asian-oceanian standard-setters group

Appendix A.

Summary of the Survey Results in relation to IFRS 17

Respondents to the survey:

Australia, Brunei Darussalam, China, Hong Kong, India, Japan, Korea, Malaysia, and Sri Lanka

Key Findings

1. Jurisdiction's adoption status

(1) What is your jurisdiction's status of adoption of IFRS?

Full adoption of IFRS	Implementation of Converged-IFRS	Voluntary implementation of IFRS
Australia, Brunei Darussalam, Hong Kong, Korea, Malaysia	China, India, Sri Lanka	Japan (Insurance companies are required to apply Japanese GAAP for regulatory purposes and cannot apply Designated International Accounting Standards unless they decide to prepare financial statements in addition to those prepared for regulatory purposes. None have chosen to do so.)

2. Implementation date of the standard:

(1) When does your jurisdiction plan to implement IFRS 17(or your national standard converged with IFRS 17)? Or when do your insurers voluntarily plan to implement IFRS 17? (e.g., as of 1 Jan. 2023)

- The 5 members answered that they tentatively decided or intend to follow the same date as the IFRS 17 effective date which is 1 Jan 2023.
- Malaysia has adopted IFRS 17, word-for-word as MFRS 17 *Insurance Contracts*, including its effective date of 1 January 2023. In this regard, IFRS 17 would be applied mandatorily for annual period beginning on or after 1 January 2023.
- Hong Kong has been in the process of analyzing the final issued amendments to IFRS 17. As of the date of this survey, Hong Kong FRSC has not yet made a decision on endorsement of the amendments of IFRS 17. HKFRS has been fully converged with IFRS since 2005 as a matter of HKICPA policy. Full convergence includes convergence with regard to effective date.

- Japan specified IFRS17 as originally issued in 2017 as Designated International Accounting Standards in October 2017. IFRS 17 amended in June 2020 has not been specified yet but is likely to be specified in due course.
- The KASB has not yet issued K-IFRS 1117 Insurance Contracts corresponding to IFRS 17 issued by the IASB in May 2017 since it was expected to be amended by the IASB. The KASB plans to approve K-IFRS 1117 Insurance Contracts (February 2021) including 'Amendments to IFRS 17' issued by the IASB in June 2020. The Financial Services Commission (FSC) will determine whether to endorse K-IFRS 1117 considering its effect on the insurance industry in Korea and the global endorsement status of IFRS 17.

(2) If your jurisdiction has not yet decided on when to implement IFRS 17(or your national standard converged with IFRS 17), what are the factors to be considered in determining the implementation timing? (e.g., implementation dates of other countries in Europe and around the world, preparation status of companies, financial impact on companies, etc.)

- The 7 members said that it is not applicable.
- The HKICPA will conduct a holistic analysis of the amendments to IFRS 17, including considering:
  - (a) Alignment with the Institute's IFRS convergence policy. Diverging from full convergence with IFRS would set a precedent, and could result in significant unintended consequences.
  - (b) The Institute has complied with its due process (e.g. local comment period).
  - (c) We consider that the Institute's major concerns have been considered in the development of the amendments to IFRS 17, including a globally consistent effective date.
  - (d) We remain overall supportive of the amendments as finalised, and continue to consider IFRS 17 as amended to be a high quality standard that will lead to companies reporting meaningful information to stakeholders compared to the existing reporting standard.
- The FSC of Korea will consider the possible financial effect on the insurance industry in Korea and the global endorsement status of IFRS 17.

3. Companies subject to application

(1) How many insurance companies operate in your jurisdiction? (Life insurers and non-life insurers, separately)

	Hong Kong	Australia	China	India	Sri Lanka	Brunei Darussalam		Malaysia		Korea	Japan
						I*1	T*2	I*1	T*2		
Life	53	40	89	24	12	3	2	15	11	25	42
Non-life	91	80	98	46	11	4	2	27	5	31	53
Composite	21				2			1	3		
Total	165	120	187	70	25	7	4	43	19	56	95
Subject to IFRS 17	150	120	187	70	25	7	4	43	19	56	0

*1. Insurance companies
*2. Takaful operators

(2) How many companies are obligated to apply IFRS 17(or your national standard converged with IFRS 17)?

- See the table above

(3) Do all those companies plan to apply IFRS 17(or your national standard converged with IFRS17) at the same time?

- The 5 members answered that IFRS 17 would be applied to all insurers at the same time. Sri Lanka said that insurers might require some extended time (e.g., one year) due to the delay in implementation as result of COVID 19 as well as making the systems operationally available.
- Hong Kong has no plan to allow for exceptions or divergence from IFRS 17's effective date. However, there could be an impact if other jurisdictions choose a different effective date than that required by the IASB. For example, in Hong Kong we have a number of prominent European insurers.
- China and Japan have no plan to have all insurers apply IFRS 17 at the same time.
- Malaysia is not aware of any companies planning to apply MFRS 17 earlier than the mandatory effective date as prescribed in the Standard (which is the same effective date as IFRS 17 of 1 January 2023).

(4) If not, what is the criteria the entities used in deciding the application timing? (e.g., Size of total assets, listing status, etc.)

- Listing status is the main criteria in deciding the application timing. The MOF of China will also consult with the regulator about the application timing of CAS X.

4. Modifications to IFRS 17

(1) Does your jurisdiction plan to modify some part(s) of IFRS 17?

- The 6 members have no plan to modify IFRS 17.
- Australia has a plan to modify IFRS 17 only for public sector entities but not for FP sector.
- Brunei Darussalam anticipates some modifications may be needed for Takaful (Islamic Insurance) however this has not been decided yet and the industry is still studying how to apply IFRS 17 to takaful companies.

(2) If so, what part(s) of the standard do you plan to modify? (e.g., Annual cohort, reinsurance, PAA, VFA, Presentation and disclosure, etc.)

- Brunei Darussalam has not decided to modify any aspect of the standards. However, Brunei Darussalam believes that for Takaful companies it needs the clarification on the following.
  (a) Definition of insurance contract/transfer of risk
  (b) Allowance of risks
  (c) Use of premium allocation approach

(d) Contract boundary determination

(e) Cost of interest free loan

(f) Applicability of mutualization

(g) Presentation and disclosure

(3) What was the reason for deciding to make modifications to the above parts?

- All members said that it is not applicable.

5. Difficulties in adopting IFRS 17

(1) What are the difficulties in adopting and applying IFRS 17? (e.g., Lack of human resources, ambiguity in the standard, shortage of time, low interest rate, tax law revision, change to supervisory regulations, COVID-19, etc.)

Hong Kong	1. Timeline 2. Lack of IT infrastructure 3. Interpretation of HKFRS 4. Lack of resources 5. Reporting and disclosure requirements 6. Despite the above, the large majority of insurers in Hong Kong expect to be "at implementation stage" on time, and that assumed an effective date of HKFRS 17 of 1 January 2022. With the delay to 1 January 2023, this industry readiness should only be increased.
Australia	1. More recently a focus on Covid 19 and beyond has dominated the insurance sector. 2. System issues, 3. Lack of human resources 4. Uncertainty as to changes to be made by the capital regulator coupled with a real focus on cost reduction and managing project funding
China	1. The lack of competent human resources 2. Time constrain 3. Change to supervisory regulations
India	1. Complete overhaul of IT Systems and Processes 2. Challenges of resolving Taxation Issues 3. Amendments to Insurance Laws and Regulations 4. Divergence with Insurance Business Supervision and Regulatory Regime (e.g. Actuarial Valuation Rules) and also the major reforms expected in supervisory framework i.e. Risk Based Capital Regime 5. Changes to business policies, products and processes
Sri Lanka	1. Extensive cost on consultancy and the implementation: • Applying the IFRS 17 cannot be done with existing software in the companies due to the unavailability of locally developed software in the market that could have been purchased at affordable prices. Further, in-house software development on implementing IFRS 17 also will be costly since it requires more time and expert knowledge to fulfill the IFRS 17 requirements.

	Local industry and small players need to be protected with the view of long term sustainability of the local market since large multinationals were able to implement the new system with the support from their international network. 2. Revision to the Tax Law: • IFRS 17 accounting involves more estimates and judgments. It is questionable as to how the Inland Revenue Department (IRD) will consider these changes in the tax computation. Accordingly, it is necessary to have clear guidance on tax implications of IFRS 17 implementation to overcome tax issues and assessments from IRD. 3. Lack of investor understanding about implementation benefits (senior Management as well as from the investors' perspective) 4. Non-availability of local GAAP to follow. Therefore, every company has to follow the general guidelines on global IFRS. 5. Lack of human resources locally who are aware of the IFRS 17.
Brunei Darussalam	1. Lack of experienced resources locally. 2. COVID-19 travel restrictions has slowed down implementation efforts for some companies. 3. IT infrastructure for some companies needs to be significantly enhanced to allow the relevant capture and processing of data to enable computation of CSM and other aspects relevant to adopting IFRS 17.
Malaysia	MASB staff had sent this survey to the Malaysian constituents and received responses from 3 takaful companies (2 family takaful and one in general and family takaful) and 1 insurance company (general and life insurance). Their challenges are summarized as follows: 1. Resources: • Human resources required for the implementation of MFRS 17 is the one challenge that is shared by all respondents. They generally find it challenging to employ and retain human resources from various backgrounds (technical knowledge, source systems, accounting systems, data integration tools, actuarial, etc.) for a smooth implementation process of MFRS 17. 2. Data collection: • Respondents find that the requirements in MFRS 17 for a more granular levels of data is challenging and require additional efforts to perform data transformation which in turn would result in an increased cost to maintain the huge storage space. In addition, some respondent also highlighted that the unavailability of data at the required granular level has imposed greater challenges. 3. IT infrastructure: • Respondents noted that they need to incur a substantial amount IT infrastructure costs in the first-time adoption of MFRS 17. They highlighted concern on the need for IT system enhancement to

	cater for the large volume of data and to ensure that the system is working at an acceptable level. • They generally find that the implementation of the IT solutions is complex as it requires high effort and resources for the implementation to meet the standard requirement, for example the need to setup new sub-ledger system in calculating the CSM. • One respondent highlighted that implementation costs of MFRS17 is about 20%-30% of the total budgeted IT cost. • Another respondent highlighted that there is uncertainty on the actual performance level of the MFRS 17 reporting engine (for e.g. SAS) until the completion of the implementation of MFRS 17. 4. Business impact: • A respondent highlighted that MFRS 17 has changed the way management performance is measured (usually by 'profit') and this may affect company's strategies and the way key performance indicators are set for the management team. • Another respondent highlighted challenges to explain the result of changes from MFRS 4 to MFRS 17 to various stakeholders for example, to explain the differences in *profit signature* between MFRS 4 and MFRS 17. 5. Interaction with local laws: • Respondents raised concerns on the potential inconsistency between MFRS 17 and local statutory basis which would be adding to the implementation costs of MFRS 17. As a result, companies may need to prepare two sets of financial statements, i.e. one that is MFRS 17/IFRS 17-compliant and one for the regulatory filing purposes. • One respondent was of the view that there is a need to revise the local tax provisions so that they are aligned with the basis of MFRS 17. 6. Other matters: • Application of judgement–One respondent indicated that it would be challenging to decide on issues that require judgment such as to determine whether a contract would qualify to be measured using the VFA approach and to determine the insurance contract boundary. • Timing of implementation–COVID-19 has affected all businesses including sales of insurance and takaful. Consumers generally spend on basic necessity items instead of buying insurance or takaful. Operating in a low-interest environment has affected company's bottom line and at the same time, the company needs to incur additional costs for the implementation MFRS 17. • Knowledge gap – Respondents find that implementation of MFRS 17 requires a greater integration of both actuarial and accounting knowledge as compared to operating under MFRS 4. Therefore, training (including on-the-job training) is crucial for both teams to

	understand each other in applying the requirements of the Standards and this process involves costs and is timely. 7. Takaful • Respondents generally find it challenging for Takaful companies to implement MFRS 17 because of the lack of interpretation from Takaful industry (worldwide) and the current end state designs and architectures are based on conventional insurance business which do not directly address some of the unique features of takaful such as segregation of funds and sharing of surplus.
Korea	1. Challenges of resolving taxation issues 2. Amendments to supervisory regulations 3. Lack of human resources and time for small sized entities

6. IFRS 17 Implementation issue:

(1) What are the implementation issues arising in your jurisdiction regarding IFRS 17?

Hong Kong	1. Financial statements and disclosures 2. Reinsurance 3. Contract service margin 4. PAA/VFA definition 5. Identification of onerous contracts 6. Contract boundary
Australia	1. Accounting for claims acquired in their settlement period 2. Potential impact of changed definitions for LfRC and LIC – the wording changed between the sweep issues proposed in May 2020 and the actual standard wording and this could have a significant implication. 3. Continued difficulties in interpreting and applying areas of the standards such as: ○ contract boundary ○ impact of differences in contract boundary between contracts issued and reinsurance held ○ application of onerous contracts requirements for PAA ○ determination of an illiquidity premium to incorporate in the bottom up discount rate ○ how to recognise diversification in measuring the risk adjustment for multi-layer groups ○ how to incorporate the cost and benefit of reinsurance in a “gross risk adjustment” ○ what metrics will define future performance reporting particularly for life insurers 4. Identification and measurement of investment components in reinsurance contracts issued and held. 5. Small mutuals are also still unsure as to how to progress in a way that delivers sensible results. 6. How to deal with only a small part of the business being under the GMM with the rest adopting PAA.
China	1. Current market-consistent discount rates 2. The applicable conditions of VFA, etc.
India	1. IT System Changes: Implementation of Ind AS will require drastic system

	related changes taking into consideration the volumes with regard to booking of income, claims settlement, valuation of assets and premium collection is very huge and hence, system changes is a major challenge for implementation of Ind AS. 2. Impact on Direct Taxes: Once Ind AS is implemented, it will lead to recognition of changes in Fair Value either through P & L or Other Comprehensive Income, which is a notional income. There is ambiguity on the taxation impact on the above notional income. 3. Solvency: Solvency is also expected to be adversely impacted due to volatility in income/valuation of Assets and mismatch in the asset and liability valuation methodology. It is also brought to ICAI's notice that regulators in Australia and Canada wants to keep Actuarial report and IFRS report separately for solvency.
Sri Lanka	1. Extensive cost involved on consultancy and the implementation (System cost etc.) 2. Non availability of local GAAP to follow. Therefore, every company has to follow general guidelines on global IFRS. 3. Income tax treatment for future profits and prior year restatements (since figures are material as previous basis were under Income minus Expenditure) 4. Treatment of "One off Surplus" identified from change in the valuation basis from Net present value "NPV" to Gross present value "GPV" and regulatory requirement (Director 15 requirement) on portfolio segregation.
Brunei Darussalam	1. Lack of experienced and capable resources locally to implement. 2. Data issues. 3. Brunei Darussalam is also in the midst of developing risk-based capital (RBC) regime, thus, issues may arise for convergence between prudential requirements and accounting requirements, e.g. presentation of segregation of funds, especially for Takaful sector.
Malaysia	Some of the implementation issued discussed by MASB Transition Resource Groups (TRGs) are as follows: **<u>Issues relating to Insurance</u>** **No** / **Issues** / **Summary of Issues** 1. / What taxes are considered 'fiduciary' – in relation to paragraph B66(f) of MFRS 17 / Malaysian tax law requires insurance companies carrying on insurance business to pay tax on its life fund which is treated as a separate source of income from income of the shareholders' fund. There were divergent views as to whether the tax paid fall within the scope of MFRS 112 *Income Taxes* (IAS 12) or MFRS 17 *Insurance* Contracts (IFRS 17). Reference was made to MFRS 17.B66(f) and MFRS 17.B65(m) and TRG members noted that they were inconsistent. *Amendments to IFRS 17* issued by IASB in June 2020 amended paragraphs B66(f) and B65(m) and it was noted

			that applying B65(m), an entity would include in its fulfillment cash flows any tax paid that is chargeable to the policyholder under the terms of an insurance contract.
	2.	Treatment of investment-related expenses as an attributable expense.	The issue relates to whether an insurer can treat the investment related expenses as an attributable expense, regardless of the measurement model adopted. This was based on the reading of IASB ED/2019/4 *Amendments to IFRS 17* which allowed costs incurred in providing investment-return service (for insurance contract without direct participation features) be included in fulfilment cashflows (para B65 (1a)), provided those contracts meet the criteria specified in para B119. The *Amendments to IFRS 17* issued by IASB in June 2020 clarified that costs relating to providing investment-return service to policyholders are included in the fulfilment cash flows. (IFRS 17.B65 (ka)(ii)).
	3.	Acquisition cash flows – recurring commissions	The issue relates to whether recurring commissions, i.e. commission paid to agents or intermediaries in year 2 to year 6, should be treated as acquisition costs or maintenance costs. The issue arose because of the reading in: (a) IASB Staff Paper in January 2019 which states "Insurance acquisition cash flows include both acquisition cash flows paid at the inception of a contract and recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premium within the boundary of the insurance contract"; and (b) MFRS 17.B65(h) that provides an example of recurring commission to be included in fulfillment cash flows. Based on the above, the industry was seeking for a direction if a common approach and treatment should be adopted for recurring commission expenses. However, it was noted that the issue requires judgment based on each insurance company's commission compensation agreement.
	4.	MFRS 17 portfolios pertaining for the Participating products versus portfolio as guided by policy by Bank Negara Malaysia	The issue sought to clarify whether there is a need to align portfolios identified under MFRS 17 with the *Management of Participating Life Business Cohorts (MPB)* pertaining to the participating products. BNM Guideline requires insurers to categorise participating policy into cohorts, termed as MPB cohorts. The categorisation in the guideline considers various items such as risk pooling (i.e. how products are pooled together from the risk perspective) and investment cycle. The submitter also referred to MFRS 17 that requires portfolio to be grouped together for products with similar risks and are managed together. There was a concern on the potential difference between MBP cohorts and MFRS 17's annual cohorts and hence the submission asked if the same basis or method can be used

		in determining cohorts under both circumstances.
5.	Can asset share be classified as investment component for Participating product contracts?	The issue relates to whether *asset share* would meet the definition of 'Investment Component' in MFRS 17 for participating product. The submission referred to the existing MPB guideline of BNM (paragraphs 10.6- 10.7) which requires that: a. for policies issued after 2005, company is required to pay-out 100% of the asset share at a cohort level; and b. for policies issued prior to 2005, the pay-out should be between 90% and 110% of asset share at cohort level. The submission also noted that most companies in Malaysia had a practice of pay-out close to 100% of asset share, including for policies prior to 2005. Based on the MPB guideline, the submission asked if asset share can be classified as investment component for participating products.
6.	What is the interpretation of directly attributable expenses for companies in Malaysia?	The issue relates to the interpretation of 'directly attributable expenses' from the Malaysian perspective for the purpose of fulfilment cash flows as contemplated in paragraph B65(e) and (l) of MFRS 17. In particular: (a) whether directly attributable expenses could be interpreted as those expenses that are charged only to the life fund or it could also include expenses that are charged to the shareholders fund, such as BSC overperformance cost (commission incurred under the balanced score card regime) and expenses paid to agency or banking partners in respect of exclusive arrangement with insurers; (b) if those directly attributable expenses are attributable to more than one portfolio/fund, for example universal life business (UL) and investment-linked business (IL), can they be split into the respective fund based on ratio approach (percentage of cost for each fund over total costs incurred).

Issues relating to Takaful

No	Issues	Summary of Issues
1	Separation - 1 or 2 Contractual service margin (CSM)	The issue relates to whether a Takaful contract has 1 or 2 CSM. Due to the mutual sharing concept of the fund within a Takaful model, the unearned profit or CSM could possibly be accounted for at the Takaful Operator (TO) fund or at the TO fund and in the participant risk fund (PRF). The submitter believed that the decision of 1 or 2 CSM would have an impact on the fulfilment cashflows (FCF) calculation.
2	Treatment of Unallocated	The issue relates to whether the following would be included in fulfilment cash flows applying MFRS 17.B71:

		Surplus - surplus and/or contingent reserve; for takaful that do not belong to any cohort – should this be part of fulfillment cash flows. Treatment of Unallocated Surplus - orphan surplus; what is the treatment of orphan surplus and the investment income arising from the orphan	(a) the unallocated surplus and/or contingent reserves, as well as the investment return arising from these surpluses, for Takaful that do not belong to any cohort, could be included in the fulfilment cash flows applying paragraph B71 of MFRS 17; and (b) the orphan surplus and the investment income arising from the orphan surplus. It was observed that: (a) unallocated surplus is the residual balances arising from past contracts which would be distributed to the future participants and hence should form part of the fulfilment cash flows (FCF); and (b) MFRS 17 does not specify the treatment of the investment income arising from unallocated surplus. Some believed that investment income arising from the unallocated surplus would also be distributed to future participants and hence should form part of the fulfillment cash flows.
	3	Is Tabarru[1] Fund (PRF) an underlying item?	The issue seeks to clarify on whether Participant Risk Fund (PRF) meets the definition of an *underlying item* as defined in Appendix A of MFRS 17. It was observed that the term 'a policyholder' in the definitions of *underlying item* and *investment component* could be read as if it refers to a fellow or future policyholder, and not necessarily the same policyholder. The point is relevant for takaful that is based on the mutual concept of risk pooling and risk sharing whereby the amount of surplus is not necessarily payable to current but also to future policyholders.
Korea	1. Contract boundary 2. Reinsurance contracts 3. Allocation of contract service margin 4. Discount rates, etc.		

(2) How are those issues being addressed in your jurisdiction?

Hong Kong	1. Education from numerous sources. 2. Local implementation support group (Hong Kong Insurance

[1] Tabarru' is defined as a voluntary donation or contribution

	Implementation Support Group) hosted by the HKICPA. Details can be found here: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/New-and-major-standards/New-and-Major-Standards/HKFRS-17-Insurance-Contracts/2018-agenda-papers-and-meeting-summaries.
Australia	1. Discussion in industry forums and the AASB TRG. As needed either the AASB TRG / AASB contact the IASB staff /board.
China	1. The MOF will focus on the issues arising from the implementation practice, such as the use of current market-consistent discount rates, the applicable conditions of VFA, etc.
India	1. ICAI along with Insurance Regulatory Development Authority of India (IRDAI) have conducted various meetings with the Life and Non-Life issuers to understand the implementation issues faced by the sector. The ICAI on various occasions, have held joint meetings between the IASB, IRDAI and other stakeholders so as to provide a platform to IRDAI to interact with IASB to present the issues faced by the Indian Stakeholders. The joint meeting of IRDAI, ICAI and Actuary is in the pipeline.
Sri Lanka	1. Provide more comprehensive education to Investors and senior management level education the benefits of implementation of IFRS 17 2. CA Sri Lanka to closely work with regulator to bridge the reporting gaps 3. Issue local GAAP which consist of adequate application guidance for identified issues 4. Facilitate resolving tax issues as significant matters especially for life insurers 5. Place adequate attention by the regulatory bodies to introduce common system solutions at low cost across the industry considering the requirements.
Brunei Darussalam	1. Active dialogues are carried out with the industry on any specification that extended beyond the conventional IFRS 17 especially disclosure requirements. Subject to the issues, regulator may issue guidance for industry wide utilisation.
Malaysia	1. MASB sets-up two Transition Resource Groups (TRG) for Insurance and Takaful to assist preparers in the implementation of MFRS 17.2. The TRGs are chaired by a MASB board member and comprises representative from the insurance and takaful companies, audit firms, the Central Bank of Malaysia, professional body and associations of life insurance, general insurance, and takaful. 2. The TRGs usually meet quarterly to discuss implementation issues received from the industry. In discussing the issues, the TRGs consider issues and conclusions reached by the IASB TRG to ensure that interpretations of MFRS 17 is consistent. In this regard, the TRGs do not issue any guidance but meeting summaries for references by the industry.

Korea	1. Education via numerous sources such as seminar, webinar and YouTube. 2. Discussions in industry forums and the Insurance TF hosted by the KASB 3. Discussions with the financial supervisory regulator