would create a permanent difference, and therefore no deferred taxes would be recognized.
  - One member noted that in considering whether there are deferred taxes, it is important first to consider whether there are temporary differences due to the differences between the carrying amount and tax base. This member noted that based on the illustrative example in the analysis, it would be difficult to argue that there is a temporary difference. This member also suggested that it would be difficult to argue that there is a temporary difference from this tax under HKFRS 17, and it would be up to companies to demonstrate how a temporary difference would arise.
  - One member supported the analysis in Paper 2, and view in the submission that no taxable or deductible temporary differences exist and consequently, no deferred taxes should be recorded. This member also commented that premiums based profits tax is effectively a tax due on the deemed profits of insurance contracts at a point in time (when the premium is due), and at that point it becomes a tax due and paid in a final amount. Thereafter, the entity has no further rights or obligations with regard to future profits or losses. As a result, this member considered that no deferred tax accounting was more appropriate not only from a balance sheet perspective, but also from an income statement perspective.
- Among members who did not object to the view in Paper 2 but commented on other views it was noted:
  - One member commented that there is not a definitive answer to Question 2 and that there are supporting arguments both for and against having deferred taxes. This member noted that a critical factor to consider for whether deferred taxes would arise is whether the nature of the liability at initial recognition is considered to be deferred revenue. Under the view that the entire premium is booked immediately as revenue and already taxed, and therefore it cannot be deferred revenue, the tax basis would be the same as the accounting base and therefore no temporary differences would arise. However, under the view that this is considered more a presentation issue and the revenue has not been earned (and therefore is deferred revenue in nature), there would be a difference between accounting base and tax base (of nil), and a temporary difference would arise. This member commented that this issue will become more clear when HKFRS 17 is adopted (which will also result in presentation changes from HKFRS 4).
  - One member agreed that there would be no temporary differences from a balance sheet perspective. However, that view may change when looking from an income statement perspective and considering aligning the tax charge with accounting profit.

For example, in a case of a single premium contract where the taxes on the premiums are paid in year 1, deferred taxes accounting could show the difference in timing between when the profits on the contract are recorded and when the tax charge is recorded.

2. Other business

The SSD staff provided an update on the status of the European endorsement process for IFRS 17. The SSD staff is continuing to monitor any updates with respect to the EFRAG endorsement process and will update the HKIISG of any relevant developments.