

Jenny Ng

From: Winnie Chan
Sent: Monday, July 29, 2013 9:24 AM
To: Jenny Ng
Subject: FW: HKICPA Invitation to Comment on IASB ED on Insurance Contracts

From: Steve Ong [mailto:SteveOng@HKEX.COM.HK]
Sent: Saturday, July 27, 2013 1:18 PM
To: Simon Riley
Cc: Committee-FRSC; Winnie Chan; Ambrose Wong; David Graham; Grace Hui; LIAA
Subject: HKICPA Invitation to Comment on IASB ED on Insurance Contracts

Dear Simon,

HKICPA Invitation to Comment on IASB ED on Insurance Contracts

Thank you for the HKICPA letter dated 8 July 2013 on the subject matter addressed to our Mr. David Graham, Chief Regulatory Officer and Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee.

I have the following comments for your further consideration:

- 1) The revised IASB ED will replace IFRS/HKFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. Many users of financial statements have therefore found the existing financial reporting for insurance contracts opaque, particularly with respect to the risks facing the entity. Given that an IASB ED was issued in 2010, with this re-exposure, the IASB has selected five specific areas for comments only.
- 2) This is indeed for the good of the global insurance markets and well-functioning of the global capital markets if a single global standard on insurance can be achieved. However, I noted that despite both the IASB and the FASB working together for several years toward the goal of developing a comprehensive standard on accounting for insurance contracts, both their EDs will have a number of differences.
- 3) It is my understanding that in the IASB proposals, the measurement of the insurance contract liability is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment, and a contractual service margin representing the unearned profit on the contract. Under the FASB proposal, there is no explicit risk adjustment, but instead a single margin that implicitly includes both unearned profit and compensation for risk. Under both proposals, estimates would be re-measured at each reporting period.
- 4) Furthermore, while the IASB and FASB share the view that insurance contracts should be measured at current value, their views differ in certain key areas that could have a significant impact on the timing of earnings recognition. It was reported that differences include the IASB's inclusion of an explicit risk adjustment, the IASB provision that changes in estimates of future coverage and services adjust the margin rather than being recorded immediately in income, and the IASB's capitalization of acquisition costs for unsuccessful as well as successful efforts.

- 5) In this regard, I would recommend that the HKICPA Expert Panel on Insurance considers both the IASB and FASB proposals, in addition to the five specific areas selected by the IASB for comments. Given that one IASB Board member dissented against the issuance of the IASB proposals, the Expert Panel on Insurance may wish to see if there are any issues raised by this Board member which could bring the IASB and FASB proposals closer to achieve a converged global accounting standard for insurance. If this is not possible, as previously mentioned on the IASB's Exposure Draft on Financial Instruments: Expected Credit Losses, which the HKICPA has included in its submission dated 15 July 2013, I would recommend again that the HKICPA should expressed concerns about the different approaches by both the IASB and FASB.

- 6) Like IFRS 9, convergence in guidance on insurance contracts is also critical to supporting well-functioning global insurance and capital markets. In addition, under both the IASB and FASB proposals, many entities will be required to change their existing practices for the accounting for insurance contracts. Consequently, both preparers and users of financial statements would be subject to increased costs as a result of the proposals. Having two different set of proposals will only increase compliance costs and complexity for all.

Thanks.

Kind regards,
Steve

Steve Ong, FCA, FCPA
Vice President, Head of Accounting Affairs (Listing Division)
HKEx

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