INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

60 Cecil Street, ISCA House,
Singapore 049709
TEL +65 6749 8060
FAX +65 6749 8061
www.isca.org.sg

23 September 2019

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT ("ED") – AMENDMENTS TO IFRS 17

In preparation of this comment letter, the Institute of Singapore Chartered Accountants ("ISCA") has sought views from its members on the above ED through a one-month public consultation and discussed the ED with members of the ISCA Insurance Committee.

General

Singapore has adopted the current version of IFRS 17 into Singapore Financial Reporting Standards (International) and Financial Reporting Standards on 29 March 2018 with the same effective date of 1 January 2021. We generally appreciate and welcome the proposals from the International Accounting Standards Board ("IASB") in response to some of the concerns and challenges raised by stakeholders. We believe the proposals will help to ease implementation efforts of IFRS 17 and result in better clarity in the financial information to stakeholders. The proposals aim to provide an appropriate balance between addressing stakeholders' concerns, providing useful information and avoiding unduly disrupting implementation already under way. However, we have noted some areas which we believe further clarification or refinement to the proposals are required.

Our detailed comments and responses to the questions in the ED are set out below.

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?

We support the proposed amendments, as the requirements in IFRS 17 will impose additional costs on entities whose main business is not insurance and do not issue other contracts within the scope of IFRS 17.

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?

We agree with the proposed amendments as they will address concerns that an insurance contract will be onerous due to acquisition cash flows incurred on the existing insurance contract but is expected to be recovered through future renewals.

We also wish to clarify whether the proposed amendments also cover situations where costs are incurred in acquiring distribution channels with the expectation that the acquired distribution channel will bring in business in the future. This appears to be covered by paragraph 28B(b) but not paragraph B35A. Currently, insurers apply IAS 38, Intangible Assets in accounting for such acquisition costs. Hence, we seek clarification whether paragraph 28B(b) will give insurers the option to account for such costs by applying IFRS 17 requirements.

We note that the ED does not explicitly state whether an insurance acquisition asset should be established at transition. Therefore, we request that the IASB explicitly make this clear. In addition, when the full retrospective approach to determine the insurance acquisition asset at transition is not practical, the IASB should provide clarity on the simplification that can be applied.

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?

We support these proposed amendments as they will better reflect the provision of services for insurance contracts which comprise insurance and investment-related or investment-return services.

However, we believe that these amendments introduce significant additional judgment, in addition to the increased system complexity and associated costs, which will lead to diverse practices in the recognition pattern of the contractual service margin ("CSM") and therefore less comparability across the industry. We request that the IASB provides application guidance in this regard.

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?

We agree with the proposed amendments as they will help reduce the accounting mismatch between the insurance contracts issued and reinsurance contracts held as the reinsurance contracts held are entered into to mitigate the entity's exposure to losses. This will result in more useful information to stakeholders and better reflect the economic effects of the transactions.

However, we have concerns with regards to the definition of "reinsurance contract held that provides proportionate coverage". Appendix A of the ED defines this as:
"*A reinsurance contract that provides an entity with the right to recover from the issuer a percentage of* ***all claims incurred on a group of underlying insurance contracts. The percentage the entity has a right to recover is fixed for all contracts in a single group of underlying insurance contracts, but can vary between groups of underlying insurance contracts.***" (emphasis added)

The definition suggests that only reinsurance contracts which share in a percentage of all claims incurred for a group of underlying insurance contracts will be within the scope of these amendments. Applying this definition will likely result in many reinsurance contracts to be scoped out. Reinsurance contracts which we see to be scoped out include:

— reinsurance contract where a portion of claims incurred for each underlying insurance contract is retained by the entity and only the claim amount above the retention amount is then shared proportionately with the reinsurer (i.e. the reinsurance contract does not share in a percentage of all claims);

- reinsurance contract which only covers proportionately one of the underlying insurance risks of the underlying insurance contract (i.e. the reinsurance contract does not share in a percentage of all claims, only some of the claims);
- reinsurance contract which covers proportionately some of the underlying insurance contracts within the group but not all contracts within the group; and
- reinsurance contract which covers in different percentages the claims incurred for different underlying insurance contracts within the group.

In many cases, reinsurance contracts are held to manage an entity's exposure to a variety of risks and cannot always be aligned on a fixed basis to underlying insurance contracts. We view the above definition as unduly restrictive and will limit the extent to which paragraph 66A can be applied in practice.

We propose that the definition should be expanded to cover what the insurance industry commonly understands to be proportional reinsurance contract to an insurance contract or a group of insurance contracts which include quota share reinsurance, surplus reinsurance and facultative reinsurance and that consideration for applying this amendment can be done at the insurance contract level instead of the group of contract level.

Paragraph B119D provides the proposed method to calculate the income to be recognised applying paragraph 66A. We wish to highlight that applying the fixed percentage of claims which the entity has the right to recover from the reinsurance contracts held to the loss recognised on the group of underlying insurance contracts may potentially overstate or understate the income recognised on the reinsurance contract due to the following reasons:

- the losses on the underlying insurance contracts may not arise only from claims incurred but could be due to expenses and the amount of risk adjustments. However, the reinsurance contract may only allow for recovery of the claims incurred and not other items that may cause the loss. This may give the wrong impression that the reinsurance contract is also covering other cash flows other than claims, resulting in overstating of the recoveries from the reinsurance contract held; and
- Some reinsurance contracts held do not only provide for recovery of the claims but also allow the insurance acquisition costs and other expenses to be recovered from the reinsurers. In such cases, applying a fixed percentage of claims that can be recovered from the reinsurance contract held does not reflect appropriately the recoveries from the reinsurers.

We recommend that instead of prescribing the method to determine that adjustment to the CSM of the reinsurance contract held, a principle based approach should be adopted and it should be determined based on the fulfilment cash flows that can be recovered from the reinsurer.

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?

We agree with the proposed amendment as this will reduce the cost of implementation of IFRS 17 without significantly reducing the information available to stakeholders.

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?

We agree with the proposed amendment as this will help to reduce the accounting mismatch when reinsurance contracts held are entered into specifically to mitigate the financial risk arising from insurance contracts. This amendment will help to provide more useful information to stakeholders.

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?

We appreciate the IASB's decision to propose a one year deferral of IFRS 17 to 1 January 2022. However, we have concerns whether the one year deferral is sufficient due to the following reasons:

- While the IASB has committed to publish the revised standard as soon as possible, some of proposed amendments may result in significant amount of discussion which may delay the finalization of the amendments. This may result in insurers having less time to understand and implement the changes by 1 January 2022; and
- The major issuers of IFRS financial statements are based in Europe and the European Union ("EU") have not endorsed IFRS 17. The EU will likely be endorsing IFRS 17 after the issuance of the amended standard. This will affect when insurers can finalise their policy decisions to implement IFRS 17. A large number of insurers in Singapore have European parents and the inconsistency in timing of adoption in the EU and in Singapore which will likely follow IASB's timeline will result in insurers having to maintain the current reporting basis for group reporting and IFRS 17 for their local statutory financial statements.

We therefore propose for a further one year delay in the effective date of IFRS 17, i.e. 1 January 2023. Similarly, the effective date of IFRS 9 for insurers who meet the deferral criteria should continue to be aligned to 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?

We support the proposed amendments as they will help to address some of the concerns and challenges on the transition requirements of IFRS 17. This will help to ease implementation and reduce transition cost.

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?

We support the proposed amendments as they will help to address some of the concerns and challenges of IFRS 17.

We request that the IASB reconsiders amending paragraph 22 which states that an entity shall not include contracts issued more than one year apart in the same group. We understand that the IASB intended annual cohorts to be determined based on the date of issue of the insurance contract, not the date of recognition so as to provide timely recognition of profits, losses and trends in profitability. As noted in paragraph 18 of the April 2019 IASB meeting, Agenda Paper 2D, the date of the issuance of a contract and the date of recognition will usually not be far apart, there will usually not be a difference in the grouping due to the issued date. However, the wording in paragraph 22 will mean that additional implementation effort will be required to implement the grouping to consider also the issuance date. We suggest that paragraph 22 be amended to allow for the use of the recognition date instead of the date of issue of the insurance contract.

We note that there is a major amendment to paragraph B107 which changes the eligibility criteria for the Variable Fee Approach ("VFA") from being at a group of contracts level to a contract level. It is worth noting that this amendment has not been discussed at any of the IASB meetings since the Standard was issued, and is not referenced in the Basis for Conclusions or any other literature. We note that this actually contradicts the views presented in the November 2016 IASB meeting, Agenda Paper 2C where this issue was raised and the staff's response was that the assessment should be at the group of contracts level as the contracts are measured as part of a group, the group is the unit of account.

The implications of this proposed amendment are material and result in significant additional operational complexities. This may create significant disruption on the implementation projects already well underway. We suggest that the IASB further discuss this and assess whether it meets the objective for introducing an amendment to the Standard.

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.

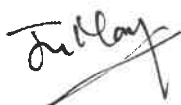
In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. 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?

We agree with the IASB's proposal to replace the term 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. We believe this will better reflect that the services under the insurance contract is not limited to only insurance coverage.

Should you require any further clarification, please feel free to contact myself or Ms Ng Shi Zhen, Manager, TECHNICAL: Ethics & Specialised Industries, from ISCA via email at jumay.lim@isca.org.sg or shizhen.ng@isca.org.sg respectively.

Yours faithfully,



Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance