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Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

(Attn: Mr Simon Riley, Director,
Standard Setting Department)

Dear Mr Riley,

Invitation to Comment on IASB Consultation Documents issued by International Accounting Standards Board ("IASB") on
(i) Leases ("ED (1)"); (ii) Insurance Contracts ("ED (2)"); and
(iii) Agriculture: Bearer Plants (Proposed Amendments to IAS 16 and IAS 41) ("ED (3))"

I refer to your letter of 8 July 2013 inviting us to comment on the captioned exposure drafts ("EDs"). We have already given our comments on ED (1) on 15 August 2013.

We have carefully studied ED (2) and have the following comments on some of the questions set out in the paper:

- (a) For question 2, we suggest that the IASB provides more detailed guidance on the adoption of the proposed 'mirroring approach', especially in the unbundling of components for measurement of insurance contract liabilities that are expected to vary directly with returns on underlying items by reference to the carrying amount of the underlying items.
- (b) We are concerned that entities will have inconsistent measurement in unbundling similar insurance products. Guidance examples, with specific regard to different types of insurance products, on the application of unbundling under this mirroring approach would assist insurers and allow this approach to be more clearly understood and capable of consistent application.
- (c) For question 3, the IASB is proposing the recognition of insurance contract revenue in line with the pattern of services provided, and also the disaggregation in presentation of investment components from insurance contract revenue and expense. These present drastic changes to current measurement and presentation of premiums

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and claims. We would suggest that IASB provides further explanation and additional examples for the purposes of consistent insurance revenue recognition and disaggregation application.

- (d) For question 5, we suggest that the Application Guidance (Appendix B of the ED (2)) and Illustrative Example documents should be expanded to assist insurers in interpreting 'reasonably available' and 'without exhaustive efforts' in the estimation of expected cash flows, risk adjustment, discount rates and observable yield curve that applied retrospectively at the date of initial recognition on transition of implementing this standard.
- (e) In general, we suggest that the Illustrative Examples document to ED (2) should be treated as interpretative guidance or placed into the body text of the standard for the benefit of assisting insurers, especially medium to small sized insurers, in preparing their financial statements.

Apart from the above, we do not have comments on other questions.

Taking this opportunity, we would like to share our views with the HKICPA regarding the IFRS 4 Insurance Contracts project ("IFRS 4 project") on a local perspective.

We presume that there will be different degrees of adoption and different levels of implementation of IFRS 4 upon its implementation targeted in 2018 worldwide, and the adoption of IFRS 4 should allow some leeway for individual jurisdiction to take into account local circumstances. In this connection, when this new standard is to be implemented locally, we believe that the HKICPA will consult the local insurance industry regarding the IFRS 4 project. It is therefore vital that current communication channel between the Insurance Authority ("IA") and the HKICPA should be enhanced from standard setting and regulatory perspectives. Going forward, we would be grateful if the relevant task force of the HKICPA in implementing the standard would share with the IA local responses to the latest development of the IFRS 4 project and make concerted efforts to align the technical requirements of the IFRS 4 project with our local regulatory settings. We appreciate it that the HKICPA will continue to keep the IA informed of the progress of implementation of IFRS 4.

For ED (3), we have no further comments.

Thank you for giving us the opportunity to comment on the EDs.

Yours sincerely,



(Tony Chan)
for Commissioner of Insurance